

FINANCE COMMITTEE

Monday 7 November 2005

Session 2

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FINANCE COMMITTEE

24th Meeting 2005, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Mr John Swinney (North Tayside) (SNP)

COMMITTEE MEMBERS

Ms Wendy Alexander (Paisley North) (Lab)

*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

*Mark Ballard (Lothians) (Green)

*Derek Brownlee (South of Scotland) (Con)

*Jim Mather (Highlands and Islands) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

COMMITTEE SUBSTITUTES

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

Janis Hughes (Glasgow Rutherglen) (Lab)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Dr Wendy Haston

Mr Tom McCabe (Minister for Finance and Public Service Reform)

John Nicholson (Scottish Executive Finance and Central Services Department)

David Stewart (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

Susan Duffy

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Moray College, Elgin

Scottish Parliament

Finance Committee

Monday 7 November 2005

[THE CONVENER *opened the meeting at 11:07*]

Budget Process

The Convener (Des McNulty): I formally open the 24th meeting of the Finance Committee in 2005. I gave an introduction at the beginning of our informal session at 20 past 9 this morning, but now that we have moved into our formal meeting, I thank all those who took part in our informal workshops. We will shortly discuss what has come out of those workshops.

The committee is very pleased to be here in Elgin to hear local views on how the Scottish Executive's budget is working or, perhaps, is not working as well as it should in this area.

I thank all the people who have been involved in setting up the meeting. In particular, I thank Sheila Biggs, who is the personal assistant to the principal of Moray College, for all her hard work in organising the meeting on our behalf.

I will outline the procedure for today's meeting. We have already had an informal session at which we split into three workshops; we will now hear feedback from those workshops so that committee members can record their impressions and share the information that they have gained.

The purpose of the committee's visit is to continue its examination of the Executive's expenditure proposals for next year. We are now at what we call stage 2 of the process, which is the committee's scrutiny of the Executive's draft budget. As in the past, the committee has felt it to be useful, as part of its scrutiny, to gauge the impact of spending plans on specific areas and to find out how engaged different parts of the country are in the national process.

At the end of our meeting this afternoon, we will quiz the Minister for Finance and Public Service Reform on general budget issues. I hope that our discussion with the minister will be informed by some of the issues that we have learned about today.

I will now invite people from each of the three workshops to report back. Frank McAveety is our reporter from workshop 1.

Mr Frank McAveety (Glasgow Shettleston) (Lab): Thank you, convener. I echo the convener's welcome for our opportunity to be here this morning. The participants in our workshop have

contributed a great deal to the report that I hope to produce—although I say that with the caveat that a politician will be summarising participants' opinions. If anyone feels uncomfortable about that, they should speak to me later.

Three or four themes dominated our discussion, the first of which came over strongly. Participants feel that the budget document's national priorities do not accurately reflect the critical priorities for the regional economies of the Highlands and Islands, Morayshire and the rest of the north of Scotland. That view came over strongly, although the level of information that is available in an overall budget might be a factor. An example is investment in trunk roads. In the past, local authorities had a say in the level of capital investment and, although that investment was never as high as people wished, it was certainly much higher than investment is now, under national priorities. We discussed the fact that such investment is seen as a high priority locally but is given low priority as a national commitment. To have the issue of trunk roads addressed would be regarded as helpful.

We then had a substantial discussion on arterial routes. We discussed the time that it takes to travel across the Highlands and Islands and to connect to the rest of Scotland, and to the central belt in particular. We discussed how that affects economic and company development. We also discussed the quality of arterial routes and their maintenance. Criticisms were expressed about the way in which the budget reflects the importance of such routes.

The second theme was integration of different modes of transport and people's willingness and ability to operate outside their traditional locus of operations, whether in ferry, bus, rail or air services. We discussed ways of bringing the services together more cohesively. An opportunity for that might arise from the new developments in regional transport. It is felt that a more effective integration could be achieved.

There was also discussion of the flexibility of budget options. Criticisms were made about the Executive's focus seeming to be only on efficiency gains rather than on the role of economic growth in allowing services to meet the public's needs. It is felt that local economic growth would assist the economic growth of Scotland as a whole. Parliamentarians in the workshop expressed concerns about having to budget half way through the year in order to determine what was available for one of the public agencies. We do not think that that is good practice in terms of accountability or scrutiny—neither for the agency nor for the wider public.

The third big issue was the price and location of services that are available to the public. It is felt

that we should be considering more flexible and imaginative ways of providing bus, ferry, air or train services. We had a substantial discussion about single-track provision of rail in the north of Scotland and we wondered about a five, 10 or 15-year programme of investment to deal with the suitability of the tracks for passengers and freight.

11:15

A consistent theme was the need for awareness and knowledge of the various needs of various parts of Scotland. That theme has come up consistently in submissions that the committee has received in recent months. It is felt that we must move beyond the one-size-fits-all approach and instead recognise that there are various stresses and strains in different parts of Scotland.

Two other matters popped up latterly in the debate, but are probably quite important. It was mentioned that there is no budget area that could allocate research funding to consider how new transport modes could be provided and best practice be identified to the benefit of the whole of Scotland and the rest of the United Kingdom. There is a feeling that we need more research.

The final point that was raised was the question how we can ensure that customers' needs are reflected in how we provide and price routes and how we can make them more flexible in the interests of the differing needs of the wider community.

Those were the dominant themes that emerged in the group. I pay tribute to the contributions that were made by people from the area. I am sure that they identified two or three areas that we need to reflect more on. If other members of the group—people from the area or parliamentarians—want to add to what I have said, I am happy for them to do so.

The Convener: We could give John Swinney or Mark Ballard a chance to highlight any of those points or to raise additional ones.

Mr John Swinney (North Tayside) (SNP): I associate myself with what Frank McAveety has said and will emphasise two points.

In the strategic priorities that are set out in the Government's programme for transport, particularly with regard to growing the economy, there is an emphasis on strategic improvements that relate fundamentally to the central belt of Scotland, but there is virtually nothing that deals with anything north of the Tay; in fact, I am not sure that it even gets as far as the Tay—*[Interruption.]* The convener is drawing the Aberdeen peripheral route to my attention; I accept his point. However, in this neck of the woods—the Highlands—there has been little in the

way of strategic programmes. A powerful example of that is the fact that, once the two major trunk road improvements that are being undertaken in the Highlands are completed, there is nothing else in the programme that relates to this area. There is a big question about trunk roads.

There are also problems to do with attempts to achieve some of the targets that the Government has set. For example, one target is to

"Transfer a further 2 million lorry miles per year from road to rail or water",

but there is little evidence of practical steps' being taken to make that come about. Where, for example, are the improvements in the rail network that would make that physically possible? There seems to be a lack of strategic nationwide thinking in the programme and a lack of linkage to the major objectives.

The second point relates to the locality here in Moray. Our contributors talked a lot about the A95, which links Elgin to Aviemore, and the A9. They said that the A95 is used heavily for freight—if my memory serves me right, I think it was said that it is the trunk road in the Highlands that carries the highest proportion of freight. About six or seven years ago, the local authority dealt with the route by trunking it, so it has as a result effectively gone from being at the top of Moray Council's list of priorities to being at the bottom of the Scottish Executive's list of priorities, because it is a trunk route on the far periphery. That has had a negative effect on the infrastructure and condition of the road. It is interesting, from a process point of view, that what looks like an administrative decision to take the responsibility for a road from one agency to another has had negative consequences for the quality of the road.

Mark Ballard (Lothians) (Green): I agree with Frank McAveety and John Swinney. However, I want to add a couple of things. One of the things that impressed me in the contributions was the range of small projects that would do a great deal to improve transport links in the area. There is a contrast between a budget that focuses on very large infrastructure projects, and there being a range of relatively low-cost improvements that would have a dramatic effect on the region. That is something that I will take from the session.

Frank McAveety mentioned the lack of a regional focus. The three Executive priorities of growing the economy, closing the opportunity gap, and sustainable development play out differently in the regions. There is concern about a one-size-fits-all approach being taken to tackling all those problems. It was strongly emphasised that, given the different regional circumstances, sustainable development and economic growth in the region need specific measures rather than the

assumption that what works for other parts of Scotland in improving sustainable development will necessarily work here.

The Convener: Does any member of the workshop group, who is not a member of the Scottish Parliament, have additional points to make? None does. In that case, I assume that we have provided a reasonable record of what came out of that session.

I move on to workshop 2, which dealt with economic regeneration. Our reporter is Jim Mather.

Jim Mather (Highlands and Islands) (SNP): The inputs and the participants are proof that we can confront the reality of what inhibits progress and come up with a much better and more resurgent solution.

We started off by being given a clear idea of the components and nature of the local economy, which were wonderfully enunciated by Jim Johnston, who talked about farming, fishing, food, fermentation and flying. He went on to augment that by killing one of the myths and showing what else is going on. He challenged the low-wage economy label by pointing out that many oil workers who are resident in Moray earn their money elsewhere. Equally, people commute to Aberdeen and Inverness. Senior Royal Air Force personnel can be taken out of the wage equation.

He also told us what is happening in manufacturing and about the arrival of new workers from the accession states, from Spain and from Portugal whose arrival is allowing manufacturing to continue competitively. However, he also voiced concerns about the long-term viability of manufacturing, which led us into conversations about the area's potential. There was emphasis on the positive and on the area's potential to be a city region between Aberdeen and Inverness—"filling the doughnut", as it was so eloquently expressed. However, that would require the growth of more family businesses and more diversification. There would have to be more emphasis on added-value industries and on businesses that depend on the area. By that I mean businesses that are not replicated elsewhere. I found that very interesting. It was the main point that was made by Professor John Kay when he spoke last week to the Parliament's cross-party group on the economy. He suggested that that is the way forward for Scotland, and that Scotland should emulate what has happened in successful parts of Switzerland, northern Italy, and Germany.

The comprehensive array of inhibitors that were enunciated was also very useful. That matter interests me more than a little, because unless we confront those inhibitors, our ability to move

forward is limited. I hope that, even at this late stage, the list of economic inhibitors, bottlenecks and problems is fed into the task force, which is circulating its first draft report. I make a plea for that task force document to be passed to MSPs in the Highlands and Islands, because we would be keen to engage with that process.

I shall read out the list of inhibitions that I have before me. I list them for no other purpose than to ensure that we have missed nothing and to encourage the people who sat in on the session to come back to us with anything that we miss. We mentioned manufacturing vulnerability and we also discussed population decline; concern was expressed that migrants who are coming just now may not continue to come in the longer term if the economies of Portugal, Spain, Estonia and the Czech Republic take off and develop. Housing availability is also an issue, although it is clear that some manufacturers are solving that problem by buying housing and hotels to provide accommodation.

There are financial constraints on local government, particularly on the local authority's flood fund. There are unintended consequences of the efficient government initiative, with the Government leaning on the Scottish Environment Protection Agency to do what it has to do, and there are also things that Scottish Water has to do. The financial implications of transport links are also an issue, whether they are to do with increased fuel costs or extended travel time, and there is the "doughnut" concern that troubles some businesses, about people being not quite able to get here and energise the economy to the extent that could be possible. Exporting of people is also of concern because we are bringing in people at the lower end of the income scale and exporting many of the skills that could provide the potential to start new local businesses.

There is also an overall issue of competitiveness and financial pressure on colleges. The economic budget is under constraint and there is uncertainty about RAF jobs. Concern about flooding is more than just a short-term concern about negative things that could happen; it can also create an inhibition for future investment if money and land are not available. Those are the points that emerged from a rich workshop session. I have no doubt that we shall dive into them again. However, I make a plea to James Gibb to involve us in lengthier workshop sessions in future so that we can drill down and help to come up with a solution.

The Convener: Thank you. I should say that the economic regeneration workshop was enhanced because we had Margaret Ewing MSP, the local representative, present during that session. Unfortunately, Margaret has had to leave, but she made a strong contribution to the discussion,

having been an elected representative for the area for the best part of 20 years.

Derek—is there anything you want to add to what Jim Mather has said?

Derek Brownlee (South of Scotland) (Con):

No. As always, Jim has captured the issues pretty comprehensively and has given a fair representation of what we discussed.

The Convener: I offer non-MSP participants in that workshop the opportunity to put any points that were not captured in what Jim Mather said. There are, perhaps, one or two comments about skills and education that have not been mentioned but which were raised by Wendy Haston in the workshop. Would you like to reiterate those points?

Dr Wendy Haston: My specific concern, which was also expressed by fellow workshop members, is that, although we thoroughly applaud the funding for education and the emphasis that is placed on education, a lot of that money drifts into the administration costs of delivering new schemes. One example that was selected—this is by no means an indication that we view it in any way other than favourably—was learndirect Scotland and learndirect down south. The aims of those initiatives are laudable, but the money drifts off into marketing and disbursement of funds while we still have volunteers delivering learning in rural learning centres, particularly in the Highlands and Islands, so the money is not going where it needs to go.

11:30

John Swinney: I have a question for Jim Mather. He said that the efficient government programme was leaning on organisations such as SEPA. Can he tell us more about what was said in the group about the consequences of that?

Jim Mather: One direct effect was highlighted. Pressure on SEPA's budget may be making SEPA marginally more rapacious in imposing charges, which chimes with work that I have done recently on a guy called W Edwards Deming, who turned around the Japanese economy back in the 1950s. He was able to make the argument in corporations and in Government that the key to efficiency is to have all the silos lined up with the same objective and the people working to deliver a worthy aim. In some circumstances, that may mean that organisations such as SEPA must take the pain to allow other elements, perhaps in the private sector, to do better and to generate economic growth.

There is a hidden clamour that I hear repeatedly. People say, "Wouldn't it be nice if Highlands and Islands Airports, Scottish Water and SEPA had

exactly the same objectives as businesses and Government?" Economic growth is the objective of Government and of every business and self-employed person I have ever come across. Would not it be nice if the quangos in the middle had the same objective?

The Convener: I was the other participant in the workshop. It is worth reiterating the point that was made about the scale of the flooding problems that exist in Morayshire and the fact that there are different problems in different localities. Far fewer resources are available from the Executive than are required to sort out the problems even in this area. We know that there are flooding problems in other parts of Scotland, as was recently most graphically illustrated in Hawick. There are a number of such problems. Flooding represents a fetter on economic development, both because of the insurance problems that existing companies face and because there is a lack of land that is not threatened by flooding for expansion or development-based activity. That is a particular local problem here in Moray, which is different from problems in other parts of Scotland. That is not to say that other parts of Scotland do not face similar issues.

We have not previously held a workshop on the subject of our final session. However, Susan Duffy, who was involved in it, tells me that it was an interesting and useful session. Our reporter is Andrew Arbuckle.

Mr Andrew Arbuckle (Mid Scotland and Fife)

(LD): In agriculture, it is always said that the best farmers are those who walk their fields most often. The visit of the Finance Committee to Elgin today is the political equivalent of us walking our fields. It is good for us to hear about grass-roots issues, problems and concerns.

Our group discussed the budget process. We were fortunate to have with us the budget adviser to the committee, Professor Arthur Midwinter, who gave a five-minute introduction. If anyone here wants a five-minute view of how the system of spending £29 billion annually operates, they should catch Arthur at lunch time. He laid out the parameters within which the Scottish Executive operates and the timetables of the budget process, and made a comparison with the previous regime, when the money that came to Scotland was dealt with by the then Scottish Office. Two former Westminster MPs have been present today; they would contrast the transparency in the current Scottish Executive budgetary process with the darkness of the previous regime. We were not looking for it, but one member of the working group offered us a compliment, which got us off to a good start.

Arthur Midwinter pointed out that, in Scotland, we have come through a period of unparalleled

growth in the past six or seven years. In real terms, we have had more money to spend than ever; nevertheless, there is a fear coming from Westminster that we are now entering a tighter economic situation. That is reflected in the fact that we are now seeing programmes for efficient government. Indeed, the Scottish Executive has set up an independent baseline budget review that will focus on efficient delivery of government.

Our working group included representatives of education and the voluntary sector, and we spent most of our time discussing efficient delivery of services at local level. There is obviously a conflict between funding of the voluntary sector and funding of local authorities and health boards. It was also made obvious that, in some cases, there is distance between decision making and delivery. Concerns were also expressed about unannounced disappearances of support funds. In one case in the Scottish Executive, the rural partnership fund has just disappeared from the budget, which has caused problems. In another case, funding for adult literacy projects has disappeared, although that may be a local authority issue. There is concern about a lack of connection and a feeling that the situation should be improved.

We also considered education. Lossiemouth High School is trying to get into the schools of ambition initiative, but it is having difficulties. The benefits that arise from such an operation were explored. For me, the most heartening contributions came from two final-year Lossiemouth High School pupils, who said that they had seen a change during the time that they had been at secondary school. That shows that some of the benefits are coming through in schooling.

Overall, the view was expressed that more devolved budgets and not ring fencing would lead to better or more efficient delivery of services locally. I do not know whether Elaine Murray or any other member of the working group would like to raise any other issues that we touched on.

Dr Elaine Murray (Dumfries) (Lab): It was interesting to hear that the schools of ambition bid involved the entire school community. Although the bid was not successful, the process of applying has been beneficial to Lossiemouth High School. Evidence that we have heard about the bidding process suggests that it is time consuming and that if the right result is not achieved at the end of it, it is hardly worth the amount of time that people put into it. It was interesting to hear about that from a slightly different perspective.

The funding of information and communications technology is an important issue. In particular, the deputy head teacher of Lossiemouth High School had been involved in a delegation to China and

came back with a strong sense that investment in ICT in schools in our competitor countries is much greater than investment in ICT in schools in Scotland. That might be an issue for us. That is also true at a wider level for adult learners and others. We will, I hope, have got all communities linked up to broadband by the end of the year, and additional investment may have to be made in ICT to make Scotland competitive with other countries.

It was mentioned that rural disadvantage is not recognised in the Scottish index of multiple deprivation. That issue has just been raised with the committee in our inquiry into spending on deprivation. There are also the connection issues that Andrew Arbuckle referred to; for example, the lack of available social rented housing in the area, perhaps because Communities Scotland does not have the local knowledge that the councils had.

Professor Arthur Midwinter (Adviser): I have only one comment to add. The most relevant point for me to take away and think about related to the process. Members of my group were happy about the arrival of three-year budgets, but it was confirmed to me that the tracking of block grants and where the money goes, which has concerned the committee in the past two to three years, is an issue. There is a clear gap between the grand strategy and the hoops that people who are involved in delivery must go through. Completing application forms often takes a long time, and sometimes they are so complex that an accountant or consultant is needed to fill them in. I will take that away, think about it and see what we can come up with in discussion with the Executive to smooth the process. It is clear that we cannot track the money to the local level. We might have the best strategy in the world, but if targets are not hit locally, it needs to be rethought. It was useful to hear that.

The Convener: Do any of the non-MSP participants feel that members have not covered points that arose in the workshops that need to be reinforced? They all appear to be happy that we have captured all the points.

I offer committee members an opportunity to reflect on the information that we have received. Bearing in mind that we will question the minister this afternoon, are there any points that members would like to flag up?

Jim Mather: I will chip in. My colleague Derek Brownlee sold himself a little short: in our workshop, he asked the pertinent question whether the issues that we now confront have changed much in the past 10 years. The answer was an adamant no—the issues had not changed. That feeds in nicely to asking the minister this afternoon what he will do that is different and more likely to trigger regeneration throughout the country.

One aspect that I looked for but which we did not go into relates to the Moray task force that is under way. There are three key issues: pushing foreign direct inward investment more out of the central belt to areas such as Moray; civil service relocation to areas such as Moray; and the impact of and value that could be captured from broadband. We have massive evidence that retired people want to live in areas such as Argyll and Bute and Kintyre and all the way up to Moray. If we can use broadband, civil service relocation and foreign direct inward investment so that young people can have a decent income, they will live here and plug their families and children into this great area in which to bring up children.

Mr Swinney: In whichever part of the country to which we went to discuss the budget provisions, it would not be surprising to hear that sufficient resources were not spent in that area. I say that as a caveat to what I am about to say and with no disrespect to the individuals who make such comments.

What struck me from our discussion with people at a local level was the lack of strategic cohesion to what is in the draft budget. In the discussion group on transport issues of which I was part, the impression was almost that although we might talk the language of integrated transport solutions, we have one bit over here, one bit over there and another bit somewhere else. Elements are not brought together cohesively.

When the new transport bodies are established, more cohesion may be achieved, but I was not given an awful lot of confidence that the current process for spending public money makes communities feel that different policy programmes and how money is spent on them are cohesive and complementary. That is a significant challenge for the Government and the committee needs to examine that carefully.

11:45

Mr Arbuckle: One of the issues that John Swinney brought up from his workshop's discussion was the view that those who live outwith the central belt are disadvantaged. I do not know whether that is further refined by the idea that people living in rural areas are disadvantaged compared with those who live in urban areas—or is it vice versa? When we consider our budget, we might wish to consider whether those allegations can be refuted. It is a difficult and controversial notion, but there is no doubt that that perception exists.

Professor Midwinter: A number of issues were raised in our workshop that are matters for ministers other than the Minister for Finance and Public Service Reform. Queries were raised about

the enterprise, communities and environment and rural development budgets by a number of participants. I propose to produce a note on that and to obtain written replies, as we did when the committee visited Orkney, and to send information back to the participants so that they know that we are dealing with the issues. If you are happy with that, convener, I will do something along those lines.

The Convener: I wish to pick up on John Swinney's point about nobody feeling that enough money is spent in their area of Scotland and on Andrew Arbuckle's point on specifically rural issues. As far as the area of the west of Scotland that I represent is concerned, the calculations on transport spending show that very little is spent to the west of Glasgow. I am sure that people in my constituency would say similar things to what has just been said.

The concentration of transport spending is, in the first instance, around Edinburgh. To a secondary extent, that applies to the proposed M74 extension in the east of Glasgow. There might be an argument about the balance between very big projects, such as the Borders railway and the Edinburgh tramlines, and the maintenance and upgrading of existing infrastructure. I was not part of the transport workshop but, as I understand it, the main issue discussed was not about the need for brand-new roads to serve Elgin and the Moray area, but about the condition and limitations of the existing roads.

Perhaps the issue is essentially one of balance between large, strategic projects based on new bits of infrastructure and the maintenance, upgrading and bringing to fitness of purpose of existing bits of infrastructure. One of the questions that we could ask ministers is whether we have got that balance right. We can appreciate that, from the Executive's point of view, it is quite nice for a minister to cut a ribbon to open something new, big and significant. However, that work might have been done at the expense of other things that require to be done.

Mr Swinney: I would have thought that there is no shortage of ribbon-cutting opportunities in Scotland. You make a very good point about the difference between large-scale, strategic projects of the significance of the M74 extension and what seem to be, in the grand scheme of things, projects requiring very small amounts of money, as we discussed in the transport workshop, although such projects could bring big economic gains, particularly when it comes to rail infrastructure.

One project that was mentioned involved the construction of extra loops and sorting out railway bridges that need to be slightly raised and track that needs to be slightly lowered to allow for more

freight trains. Such projects would perhaps require £10 million tops. However, the project in question is not happening this year; it might go ahead next year. That is not a confidence builder when people are looking for drive and dynamism in the economy. People know that the infrastructure must be in place before economic activity can be further developed.

You are absolutely right. It is not about the grand, multimillion-pound strategic transport improvements; it is about little pockets of money. The Executive might be too focused on the big projects when it sets the priorities or there might be no mechanism to ensure that small projects are funded more quickly and efficiently. I do not know whether our adviser can throw any light on the associated process point. I am not sure exactly how prioritisation is done in the Executive, but we need to consider the matter further.

Professor Midwinter: The exercise that we propose on the Executive's management of public finances will involve consideration of what the Executive calls pre-expenditure assessments, so that very point will be looked at.

Mr Swinney talked about local projects. I am conscious that, according to the draft budget, there is an extra £50 million to £60 million in the budget for roads maintenance this year, but the overall grant to local authorities is standing still. Despite the theoretical provision of £60 million in the block, the Executive is more or less saying that local authorities will have to find the money from within their existing budgets. We need to keep on top of such issues with the minister.

Mr McAveety: That is the nub of the debate about process that we need to have with the minister, but for me there are two or three other dominant narratives. There has been fairly substantial growth in public expenditure commitments, but the two questions that keep coming up are whether we are demonstrating value for money and whether we are connecting that expenditure with other investment streams. Are we encouraging the private sector to take the responsibility, as well as the opportunities, for investment?

The question that we need to explore with the minister is whether the efficiency savings process is such that we will be unable to track the outcomes and different sectors will be treated differently, including the quangos sector, organisations such as HIAL and local authorities that had the money already. There is an assumption that there will be savings, which creates space for substantial additional resources, but, depending on our perspective, we can read those situations differently.

As a youngster in the east end of Glasgow, I was too poor to have a train set so I thank Sam MacNaughton for giving me the opportunity to understand rail gauges. I hope that that expertise will be reflected in the committee's recommendations.

Mark Ballard: As Arthur Midwinter says, it is important to consider pre-project assessments. We can have both economic growth and the priorities of sustainable development and closing the opportunity gap. Regardless of the arguments about those priorities, our task is to ensure that there is a clear link between the priorities and what happens on the ground.

I was struck by Jim Mather's comments about SEPA. We need much more clarity about SEPA's objectives. If there is concern that SEPA is focusing on revenue generation and that that is hindering economic development, we must pay more attention to the reconciliation of sustainable development and economic development. If spending is to meet the targets that we agreed, it is important to consider not only the interaction between the priorities that have been set but the interaction between the priorities and the use of cash on the ground.

Dr Murray: The group that I was in was certain that efficiency savings are possible. People did not deny that. However, they felt that some of the structures and the lack of trust among health boards, councils and the voluntary sector about the way in which funds were being held on to were creating a lot of duplication and that some of those barriers could be lifted, which would increase the possibility of doing things more efficiently. It struck me that the community planning partnerships, which we spoke to last week, said exactly the same thing about central Government. They said that there seemed to be a lack of trust among the agencies, central Government and the community planning partnerships and that they have to undergo rigorous and bureaucratic mechanisms to get funds, involving ticking boxes and so on, instead of being assessed on outcomes.

There is probably a question about whether auditing procedures are making it difficult for the various levels of partnership to trust one another to develop outcomes and deliver on them, rather than have to tick boxes and so on. We should probably raise with the minister the question how we engender an efficient way for the partnerships to work with one another that does not revolve around people having to tick boxes because they do not trust one another to do what they say they are going to do.

The Convener: Two strands in that are particularly interesting. From ministers' point of view, they are interested in being able to show that they have responded to specific problems.

Characteristically, they promote initiatives, which must have bits of money attached to them if they are to be seen to be effective. However, if we multiply that process by minister and by department, we end up with all kinds of different pockets of money, which all have their own different rules and administrative arrangements. If someone in a remote place—for example, Elgin—is trying to get something done, they must assemble a package of funding from those different component parts. To an extent, someone in that situation is at a disadvantage not so much because of remoteness but because people with greater expertise in other places will be able to get together better bids or will be able to produce bids more quickly. That applies in urban as well as rural areas.

There is therefore what I suppose we can call an institutional drag from the initiatives and the structures that means that money gets spent in ways that are about the maintenance of those structures rather than about the delivery of a product. I think that the minister is aware of that problem, but the issue is how to resolve it. It seems to me that one of the ways in which we can do that is by cutting out some of the structures and simplifying the whole system in Scotland. Devolution was superimposed on a local government structure, a local enterprise company structure and a health board structure that have not fundamentally changed. Perhaps one of the questions is whether we should strip out some of the organisations and make the whole process simpler.

The other issue might be whether we say to the minister that if the Executive is not going to go for that reorganisation across Scotland, it could at least reorganise the way in which it allocates money so that it does not go into the multiplicity of different pockets. That would create a different kind of partnership relationship between, for example, local and national organisations. That suggestion perhaps does not break any eggs, and I am not sure whether it would resolve the problems because I think that a fundamental reorganisation is required in some areas. I would like to see fewer local government organisations and health boards and simpler structures for local enterprise development. Ultimately, I think that we will be pushed in that direction. However, if the minister is not going to go that way, he needs to lay out how the simplification of the structure and the breaking down of the institutional drag factors will be dealt with.

12:00

Mr Swinney: I very much agree with the comments that you and Elaine Murray have just made. We have a duplication culture in Scotland.

If you tried to ask all the organisations in the different areas of government to fund a particular project and were told “No” by every one, by God, you would have gone round the houses. The case for simplifying government in Scotland has never been stronger. As the convener pointed out, the Scottish Parliament has emerged into our governance, but the rest of our governance has not changed dramatically. Indeed, it has probably become more, rather than less, complicated. Although we all have to respond to that challenge, the Government has a particular responsibility in that respect.

No one would disagree with the concept of efficient government—why on earth would they? However, the current programme chases pennies while the pounds leave by the front door. As the convener said, we need to tackle the structural congestion in Scottish Government, and I see no sign that the Executive’s programme is doing that. However, the problem must be confronted.

Jim Mather: One key question that set my mind working came from Jim Johnston, who asked how we can be fair to everyone in Scotland. That feeds back into the loop. At the moment, people feel a lack of a proper opportunity to evaluate need in an open, objective way that prioritises projects across and within different areas. We had no shortage of constraints today. I have to say that, when we asked Highlands and Islands Enterprise Moray how things were meshing together and how cause and effect issues were being monitored, I did not hear the sort of answers that I wanted to hear.

If we had a proper evaluation of need across the various parts of Scotland and in areas such as Moray in order to prioritise projects and to show which was the sorest thumb, which gave the biggest return and so on, we would genuinely start to make some progress, especially if we could monitor their effects on a common worthy aim that people could get their heads round. For example, we could focus on maximising the number of working-age people in work at a local level and then consolidate that nationally. Such an approach would bring together the efforts of everyone in business, education, the health service, transport, economic development, SEPA, Scottish Water, HIAL and so on. On that basis, you could get on-going returns and build confidence in the claim that fairness is starting to stalk the land.

The Convener: As members have no other comments, I draw this part of the meeting to a close. I reiterate the committee’s thanks to all those who participated in the workshops. Your comments will feed back into our questioning of ministers this afternoon and our budget report, which will be produced in December and will be the subject of a parliamentary debate. You can be assured that you have been listened to and that

we have learned a lot from what you have said. I hope that this work will not only feed into that immediate process but shape people's longer-term thinking about the issues that affect the Moray area. Indeed, that happened in previous years when we fed in the input from equivalent sessions in other parts of Scotland.

Efficient Government

12:04

The Convener: The second item on the agenda is consideration of a paper by our budget adviser, Arthur Midwinter. Members will recall that, after our case study visit to Glasgow, we decided to write to all councils, asking them to share their plans for implementing the efficient government programme. We have received responses from 10 councils and Arthur has drafted a paper based on them. We are dealing with the paper today because it would be useful to refer to it in our stage 2 budget report and I think that we should have a brief discussion on it before we begin to draft our report. I will give Arthur Midwinter the opportunity to speak briefly to the paper, after which I will invite contributions from members.

Professor Midwinter: I will run quickly through a few points. From our visits, it was clear that the local authorities in Glasgow and Stirling are pursuing savings packages that are well in excess of the efficiency targets. We began to have concerns about the local government settlement as a whole and about the impact that it might have on services and council tax levels.

You may want to update the committee on the position with regard to the Convention of Scottish Local Authorities, convener. I can say that, while councils were making their responses, the committee received a letter from COSLA advising it that some councils had asked COSLA to respond on their behalf. Those requests have led to some delay.

We have received returns from 10 or 11 councils; the responses contain helpful information. For example, four of the 10 that replied initially focused on the five efficient government work streams of procurement, absence management, asset management, shared support services and streamlining bureaucracy. It is clear from the detail of the submissions that a lot of trimming of mainstream budgets is going on; councils are pursuing savings other than the so-called efficient government savings.

Alarm bells began to ring for us at that point, as what we found was inconsistent with the statements in the budget settlement. One of the joys of having to spend about five hours on a train is that I had time to reread the budget documents. In doing so, I found some interesting statements on the local government settlement. For example, page 162 of the "Draft Budget 2006-07" says that the Executive is

"increasing the revenue grant for local authorities"

by £280 million this year and £478 million next year

“to cover general cost increases and ... to provide ... additional support in education ... a significant increase for care for the elderly ... additional investment in the police service ... extra resources for roads maintenance ... additional provision for environmental programmes”.

The list goes on. In fact, one of the targets is to increase the number of teachers to 53,000 for Scotland as a whole. The latest figure shows the total to be just under 50,000, so there will in effect be a 6 per cent increase, which will add significantly to the education budget.

If members skip back to page 154, they will see that table 10.02 includes real-terms figures for local government revenue and capital. The budget line is flat; there is absolutely no increase in real terms in the resources that are going to local authorities. The Executive is tasking councils to deliver considerable expansion of services from a standstill budget. The efficient government exercise is part of the reason for that. Councils have been given a target of saving 3.5 per cent from their departmental expenditure limit, whereas some Executive departments are having to make savings of less than 1 per cent.

One of the problems that the committee has with the issue of efficient government is the notion that it alters the ratio between inputs and outputs. Despite the launch of the efficient government initiative, we have discovered that the Executive had no output baseline to work from. I do not know how it thought that it would show us that efficiency savings were being made.

Apart from in one or two responses, such as those from Highland Council and Aberdeen City Council, few councils mentioned the issue of output measurement. Those two councils noted that they would have to develop an output baseline, but did not say that they had put one in place as yet. The survey confirmed some of the committee's concerns about the efficient government programme.

The Convener: Before I bring in other members, perhaps I should say that I was at the meeting with Glasgow City Council, which was what gave the impetus for the survey. Arthur Midwinter and I were impressed with the way in which the council's finance department deals with the issues. We were told that the council can identify the component savings that it can achieve through the Gershon-type work streams. The finance department had a significant programme of cost management—as opposed to efficiency controls—that it expected would deliver in excess of £20 million.

Professor Midwinter: The figure is £4 million of efficiency-type savings, as defined in the efficient

government plan, but there are approaching £20 million of actual savings, including more than £1 million off the staff budget for education, which is supposed to be exempt.

The Convener: There is no sense in which we would be remotely critical of that. In fact, we thought that it was an example of good practice and effective management. However, we were interested to find out how other councils in Scotland were engaging in a similar process of cost management. One of the problems is how to square the national efficient government exercise with what is happening at local authority level and seeing the extent to which they interplay. We are looking for some kind of coherence and logic and for appropriate reporting systems, which might be another fertile area for the committee to get into.

Mr Swinney: Elgin is in for a rare treat this afternoon.

Derek Brownlee: The issue of efficient government seems to be important in terms of council expenditure. The response rate to the committee's request for information seems rather low, which might be because COSLA wants to provide a collective submission. However, the more cynical part of my mind wonders whether, if we were to raise the issue with the minister today, he might say that 22 of the councils clearly do not have problems with the issue. Has there been any progress on COSLA's collective submission?

The five areas of efficient government that the Executive identified seem fine, superficially. However, if individual councils do not have a baseline from which to start, how can the Executive assess whether councils collectively can meet the targets?

I also have a specific question for Arthur Midwinter. You say in your paper:

“Councils which have been subject to Best Value Audits will be ahead of the game”.

Are those councils where we would want them to be, regardless of whether they are ahead of the rest of the councils?

The Convener: I will deal with your first two points and then hand over to Arthur Midwinter for the third.

We have not yet seen a written submission from COSLA, but it has asked to meet me—24 November has been set as the date. I hope that it will be able to give us more comprehensive information by that point.

You mentioned baselines. We have to be quite careful on that issue. In the past, Frank McAveety and I have been involved in budget exercises in large local authorities—perhaps other members have, too. We have had to deal with detailed

submissions from departments. There is no doubt that councils have baselines for previous expenditure. They will be making submissions that will be tested severely at departmental level, because directors of departments will want to ensure that the axe does not descend too heavily in their area. I suppose that that is a general reality of budgets in complex organisations.

Councils will have a baseline for expenditure, as well as one for the services that they provide. However, the real issue is whether they have a baseline that allows for the kinds of efficient government measures that we are trying to impose throughout Scotland. The minister will have a response to that. His response in the past was that it does not make sense for him to specify what efficiencies individual councils should be making—that is something that they will know better than he does. He has opposed setting a cost ceiling or a percentage reduction to control the management of efficiencies by councils.

The Finance Committee will be interested in whether there is logic and coherence in the way in which individual councils across Scotland are managing their efficiencies. We will also be interested in how the different treatment of local authorities relative to other budgetary areas can be justified or explained. The minister has an answer to that, but we might want to ask whether the volumes of savings are justified. That relates to the local government settlement for the next financial year and the year after that. We will want to know whether the financial pressures being applied are purely an efficiency exercise or whether the cost controls are a way of offloading central Government budget reductions on to local government.

12:15

Derek Brownlee: If two councils have the same financial set-up but one of them has done more to implement efficiency savings—which might then have fed through into its council tax levels—that council will have less scope to make efficiency savings than the council that has done less.

Mr Swinney: We are in danger of losing sight of the central purpose of the drive for efficient government. The purpose is not to reduce public expenditure but to ensure that more public expenditure reaches front-line services.

As Arthur Midwinter has pointed out, page 162 of the draft budget says that the Executive has increased the grant to local authorities by £280 million to cover a pretty long and expensive list of commitments, but the table on page 154—which shows what is basically a static local authority budget, net of the efficient government

provisions—leaves us wondering where the injection into front-line services is.

Derek Brownlee has raised crucial issues about the baseline. How can we judge whether there has been a beneficial impact on front-line services? That is difficult. How can we be sure that it is not just that budgets have been reduced? How can we know whether local authorities are doing more with less money? The one and only test of what the Government is doing is whether front-line services are being enhanced.

Jim Mather: There is an element of artificiality about the draft budget. In a business context, you might talk about getting people out of administration and on to the shop floor, but you would take things a step further and have a worthy aim that people could understand. For example, you might aim at maximising turnover or net profits. If you lack a worthy aim and a means of auditing it, you are at a major disadvantage.

That is why I would like the draft budget to set a target of maximising the number of working-age people in employment. We would then know that we were making the cake bigger. We would have more taxpayers and healthier folk who were better able to look after themselves. We would have fewer people dependent on the state. We would square the circle. Without such an aim, the savings are going to be—as I have said frequently—what the minister says they are.

Mark Ballard: John Swinney referred to Arthur Midwinter's point about the information on pages 154 and 162. I am concerned about the penultimate item on the list on page 162:

“protection for all services already being provided”.

That is very broad.

In paragraph 6 of his report, Arthur Midwinter points out that Aberdeenshire Council feels that the efficiency savings that it is required to make are about the same as the cost of its back-office services. In paragraph 9, he points out that Falkirk Council will have difficulties because of the cap on council tax as well as its need to meet efficiency targets.

I am concerned about how a general statement such as

“protection for all services already being provided”

in the budget document relates to the evidence that we have been getting from councils about their ability to meet the targets purely from efficiency savings. Highland Council states:

“it is highly unlikely that efficiency savings alone will be sufficient to close the gap. Other measures to limit and reduce expenditure will be necessary.”

It is difficult to reconcile that with the idea of “protection for all services”.

Dr Murray: I find this interesting. As Derek Brownlee has said, responses have been received from only 10 of the 32 councils. However, those 10 form a fairly representative group. I am struck by the difference between the way in which the exercise is carried out for arm's-length bodies such as health boards and councils and how it is done within Executive departments. There are significant differences and we do not know whether the statements that are made in efficiency technical notes on how the Executive will find its efficiency savings will be achieved. Time will tell whether the Executive can do what it says it will. Departments have clearly been instructed to concentrate on efficiency savings.

The councils, on the other hand, are doing a classic cuts exercise, which is no different from the cuts exercises that went on in the past. I was involved in local government at a time when we were under severe restrictions. At that time, a fair amount of shroud waving went on, particularly when representatives of all the departments were brought together. They would try to outbid each other on who had had the worst cuts and were saying, "The axe isn't going to fall on my department, thank you very much." We do not know whether the same exercise that was undertaken in the Executive departments would be possible in councils. The Executive does not have the authority to impose it either on councils or on health boards.

The Convener: One of the interesting issues goes back to what we have been saying about devolution having been imposed on existing institutional structures. There seems to be little evidence of councils looking beyond their current structures to identify or deliver efficiency savings.

The minister has said that he wants councils to consider arrangements under which they could, say, provide human resources or information technology services for two or three of their neighbours. Councils could be more creative and innovative in how they make procurement and back-office savings. The current situation is that no council or group of councils appears to be taking that agenda forward. They are instead seeking to make efficiency savings within their existing structures. One part of the minister's plan does not, on the face of it, appear to be advancing very far, as Elaine Murray and I have said. There is still a traditional system of making reductions, but there is no innovation.

The other issue is whether the cost estimate for what the minister expects to make from efficiency savings is reasonable. On what basis has the figure been arrived at? It was simply announced. It is up to the Finance Committee to ask whether it can be achieved under the terms that the minister has advanced. If it cannot be achieved under

those terms—in other words, with no reduction in services—what are the implications for services? That is an issue not just for us, but presumably for the scrutiny process at local government level. Councils have a role to play here.

Mr Arbuckle: As a Fife councillor who has seen the preliminary proposals for next year's council budget, I do not think that the council can have read the bullet point on page 162 of the draft budget to which Mark Ballard referred. Some of the proposals that have been made involve cutting services.

I wish to take up the issue that you raised, convener, about the minister encouraging public sector bodies to co-operate on parts of their structures—for example, human resources and property maintenance. Those issues are common to all councils; they are critical not just to each council's own interests. I know from my involvement in Fife Council that one of the main handicaps is that there is not the same pressure on health boards or local enterprise companies to co-operate with one another in that way. Some knocking together of heads is needed, because local authorities cannot do the work on their own. Somebody has to get everyone around the table and say, "If you co-operate, you could strip out quite a lot of costs. For example, you could have a common human resources department." However, that is not happening. Fife and Dumfries and Galloway would be ideal areas for pilots, because the councils in those areas have coterminous boundaries with many other public service providers.

Mark Ballard: I agree with Andrew Arbuckle's comments, but in the transport workshop this morning we heard concern that the room for innovation is being squeezed out by the focus on efficiency gains above all else. We all want service provision to be more innovative, but if people are focusing on how to squeeze half a million pounds out of a tight budget, there will not be much room for long-term thinking and innovation.

Dr Murray: Andrew Arbuckle said that Dumfries and Galloway Council's boundaries are coterminous with those of other organisations. Perhaps one of the reasons why the council has not responded is that it is considering, with the health board, whether there are ways in which it can make efficiency savings. It has certainly indicated in conversations with me that it is prepared to consider how it can co-operate with other bodies to achieve savings.

We should ask the minister what he will do if councils go down the road of cuts or council tax increases rather than efficiency savings—or, indeed, if health boards go down the road of cuts rather than efficiency savings. What can the

minister do about that and what would he be prepared to do?

Mr Swinney: In relation to local authorities, the horse has bolted. The financial settlement has been made net of the efficiency savings and local authorities have to balance the books. There is no way in which the minister is going to tolerate—

Dr Murray: The minister is clear about what he expects. There are to be efficiency savings, not cuts in services or increases of more than 2.5 per cent in council tax. However, what will he do if that does not transpire? What control and authority does he have?

Professor Midwinter: As a last resort, he has capping powers.

Mr Swinney: That would go down well.

Mark Ballard: Bring back rate capping.

The Convener: I do not think so.

Professor Midwinter: On the point about best value, councils now have a duty to pursue continuous improvement in their activities. The best-value audit is quite rigorous compared with previous audit regimes. In almost every case, councils were criticised in the first round for not developing robust performance management frameworks. In the second round, more councils put the time in to develop such frameworks and the councils that did so are further ahead of the game than those that have not done that work yet. That raises a question about the output baseline. The councils that have been best-value audited are more likely to have considered the matter in depth. I think that Stirling Council told us that it put 1,000 man days into the best-value audit, so it is a rigorous exercise.

A phrase was used this morning that I used to use in speaking to my students. Jim Mather talked about the unintended consequences of efficiency gains. Jim, did I hear you say that SEPA is considering increasing charges as a result of the efficiency savings? Increases in charges are not supposed to be part of the regime.

Jim Mather: That seems to be the case.

Professor Midwinter: According to the detailed framework, such increases are not supposed to count as an efficiency gain.

Jim Mather: That is in the nature of unintended consequences.

Professor Midwinter: So the increase is not a direct efficiency saving but it is happening because of the knock-on effect.

Jim Mather: Yes.

Professor Midwinter: It is an unanticipated unintended consequence. I am getting lost.

The Convener: The law of unintended consequences often operates like that.

Mr Swinney: We come back to the question of how we determine the consequences of efficiency savings. We constantly return to the need for a bit more certainty about what has driven what. We have already been around the houses on that with the minister and I am sure that we will return to the matter, because the uncertainty does not allow for a robust framework. We come back to Jim Mather's comment that the efficiency savings will be what the minister says they are.

The Convener: The work that we have done has cast a lot of light on the matter and it has shifted the terms of trade quite a bit. There will be further opportunities to raise the issues with ministers, whose evidence will feed into our budget report. I thank Arthur Midwinter for his paper.

I remind members that we are due to start the afternoon session at 1.35 pm. However, I ask them to come back five minutes earlier so that we can discuss lines of questioning before the Minister for Finance and Public Service Reform comes in. Those members of the public who wish to return to hear the minister being quizzed are welcome to do so.

12:31

Meeting suspended.

13:41

On resuming—

Budget Process 2006-07

The Convener: I reconvene the 24th meeting in 2005 of the Finance Committee.

Earlier, our successful workshop sessions were followed by discussions involving committee members on the input from people in the Moray area. I thank all those who contributed and I have said to them that their comments will inform at least some of our questions to the minister.

Agenda item 3 is further formal consideration of the 2006-07 budget process. I welcome the Minister for Finance and Public Service Reform, Tom McCabe, and his officials. David Stewart is head of the finance expenditure policy division of the Scottish Executive Finance and Central Services Department and John Nicholson is responsible for finance co-ordination in that department.

The session can be used to raise any issues that have been identified in the document "Draft Budget 2006-07" or that arose in this morning's workshop sessions. There is a broad canvas on which we can paint.

As usual, I begin by inviting the minister to make an opening statement. We will then ask him questions.

The Minister for Finance and Public Service Reform (Mr Tom McCabe): Good afternoon, everyone. I thank the convener for introducing the officials from the finance expenditure policy division of the Finance and Central Services Department, who lead on the budget process.

The committee has asked me to the meeting to discuss the draft budget document, which sets out our draft spending plans for 2006-07. I think that the committee discussed the draft budget in September.

As members know, the draft budget is a regular piece of business and is an important part of the overall budget process. Members will be aware that we revised the budget process earlier this year to take greater account of the different requirements in years in which there is no spending review. The annual evaluation report—which would normally be published in March—is now a long-term strategy document that is published only during spending review years. The budget process in non-spending review years, such as this year, when changes are more limited, is therefore shortened. Of course, that enables the parliamentary committee to focus its scrutiny on times when major decisions are made.

Members may find it useful if I explain briefly some changes to our plans in the draft budget, some of which I am sure have already caught their eye.

The Executive's total budget for 2006-07 now stands at £29.22 billion, which includes an overall increase of £217 million since last year's draft budget. Members can see the revised total in table 0.01 on page 2 of the draft budget document. That increase relates to two elements of the budget: an increase in the departmental expenditure limit of £402 million, which is offset by a £185 million reduction in annually managed expenditure.

The reduction in annually managed expenditure comprises two changes. First, £180 million is required for the national health service and teachers pension schemes' superannuation. Secondly, there is a £365 million reduction due to a classification change that moves the supporting people budget from annually managed expenditure into the departmental expenditure limit.

13:45

The change in the departmental expenditure limit is a result of the supporting people budget classification change, which is in effect a £365 million increase. In addition, about £35 million of new resources have been added to the total budget, the larger part of which is a £29 million transfer from the Department for Work and Pensions in connection with the residential allowance.

The convener wrote to me in September to suggest that I should review our Scottish Executive budgets. I was in the process of announcing such a review, so I welcomed his letter. At our most recent finance ministers' quadrilateral meeting in June, we gave the Chief Secretary to the Treasury an indication of our intentions, and I am encouraged that our colleagues in Westminster are following a similar path to us.

Last month, I announced that I have appointed a group of eight external reviewers to challenge our baseline budgets throughout the Scottish Executive. I would warmly welcome the committee's co-operation as we undertake that review. Professor Midwinter kindly agreed to address the group as part of the induction sessions that have taken place and I know that he gave them an idea of the committee's role in scrutinising the overall Scottish Executive budget. I have no doubt that the committee will want to examine the outcome of the review. Following the review, I intend to publish a report in spring next year, although that timescale is not set in stone.

I have asked for an early report because I want as much time as possible, along with my ministerial colleagues, to consider the report. That will not be the sum total of our work to prepare for future challenges, but it will fit with other strands of the work that we are doing. We will need time to consider and implement any changes that result from the work.

The budget review work will be part of what allows us to create the headroom for future spending pressures and priorities, to get the most from our spending and to reap the long-term benefits of investments. In some cases, it might lead us into a spend-to-save scenario.

I realise that there are many issues that the committee may want to discuss and I will do my best to answer its questions, but I am sure that members are aware that the draft budget contains a great many budget lines, so we might have to respond to some questions in writing. If we need to do that, we will do so as soon as we can.

The Convener: We will discuss the independent budget review group later.

I will focus on the more technical issue of the slippage that goes into end-year flexibility each year. I know that the Executive has made significant inroads into better control of end-year flexibility, but we are concerned about the high proportion of slippage in capital investment, which represents £140 million of the £197 million that is under Executive control. What is the slippage situation? How much of the £60 million slippage in agency spending relates to capital and how much of the £99 million that departments have transferred to the central unallocated provision is attributable to slippage? That might be an issue for the minister's advisers as well as the minister.

Mr McCabe: I am sure that my advisers will assist me, but I will make a general comment.

Slippage can occur in capital programmes. The particular slippage that comes to mind relates to land acquisition for the M74 completion. For reasons of which most people are aware, some of that acquisition has been somewhat delayed. Some of our major rail projects have also slipped to some degree, so there is money in the CUP to cover them. From memory, I think that there is about £35 million in the CUP for the rail franchise transfer. Those are just some examples of major capital projects, and their slippage is understandable. Different legal processes have been set in train in connection with the M74 project and that has had an impact. Major rail projects have their difficulties, some of which are connected with planning issues and others with design issues. I have given you a flavour, but perhaps David Stewart has specific information to hand.

David Stewart (Scottish Executive Finance and Central Services Department): I am looking in my papers for an example from the education figures. John Nicholson might have more details.

John Nicholson (Scottish Executive Finance and Central Services Department): It is current resources for this financial year rather than resources for 2006-07 that have been transferred into the CUP, so we do not have all the information with us today.

We can see from table 0.10 at the beginning of the draft budget document that the tourism, culture and sport portfolio has transferred around £21 million into the CUP. That was connected to the regional sports facilities strategy, which will be rolled out in later years rather than this year. That is not specifically a capital project. Some of the transport projects that the minister mentioned are capital projects that will be rephased later this year or early in the next financial year. Unfortunately, I do not have any more detail on individual amounts in front of me at the moment.

The Convener: Perhaps we will put that question in writing and seek a written answer from you.

I want to pursue the subject of slippage, in particular in transport. There is an ambitious transport capital investment programme, but there are indications that a number of the projects will be considerably more expensive than originally projected. Given that the numbers keep jumping, committee members have a general concern about whether adequate financial controls are in place. Related to that, we have concerns about how to manage the affordability of some projects in the longer term. I know that you will be concerned about that too. What steps can be taken to ensure that there are better controls? If it becomes necessary, what process can be used to strip out some of the projects that will need to be reconsidered on grounds of cost, which could render them unaffordable?

Mr McCabe: It would be premature for me to discuss potentially unaffordable projects that might be stripped out of the programme, because it is not our intention to do that at the moment. However, I share the committee's thinking on the overall financing of the transport programme.

It is incumbent on me as Minister for Finance and Public Service Reform to liaise closely with the Minister for Transport and Telecommunications and my other Cabinet colleagues to ensure that proper account has been taken of cost overruns and slippage. After all, transport projects, in particular rail projects, have a history of incurring higher costs than were initially envisaged not just here in Scotland, but in the United Kingdom and beyond. They can

overrun their original timescales for a range of technical reasons. I need to be vigilant and engage in further discussion with my ministerial colleagues, and we intend to do that throughout this year.

Mr McAveety: Earlier, we had good workshop sessions with many local people and stakeholders. The central theme of the workshop that I attended was dramatic concern about trunk roads. In previous years, trunk roads were the responsibility of local authorities. However, since that responsibility transferred to the Executive, a project that would have been a major priority for the regional road structure and economy—the upgrading and maintenance of the A95 and A96—is now substantially down the pecking order and does not feature all that much in broad national commitments.

What can we say to stakeholders in this part of Scotland, and others, who feel that such projects are not reflected at all in the budget document? They might not be immediate national priorities, but they are of critical regional importance in developing the local economy, which should feed into our wider economic growth strategy.

Mr McCabe: The key word is “priorities”. Getting the right emphasis in public policy decisions is always difficult. The investment strategy that has been outlined for our transport infrastructure reflects the fact that there was massive underinvestment over a prolonged period, which needs correction. There is also a recognition that physical infrastructure can play a critical part in providing the platform for economic growth in Scotland. Therefore, the emphasis is on some of the projects that are mentioned in the draft budget document. It is important that we complete that work; it is important, too, to stress to people in other parts of Scotland that although there is no limit to our ambitions, there is a limit to the amount of resources that are available to us. We continue to do our best to use those resources to best effect to generate the economic growth that everyone in Scotland will benefit from.

I fully understand that there may be projects at a more local level that people feel slightly frustrated about, and it is incumbent on their elected representatives and the economic development agencies in those areas to continue to press the economic case for those projects and to explain why they would make a contribution to economic growth and social cohesion.

Mr McAveety: That is probably a fair comment, and a number of the stakeholders believe that they are putting together those cases. What they were trying to say in today’s debate is that a project that does not necessarily require a dramatic level of public investment in national terms—a small, cumulative project that has different stages over

several years—could make a dramatic difference to an area such as Morayshire, for example by providing connections to the main rail terminals and reducing the travel times to central Scotland by train, bus or other modes of transport, which are critical for business development. This is perhaps not a question that you can respond to easily this afternoon, but does anything in the transport budget or within the thinking of the transport officials and ministerial team reflect that kind of approach as well as the important capital projects?

You would expect me to feel reasonably passionate about the M74 development, which is important for economic growth in my constituency. An equally strong passion was evident in the submissions that were made by stakeholders here. How do we get that flexibility into the budget? Although, looking at page 124 of the draft budget document, I can be reassured that local interests are being addressed, certainly for my constituency, that was not the view that was strongly put this morning.

Mr McCabe: I absolutely appreciate that. It would be entirely wrong for all our investments to target central Scotland. Positive things that have emerged since devolution are the fact that there has been more focus on some of Scotland’s rural areas and more recognition of their specific needs. It would be wrong for me to try to speak in great detail about the transport portfolio; the Minister for Transport and Telecommunications could do that better than I. Nevertheless, I can say that there is general acceptance within the Scottish Executive of the fact that areas outwith the central belt require attention. There have been some interesting developments that underline our determination to ensure that communities that are not immediately connected to the central belt get the connections that they need. There has been controversy over some of the proposed projects, too, as I am sure you will remember.

Mr Swinney: A point was put to us this morning that follows on from the point that Frank McAveety has made. As I understand it, two major trunk road improvements are currently under development in the Highlands and Islands. One is in the Mallaig area and the other is on the A9 at Helmsdale. Once those projects are completed, there will be no more trunk road improvement projects in the Highlands and Islands, according to the Government’s programme.

As the minister said, projects of that sort are a long time coming, because of land acquisition and all the other practical issues that must be dealt with. Will the minister reflect on those issues with the Minister for Transport and Telecommunications and write back to the committee on them in due course?

14:00

Mr McCabe: I would be more than happy to relay your concerns to the Minister for Transport and Telecommunications and to indicate that the issues to which you refer were raised with some strength at the committee's public meeting today. We will do our best to respond to the committee on them as soon as possible.

The Convener: The Enterprise, Transport and Lifelong Learning Department is considering a new programme to take us to 2020, so it is a good time to take forward the issues that have been raised.

Jim Mather: This morning we had a useful workshop session on economic generation. The issue of what is inhibiting economic development was richly proffered and well noted. However, it was clear that many of the issues that we face are the same issues as we faced 10 years ago. What steps are being taken to bolster the local economy? What will be different in the current budget round? Which economic inhibitors will it address tangibly? How will we measure outcomes? How will we know whether the budget has worked?

Mr McCabe: In a sense, the answer to the question is too wide and varied for me to get into specific detail. Investments are being made across every portfolio of the Scottish Executive. There are targets for the enterprise portfolio and the communities portfolio. We are making investments to bring more people into the labour force and to improve the educational stock of goods, so that people are more able to compete in an increasingly competitive world.

There are encouraging signs in Scotland as a whole. I have said that one swallow does not make a summer, but the previous set of figures for gross domestic product, in which Mr Mather takes a specific interest, showed that our growth rate in one quarter was higher than that of our counterparts in the rest of the United Kingdom. We have the highest level of economic participation in a generation. There are more people in employment. I have often said on public platforms that if 10 years ago I had claimed that the percentage of people in work here in Scotland would be second only to that in one other European country, I would probably have been carted away, but that is a fact. We think that such progress will work its way throughout Scotland, improve our competitive position and provide opportunity for more people. Through the investments that are being made across a range of portfolios in the Scottish Executive, we will continue to see success. We would be very disappointed if we did not.

Jim Mather: That is an interesting answer, but no other country on the planet has the public sector account for 27 per cent of its GDP. You mentioned labour force participation, but we exclude 630,000 economically inactive people, plus the unemployed, before making that calculation. That is 25 per cent of the working-age population. I do not want to explore that issue too much, but everything that you said had the mark of generality. You use words such as "improve" and "increase". Is there a tangible, worthy aim that will be under statistical control, so that the people of Moray and of Scotland as a whole can know what we are getting at the moment and what we will get incrementally as the Government moves forward on the budget and the efficient government programme? What additional outcomes will we get?

Mr McCabe: We have set a number of targets in each portfolio of the Scottish Executive—you are aware of some of them—and we look for progress to be made against them. I appreciate the point that you make about the size of the public sector workforce, although I do not know that I agree entirely with the figure of 27 per cent. Different figures have been produced.

Jim Mather: I will clarify the point. Twenty-seven per cent of the weighting for calculating our GDP is based on the public sector, which is anomalous to say the least. It means that, if there is an increase in funding to Scotland from the Barnett formula of 3 per cent, 1 per cent of our GDP growth will come from the public sector. If we index Scotland to the UK as a whole at 100 in 2002, performance will be very different. I could index my 2002 salary at 100 and compare it with Tom Farmer's, and I might have outperformed him in percentage terms, but I would not have done so in real terms. Many of the data with which we are presented muddy the water. I hanker for data on matters such as the number of working-age people in Scotland who are in work, which would allow us to measure performance at every level—for Moray, for Highland region and nationally.

Mr McCabe: I, too, hanker for data that would clarify matters for the general public in Scotland. I assure you that I am constantly involved in dialogue with statisticians who serve the Scottish Executive on the production of such data. I get as frustrated as anyone when labour force information from the Office for National Statistics has to be adjusted downwards because it is collected differently from the way in which information is collected in Scotland, as that allows people to distort the situation. My colleagues and I get incredibly frustrated about that. We need to modernise much of the information that we give out.

Sometimes, when politicians talk about such information, they are accused of wanting to skew it in favour of their own ends. I assure you that that is not the case here. Our job should be to clarify the situation as much as we can for people in Scotland. Very often, it is as good as impossible for members of the public to understand some of the expensively produced information that is produced in Scotland. I share your view that we should clarify matters. I assure you that, as the minister, I am involved in the constant pursuance of that objective. I cannot say that I am enormously impressed with my success rate so far, but I hope to impress myself more in future.

The Convener: A couple of issues arose in the economic regeneration session this morning, the first of which follows on from the issue of labour market figures. In this part of Scotland, there appears to be considerable growth in employment of people from other parts of Europe, such as Spain, Portugal and the accession countries of eastern Europe, particularly in the manufacturing and food processing industries. That creates a tension in the local economy through the increased demand for housing and education. Although those people contribute substantially to local firms, the fact that they are here brings other costs. Given the fresh talent initiative and the other initiatives that the Executive has introduced to bring people to Scotland, what more can we do to support the people who have already been brought here for good economic reasons and who certainly serve the interests of the area?

Mr McCabe: We should be proud that Scotland is one of the few countries that openly encourage an inflow of people to assist with economic development and to fill labour market gaps. We do that with the recognition that we live in a multicultural society and a world that will increasingly be based on such an approach. It is to our credit that we embrace that approach rather than resist having a mix of people in our country. The people whom you mention are making an economic contribution and we should do as much as we can to ensure that their circumstances and conditions are as good as they can be.

For example, we must ensure that adequate housing exists—the Minister for Communities must consider that as he thinks about the overall requirement for housing in Scotland. The nature of the individuals who come to work in the sectors that you mentioned is not that different in demographic terms from that of the population that lives here already, so the demographic changes are similar to those that are happening in Scotland in general. In many communities, the population is static, but the number of households is growing considerably. One difficulty that we face is that household make-up and lifestyles are changing

and people are taking life decisions at a different point in their lives, which obviously has an impact.

In a range of ways, through the fresh talent initiative, we are doing our best to assist people to integrate in Scotland. For example, we try to ensure that they have access to as much information as possible about the issues that you mentioned. We will continue to consider ways in which we can improve the situation, as it is by no means perfect and certainly needs to be improved. Those people do an important job and we will continue to need such people to come to our country. We are richer because of that diversity and we will continue to encourage it, but there is also an obligation on us to do more to reward those who have been prepared to come to our country and to assist with our economy.

The Convener: You spoke about statistics, but one of the characteristics of statistics is that, to some extent, they tend to work retrospectively. Would it be advantageous to look at current and forward projections for the numbers of people who will come into particular localities in Scotland? We found striking what was said to us this morning about the language mix and the range of people who are coming into places such as Aberlour and Elgin. If central Government enumerated its projections, it and its agencies might be able to respond more proactively to the issue that is arising locally.

Mr McCabe: It is obvious that there is a case for doing that. I do not underestimate the difficulties of producing those forward projections, but the more that we are armed with accurate information—I stress that it should be as accurate as it can be—the more that will assist us with the planning that is required to ensure that the proper services and life conditions are available for the people who come into the country. We would be interested in examining the possibility of doing such work and if the Finance Committee wanted to get involved in that, we would be interested in collaborating with you.

The Convener: Another issue that was raised was the fraught question of flooding, which is a problem in a number of urban communities in the area. Elgin, in particular, has faced an acute set of problems, which have affected businesses' ability to get insurance and caused them disruption. Other places in Scotland, such as Hawick, have suffered from flooding problems. Is there enough money in the pot to deal with those problems in a reasonable amount of time? I recognise that we are talking about big issues and that big capital sums will be required to address them. Is the system for producing plans to deal with flooding problems effective enough and are the agencies that are responsible for coping with such matters, such as SEPA, Scottish Water and local bodies

such as the council, capable of addressing them effectively?

Mr McCabe: There are a number of strands to that line of inquiry. I will relay the concerns that you have expressed to my colleague the Minister for Environment and Rural Development and will try to elicit an answer that will give the detail that you seek. As I have visited different parts of Scotland for work on my portfolio, I have seen some of the extensive work that has been done on flooding. I remember well seeing the scheme that had been implemented in Perth, for example, on which a considerable amount of money had been spent.

I think that about £35 million is currently spent on flood prevention. Recent climatic events give every indication that that expenditure will have to go up. I cannot sit here with my hand on my heart and say that we are entirely confident that we have the proper methodology for predicting where expenditure will be required in the future. In the light of some of the changes that seem to be taking place, I hope that our next spending review will do its best to take account of the need to predict, rather than react to, such events. When we find ourselves tackling such events retrospectively, considerable human misery and economic detriment have already resulted. It would be far better if, armed with the appropriate information, we could predict where our weaknesses lay and prevent certain incidents from happening.

It would be prudent for Governments around the world to consider what they could do to better prepare for such events. You do not need me to recount some of the things that we have all seen on our television screens. One does not need to be a meteorologist or a scientist to know that something pretty significant is happening. I have no doubt that such consideration will be important in our next spending review.

14:15

The Convener: As with the migrant labour issue, I could write to you on the matter and you could pass the correspondence to the relevant minister.

David Stewart: The minister mentioned a figure of £35 million. That figure relates to 2006-07; it increases to £44 million in 2007-08. Given that the budget for this year and the previous year has been £15 million, it is clear that the line is rising.

Mr Swinney: I do not know whether you can answer this question just now, but to what extent has the £35 million budget for 2006-07 been allocated? How far in advance of the start of the financial year is the budget allocated?

David Stewart: I do not have the answer to your first question to hand, but I can tell you that the budget is allocated on the basis of applications from councils for projects. I could certainly find out how much of the money has been committed.

The Convener: A related question is whether organisations have the competence to deal with the scale and technical complexity of works. For example, to deal with its own capital investment, Scottish Water has had to create Scottish Water Solutions, which is an umbrella framework for drawing together different kinds of contractors to carry out work. If we are to make substantial investment in flood prevention or rectification, should the Executive consider the expertise that exists in Scotland and how resources can be used more effectively to achieve the maximum benefit? In that way, councils might not have to replicate the process by having to make bids and carry out work only when money becomes available. Is there a better way of addressing the situation?

Mr McCabe: I am sure that there is. At the moment, SEPA gives us considerable advice on the procurement for and completion of some projects. Much of that work might well be under way in the environment portfolio, so I will ask my colleague the Minister for Environment and Rural Development to provide the committee with details on the matter.

I should point out that the efficient government initiative has been launched and that much consideration is being given to public sector reform. As I go around Scotland, I find myself saying that, too often, we have been too proficient at reinventing the wheel. The less we do that and the more we learn from sharing the experience that we already have, the more efficiently we will be able to apply available resources.

Mr Arbuckle: On a brief technical point, you are promoting employment and the wider economy through the cities growth fund. If we really believe in the city region concept, will you and your officials ensure that that money does not simply go to cities and that there is more partnership working in that respect? In one recent—and unfortunate—example in Dundee, the city took the money and simply forgot about the region.

Secondly, last year's annual evaluation report said that departments were working their way through a cycle of best-value reviews, which were due to be completed by 2006. Is that process still on course?

Mr McCabe: I am sure that I heard the word "allegedly" when you referred to Dundee—if I did not, I am sure that you meant to say it.

The concept of partnership is implicit in the cities growth fund. There have been some very good examples of such partnership working, including

the impressive way in which the city of Glasgow has interacted with the Clyde valley partnership and, in some projects, has brought surrounding areas into the city region. Indeed, after attending the previous meeting of city officials and partnership representatives, I felt that much cross-boundary working was taking place to implement certain projects.

The cities growth fund is important to us. We have recognised that cities can be engines of economic growth for Scotland and that the benefits of such investment should be felt more widely than simply within a city's boundaries. We must ensure that that happens.

I said that partnership is implicit in that funding and we are looking—in any area of Scotland—for a demonstration that partnerships are in place and that there is a wider impact. However, investment is made in a particular way and it is not for me to comment on some of the examples that have been given. I do not know what discussions were held locally or what emphasis was placed on specific projects, so it would be wrong of me to comment on that, but the principle of partnership lies behind the cities growth fund and I think that it is sound. There are good examples of partnership and I think that it is working. There is recognition, not only in Scotland but across Europe, that cities are extremely important places for driving forward the economy. We want to emphasise that and we intend to place even greater emphasis on that in the future.

With regard to best-value reviews, we are on track. The exercise is proving to be very useful and there have been outstanding reports on the work that some local authorities are doing. There have been some less pleasing instances, but it is encouraging that action has been taken in those instances and continues to be taken. Many of the lessons that are learned from that useful experience can be rolled out across the public sector. I intend to analyse what has already been done and to produce guidance on best value for the public sector in general in Scotland, based on the work that has been done so far.

Mr Arbuckle: We seem to be twin-tracking on those issues.

The Convener: That is partly because you asked two questions.

Mr Arbuckle: The minister questioned what I said. Perhaps I should have used the word "allegedly", but I think that I should just leave it at what I said originally. If the minister's officials examine the situation in Dundee, they will find that precious little consultation was done. That is a pity, because I agree with him that the cities growth fund should not only generate growth in the core but should benefit the wider community.

The minister said that he would use the lessons of the best-value review. Is there any indication yet of how much money we will save, or have already saved, from that?

The Convener: There is a danger that we may be talking at cross-purposes. The question is not about local government; it is about best-value reviews in the Scottish Executive and whether the cycle of best-value reviews in the Scottish Executive is likely to be completed by 2006, which was the original target.

Mr McCabe: I do not have any indication or feeling that we are dramatically behind schedule, but I am happy to look into the matter and come back to the committee. I do not want to give the impression that we are anything less than earnest about pursuing those reviews in the Scottish Executive, because they are very important.

The Convener: Is there a quantification of the savings that have been agreed to date as a result of the departmental best-value reviews that have taken place?

Mr McCabe: I do not have a figure for savings that have been agreed to date, but I can try to pass on any information to you. We have not pulled the information together in that way.

The Convener: It would be interesting for the committee to look at the scrutiny process that is attached to that.

Mark Ballard: Another issue that emerged from the workshops was the link between patterns of Executive spending, as laid out in the budget, and the themes and priorities that are introduced at the start of the budget. The introduction to the budget document lays out growing the economy, closing the opportunity gap, sustainable development and equality as cross-cutting themes. Although it is useful to have information about what is being done in different portfolio settings towards those cross-cutting themes, the different chapters take different approaches to the themes; some have spending commitments and some have statements of policy and practice. Can the minister advise the committee how much of the Executive's budget is targeted towards each of those cross-cutting themes?

Mr McCabe: No; I think that it would be impossible to do that. I am sorry.

Mark Ballard: Will the minister comment on the fact that different sections of the budget treat the cross-cutting themes differently? For example, the Education Department makes statements of policy and principle, whereas other departments make statements that give direct financial commitments. Would it be possible to have some standardisation to make it clear what spending commitments relate to the cross-cutting themes?

Mr McCabe: Every portfolio is different, so the information that is given depends on the nature of the activities in which the department is involved. As I said, we are interested in presenting the information in a way that offers as much clarity as possible, but I do not believe that it would be useful to have a completely standardised approach for each portfolio, because the portfolios vary considerably. As a general aim, the more that we can standardise where it is appropriate to do so, the more that we will be able to provide useful clarification on how we go about our work. However, I think that there is a limit to how far we can take that.

The Convener: Mark Ballard has been a committee member for only a short space of time, but the need for a more detailed specification has been mentioned in previous committee recommendations. The Executive responded to those recommendations in ways that varied quite considerably. At one end of the spectrum, the social justice milestones and targets provide a reasonable amount of detail and the equal opportunities process has identified significant moneys that are spent on taking those issues forward. However, it is much more difficult to get costs for the cross-cutting objective on sustainable development.

The committee's inclination is to ask for the greatest amount of information, but a balance must be struck. It might be useful if those issues could be explored at official level, so that we could see what represents best practice and what is achievable in the different areas. Perhaps your officials would be willing to co-operate with the committee on that matter.

Mr McCabe: Absolutely. We seek improvements in the same way that the committee does. Rather than focus on the areas in which we have made progress, perhaps the committee could develop examples of specific areas in which progress has still to be made. If the committee shares those examples with our officials, we will look at what we can do. I am more than happy to share the committee's thinking with my portfolio colleagues to see whether we can concentrate minds on how people might take a different tack on such issues. I am more than happy to do that.

Mark Ballard: I welcome the minister's answer. One area in which clear progress has been made is closing the opportunity gap, for which 10 detailed targets have been set that range across ministerial portfolios. Those targets are helpful for assessing what progress has been made on that cross-cutting theme. Are there plans for similar targets across portfolios for the other cross-cutting themes?

Mr McCabe: I hesitate to say this, but we have sometimes been criticised for having too many

targets, so we need to be a bit careful. If targets are a useful vehicle for demonstrating the progress that has been made and how we have realigned spending to achieve our aims, I am sure that we have no inherent objection to trying to develop them. However, people must understand that, despite good intentions, we could end up being subject to other areas of comment.

Professor Midwinter: The great advantage of the 10 targets is that they constitute a reduction from the previous total of 29 cross-cutting targets. Some of the targets are pulled from portfolios, so not all the targets—only about four—are additional new targets. However, the targets have been reduced to a much more manageable and focused grouping.

Mr McCabe: Obviously, I am worried that, if we extend the number of targets, someone might suggest that we are going back to our old habits.

Professor Midwinter: I would not dream of it.

The Convener: Perhaps there could be a dialogue on that.

14:30

Mark Ballard: The great advantage of those targets is their cross-cutting nature—they cross ministerial departments, just as the issue of closing the opportunity gap crosses portfolios.

You mentioned that there might be more information in future budget documents on dealing with increased flooding as a potential consequence of changes to the climate. I was pleased to hear that. Is there likely to be something that takes into account the impact of climate change on the budget, rather than just on the future work of the Environment and Rural Affairs Department?

Mr McCabe: I cannot say that that is specifically planned but, as I indicated, there is increasing awareness that events are having a major impact not only here in Scotland but around the world. It would be—I do not like using the word "prudent", so I am looking for an alternative—less than sensible if we did not take account of the potential for such events. Not only in Scotland, but among other Governments that are scanning the horizon, that thread will be woven more and more through our work in the future compared with the past.

Dr Murray: I am interested in certain aspects of the communities budget. You will be aware of some of the pressures that have been caused by the changes in the legislation on housing and homelessness that has been passed by the Parliament. There are particular pressures on councils and registered social landlords, with people being referred as homeless under section 5 of the Homelessness etc (Scotland) Act 2003.

Bearing that in mind, and turning to page 112 of the draft budget, we see from table 7.02 that expenditure on the housing programme is falling by 4.5 per cent in real terms from this year to 2006-07, whereas funding for other programmes is being increased. Will you comment on that?

Mr McCabe: My initial comment is that perhaps that does not tell the whole story. We discussed the question of the CUP earlier. Communities placed £100 million in the CUP for affordable housing issues.

Dr Murray: So there are additional resources.

Mr McCabe: Yes. There are considerable resources in place, because that portfolio knew that it could not expend that sum within a certain period of time. You will be aware of how the CUP works. I do not think that the figures in the budget document to which you have just referred tell the whole story.

However, there is undoubtedly pressure in that regard. There are concerns in various parts of Scotland about the level of stock and the investment that would be required to improve it. Concerns are arising among housing authorities throughout Scotland about the percentage of homeless applicants who are succeeding in getting an allocation, while people who are waiting on the mainstream lists are finding it increasingly difficult to make any progress. All those things are coming together and tension is increasing. That whole area needs to be considered. Other aspects of the housing legislation have still to kick in. It would be important for the Scottish Executive to consider the empirical evidence that is building up from around Scotland before any other moves are made.

Dr Murray: I refer to page 136 of the draft budget and to table 9.02. The budget line "CAP Support" seems to increase significantly in 2005-06, but reduces again next year. Is there any explanation for that spike in the common agricultural policy support figure in the present financial year and for its subsequent reduction?

Mr McCabe: I cannot give you a specific answer now, but I will get the information to you. I can assure you that it was not the Prime Minister cutting that on purpose.

Dr Murray: Stealing a march on the French, perhaps.

Mr Swinney: If a project to which the Executive has committed itself is delayed, is the relevant department obliged to put a reserve of funding into the CUP? Could a department decide not to do so but return to the spending commitment at a later stage?

Mr McCabe: Departments are not obliged to do that, but as we look at any end-year flexibility that

might be produced and how it might be treated, certain risks might be inherent in departments not doing it or not taking the appropriate action. The department would have to make its own value judgment on that. For instance, a department's end-year flexibility would not automatically be returned to it 100 per cent. We try to build in incentives to ensure that departments spend as much as they can of the resources that are available to them in any one year.

Mr Swinney: I am intrigued by the fact that there is no money in the CUP from transport. There is a much-delayed project in my constituency to which the Executive has committed itself and the money, but I do not see it in the draft budget. Perhaps Mr Stewart will put me right if I am missing something.

David Stewart: John Nicholson might be able to give you the specific figure that you asked for. I will respond on the general principle.

The transport division has many projects going along at different paces, so the main management issue for the transport programme is the balance of projects that are progressing with those that are slipping back. There is a constant pool of projects in the department.

John Nicholson: The table that appears in the draft budget document shows the additional transfers to the CUP at that stage.

Mr Swinney: I see.

John Nicholson: So although the transport division is not adding anything, that does not necessarily mean that it does not have any balance to use in such a way.

Mr McCabe: Additional money has certainly been transferred into the CUP since the tables were made. I cannot give you a portfolio breakdown, but I think that I am right in saying that about £99 million has been transferred in.

Mr Swinney: At the top of page 162, under the heading for local government revenue, the draft budget states the increasing revenue grant for local authorities and what the Government expects that money to be spent on—in effect, the delivery of local authority services. Does the list on that page represent the Government's assessment of the additional burdens that local authorities will have to carry in the forthcoming financial year, or is the list just a summary?

Mr McCabe: I cannot confirm that the list is complete. At the very least, it is indicative. We believe that the resources that have been made available to the local authorities will cover any burdens that have been placed upon them.

Mr Swinney: That is a substantial list of additional items and the revenue grant will

increase by £280.675 million in the forthcoming financial year. However, table 10.02 on page 154 shows that local government revenue in aggregate external finance is static over the period that is covered by the budget. How can all the additional services that appear in the list on page 162 be provided while the budget is flatlining? Actually, it is going down by £10 million during the spending period.

Mr McCabe: You need to look a bit further down the table at the totals. The total for 2002-03 is just over £9 billion and the total for 2007-08 is £9.836 billion. There are quite significant increases once everything has been taken into account.

We are looking at the real-terms table.

Mr Swinney: Aye. It is kind of important to look at that, is it not?

Mr McCabe: So the figure is going up in cash terms.

Mr Swinney: But it is not going up in real terms. Once inflation has been removed from the equation, local authorities will be asked to do more, as suggested on page 162, with a budget that is, in effect, flatlining.

Mr McCabe: Local government made representations to us and I said that I would consider them. My mind is not closed, but I have not provided any guarantees; I would not do so. I said that I would consider those representations against the background of the progress that local government makes on the efficient government initiative.

Since 2000, the resources that have been made available have increased considerably. We believe that considerable efficiency savings can be made. We also believe that resources can be applied more effectively through the application of technology and that savings can be made through an increase in cross-boundary working. I have said publicly that I do not think that there is a case for having 32 separate council tax collection systems or 32 separate directors of finance and 32 separate directors of education. That is a wasteful use of precious resources. The more that local authorities are prepared to look at the resources that are applied in that direction, the more that resources will be freed up for the delivery of front-line services. People will benefit from that.

Mr Swinney: I do not disagree with what you have just said. However, although that may be the direction in which you are travelling, the local authorities have neither bought into that, nor are they in a position to deliver that; yet, this is the spending settlement that they have to deal with. The problem is that, although substantial efficiency savings in the structure of government administration may be achievable in two to three

or five years' time, the settlement assumes that local authorities will make those gains in this financial year and the next despite the fact that they cannot be delivered on the ground. That may jeopardise front-line services.

Mr McCabe: I have spoken to local authority chief executives, directors of finance and council leaders up and down Scotland, and I have not received any substantial representation with regard to the draft budget for 2006-07. I have, however, received substantial representations with regard to the draft budget for 2007-08.

It is not entirely accurate to say that local authorities have not bought into the proposals. We are receiving an increasing number of imaginative bids under the efficient government initiative. Increasingly, authorities are examining the scope for joint working and the savings that they could make in that way. I spent the summer speaking to politicians and professionals—not only in local government, but across the public service—about the potential for such initiatives and I encountered an extremely encouraging level of support for them. Therefore, I do not think that it is accurate to say that local authorities have not bought into the proposals. The bids that we are receiving for our efficient government initiative reflect an increasing fondness for finding ways in which local authorities can apply their resources far more efficiently.

Mr Swinney: One of the bullet points on page 162 of the draft budget document states that the Government expects resources to be spent on providing

“protection for all services already being provided”.

Does that mean that the Government expects that, as they agree their financial settlement, local authorities will not undertake any reductions in service? According to the Government's explanation in the draft budget document, there is adequate money to ensure that there should be no cuts in local authority services.

Mr McCabe: It is not for me to determine the minutiae of every service that a local authority decides to deliver; local authorities will analyse their requirements and respond accordingly. We do not think that there is any requirement to cut services unnecessarily; however, it may be that the palette changes in the light of circumstances at the local level, and it would be entirely wrong for me to direct those changes. There is no absolute guarantee that we will have the status quo and nothing else—I do not think that the status quo is ever applied, and I do not think that it ever will be.

Mr Swinney: In the light of those comments, is not that bullet point a bit of an overstatement of the Government's commitment? It states that there will be

"protection for all services already being provided".

I read that as a guarantee to citizens across the country that the financial settlement that is being put forward by the Government is adequate to ensure that there will be no reduction in local authority services, which is what people have faced over a number of years. If that statement is an absolute statement of the Government's position, can we expect that no local authority will have to reduce its services as a result of the financial settlement?

Mr McCabe: I take issue with your statement that local authorities have become accustomed to cutting services.

Mr Swinney: We might agree that that has not happened in the past eight years, but I am sure that you and I agree that the vicious Conservative Government that was in office in the dreadful 18 years before 1997 sliced local authority services.

14:45

Mr McCabe: I suppose that we could even agree that we both looked a bit younger eight years ago, Mr Swinney, but I do not know how far that would take us.

Mr McAveety: Who is looking better, though?

Mr Swinney: That is enough.

I am exploring what people can expect in the local authority settlement. Members have been given a paper on responses from local authorities. Highland Council has stated:

"Given the level of budget gap that is forecast, it is highly unlikely that efficiency savings alone will be sufficient to close the gap. Other measures to limit and reduce expenditure will be necessary".

We considered what Highland Council said this morning. Although I agree with the direction in which you are travelling, it seems to me that that council has said that the reconfiguration of finance and HR departments cannot deliver in this financial year or the next. As a result, the rather blunt instruments that we have been critical of in the past may have to be used.

Mr McCabe: We do not intend to promote situations in which such blunt instruments will need to be used. We think that there has been a considerable rise in the level of public resources that have been made available. The graph that shows public resources since 2000 shows what I mean; in fact, the rather varied progress from 1990 onwards and the significant difference from 2000 onwards can be charted on it. I used the chart on a slide last week and remember the picture that it paints. The Executive does not intend to promote situations in which people experience cuts in public services. Our intention is

to promote a culture of continuous improvement in which people are required to analyse what they do and how they do it to ensure that they apply resources in the best possible way in their environment.

Mr Swinney: I have two final brief questions. What will you do if there are service cuts?

Mr McCabe: If there are significant cuts in services, the local politicians who took the relevant decisions will first of all have to justify those decisions. If the Executive thinks that there have been significant detrimental effects on important services in any part of Scotland, ministers will obviously consider matters and what would need to be done to correct things.

Mr Swinney: Secondly, what do you expect the level of council tax increases to be for the next financial year?

Mr McCabe: We have already said that significant resources have been made available. We do not expect people in Scotland to continue to experience council tax increases that are significantly above inflation, and we hope that there will be no such increases. The First Minister has said that our view is that enough resources have been made available to keep council tax rises to 2.5 per cent. We are in continuing dialogue with the Convention of Scottish Local Authorities along those lines.

Dr Murray: One benefit of the long drive up here yesterday was that I was able to listen to the radio, on which an example was given from down south, where savings are being sought that are often compared to those that are being sought here. There has been a 10 per cent efficiency saving on the Criminal Injuries Compensation Authority's administration, but the implication was that that was simply delaying the processing of applications. We have received submissions from 10 of the 32 local authorities—we have not heard from COSLA or the other 22 authorities, which may be more positive—and what those submissions describe look like the usual cost-cutting exercises, not efficiency exercises. What can you do if councils or other agencies simply do not do what you want them to do or pile everything on to council tax bills?

Mr McCabe: There are powers for ministerial intervention, which should always be—and always will be—used as a last resort. However, I am interested in an agenda that looks less at individual funding streams to local government and is based more on outcomes. The way forward in Scotland is to avoid the 1960s-style negotiations that are repeated every year. We are having this conversation in November 2005, but in November of most years we start to get noise in the system, whether settlements are generous or a bit tighter.

Even in years with the most generous settlements people at various levels of government, including local government, say that they are unhappy because their ambitions outstretch the resources that have been made available. To some degree, people have to be realistic about that.

Frankly, I think that we need to move away from that position and take a more mature approach. The Executive must be clear about its headline initiatives and we have to do our best to develop an outcome-based approach. We need to get ourselves in a position in which, through mature dialogue with our delivery agents, we agree our headline ambitions and what they will cost and our delivery agents can go away and deliver them. How they do that is up to them. At the moment, the process is segmented and we deliver funding via a wide variety of funding streams, but it seems to me that, to some degree, we are all involved in wasting resources by checking on each other. In the modern age, it is becoming less and less relevant to do that.

Dr Murray: That is an interesting comment, in view of the other evidence we have heard.

Mr McCabe: The approach that I propose involves trust and it will mean huge changes in the approach of both the Scottish Executive and our delivery agents, but in the final analysis our focus should be finding better ways to serve people, rather than public agencies checking up on one another.

The Convener: Your predecessor, Andy Kerr, reported to us in 2003 that discussions were taking place with COSLA with a view to reaching agreement. Last year, we were advised that the process had been delayed. Two years on, where are we in the process of getting outcome agreements in place?

Mr McCabe: We have made progress with COSLA in a couple of areas and we have a couple of outcome agreements. I am speaking to COSLA and the dialogue continues. I think we have already alluded to the fact that I want to produce a discussion paper early next year about public services and how they are delivered. An important part of that will be the question of outcome agreements and how we progress them. Six years into a new Parliament, as we give more consideration to how we go about our business, outcome agreements should become a far greater part of that.

I can only assure you that the discussions continue. In the past few months I met COSLA's leadership board and we had a frank discussion. I am not encountering any principled resistance to the concept of outcome agreements and people increasingly see their value. Local government, as one of our key delivery agents, has always asked

for more freedom in how it delivers on the Scottish Executive's ambitions. That is a laudable aim and it will serve people better. There is an encouraging level of agreement on the principles and it is up to me to progress that work. It will not happen overnight, but in the years to come more attention will be given to the public sector map, to how we deliver public services and to the possibility of rationalising the inputs and the volume of service that is delivered. Those discussions are continuing.

The Convener: Last week, when Steven Purcell, the new leader of Glasgow City Council, was in front of the committee, we heard significantly different language being used in our discussions on outcome agreements, on the approach that is being taken and on the identification and following through of priorities. We are not yet at the stage of agreement. Perhaps you are saying that we are at the heads of agreement stage—that is, that we broadly agree what we want to do, but the contract is not yet set up. However, the timescale for getting things in place and dealing with the current financial issues is quite pressing.

How can we speed up local government's engagement with the agenda? Is the Scottish Executive keeping its side of the bargain? One issue that Mr Purcell raised was the complexity of the routes through which cash comes to local government, which results in big administrative overheads and a great deal of wasted and pointless effort in trying to audit, re-audit and justify how the money is spent. Mr Purcell argued that the system needs to be simplified.

Mr McCabe: We are talking the same language, then, because we undoubtedly have a wide variety of funding streams to channel resources to local government. For instance, we ask for between 80 and 100 plans and then attempt to monitor them. The amount of human capital that is absorbed in the compilation of those plans is wasteful. We must arrive at a mature relationship in which the headline priorities and their cost are identified, but how our delivery agents achieve them is, in essence, their business. However, there is a trade-off: if we have a clear indication that outcome agreements are not being adhered to and that achievements are not being made, there will have to be greater capacity for ministers to step in and correct the failings. Ultimately, we are not talking about a paper exercise, because if a failing is identified, that means that some of the general public in Scotland are not receiving a service to the level at which they are entitled. If measures do not work as they were intended to work, we cannot step back and ignore that.

In my experience of public life, I have found that, if we free people up and allow them to exercise

their initiative, they find ways of delivering services more comprehensively. That is what lies behind our thinking. We need to learn to let go and to build up greater trust in our delivery agents. However, our delivery agents must know that they have more accountability. Some of the highly paid senior officers in the public service, in local government and beyond—although we are speaking specifically about local government—must have greater accountability. If a person is paid £90,000 to £100,000 a year to be a chief executive but does not meet agreements that they have entered into, they must be accountable for that. If agreements with regard to social work or other portfolios are not met, the highly paid director and other senior officers who have signed up to the agreements must be accountable for that.

The issue is not just about politicians. Do not misunderstand me: those highly paid professionals do a good job, but my point is that the lines of accountability could in many cases be enhanced. Through such measures, we will free up the great amount of talent in the public service to produce better results.

The Convener: Is there a credible threat to people who do not perform? People in the public service—by which I mean local government and other sectors—are not normally removed and do not have anything terrible happen to them for non-performance against objectives. Are you intent on delivering a regime of accountability with real sanctions for non-performance? If so, how do we change people's expectation that failure leads to nothing other than a nice early retirement package?

Mr McCabe: I cannot blame people for having that expectation, because that is exactly how the system works at present. People are counselled out, rather than ushered out the door, if I can put it that way. We must change that, but there is a danger of creating a blame culture in the public service, which would be a disaster. Of the people I have met in the public service, 99.9 per cent are there for exactly the right reasons: they are committed to it and they want to do a good job. Therefore, when they are given the freedom to do that, they will perform. However, there must be a greater realisation of the deal, which is that when people perform, they will be adequately rewarded and when they do not, there will be a consequence. I do not think that there is anything wrong with that deal. That is exactly how we would look at the situation in the case of a street sweeper. I do not understand why we should look at it differently if a director of social work or education is involved. We have not enforced that deal in the past, but if we are to have mature arrangements we must be prepared to do that.

Professional demarcation is as insidious as demarcation at any level, whether in the public sector or elsewhere. Perhaps we need to face up to the fact that we need to talk a bit straighter to people, without engendering a blame culture, which would be absolutely counterproductive. An important piece of public sector reform would be for us to create an awareness among professionals that there are consequences if they do not perform at the level to which they have openly agreed. I feel strongly about that. Some people might think that it sounds harsh, but to me it seems to be absolute common sense.

15:00

The Convener: When he appeared before the committee, Steven Purcell highlighted the fact that Glasgow City Council has, with Glasgow community planning partnership, identified two indicators: worklessness and addiction. The regeneration outcome process in which they are engaged will focus on trying to shift those two issues, as they see the number of people out of work and the number of people with serious addiction problems as the central problems that Glasgow faces. However, the requirements that the Executive is imposing for regeneration outcome agreements—the forms that people have to fill in and the range of things that they have to do—are hopelessly complex, when compared with the clear focus of the community planning partnership's activity.

How do we get a process in which the method of assessment of delivery is simple, understandable, coherent and not unnecessarily burdensome? In the context of local government, Andy Kerr spoke about having five or six outcome indicators for revenue support grant. Can we get down to that point? Can the approach be applied to other budget heads, so that we do not have a multiplicity of pockets of money in the budget, all with different indicators and with an administrative burden? That seems to characterise how the Executive and local government work together—or do not work together—at present.

Mr McCabe: We do that by the Executive learning to let go and showing clearly that, when it lets go, it has certain expectations. Our letting go places certain responsibilities on others. We must develop a system that clearly puts that approach in place. The idea that we can monitor all funding streams and plans is a nonsense. We waste an enormous amount of human capital in trying to do that. We need to trust the delivery partners. We need to agree headline initiatives, what it will take to deliver them and allow the delivery partners to get on with doing that. They need to accept that there must be a robust fall-back position to ensure that people live up to the bargain that they have

struck. We do that by taking away all the monitoring requirements.

I hope that in the near future we will be able to announce a review of scrutiny and regulation in Scotland. I am interested in that. We do not want to undermine regulation, because we live in a society that demands it and which is increasingly litigious. However, we need to consider the burden that we place on organisations. Earlier, I mentioned that I spent the summer speaking to a range of professionals around Scotland. One theme that was highlighted consistently is that they are in constant preparation mode for yet another inspection. Often, the same question is being asked by different organisations. The opportunity cost of that preparation is enormous. We need to find ways of being an awful lot smarter, without moving away from ensuring that services are properly delivered or in any way undermining the concept of regulation, which is necessary but must be proportionate. When we find the right level of proportionality, we will achieve considerable success.

There are a number of strands to that. It will not all be done by one meeting between me and COSLA; many other bodies come into it, including the police, the fire and rescue service, the non-departmental public bodies and the economic development agencies. A wide range of bodies is involved in public sector activity, and we must consider how they all interact with one another. It will be a big piece of work. I think that it is worth while and an inevitable consequence of the creation of a new Parliament in 1999. If we get it right, it will pay huge dividends.

Mr Swinney: How far away are the first steps on that journey? I accept what you say about it being a big job. When can we expect it to start?

Mr McCabe: I hope that, early in the new year, a think piece will be produced that will throw up a number of questions and scenarios for people right across the public service—I have to work quite hard sometimes. It is easy to give examples from local government, but it must go wider than local government and encompass public services throughout Scotland. I hope that that think piece will be available as early as possible in the new year. It will start a dialogue that I will encourage. We will travel around Scotland, speaking to a variety of groups about that think piece and drawing out their opinions and views on it. I hope that we will start to get suggestions from the bottom up about how we should organise ourselves and deliver services. I will contradict myself and give an example from local government. In the past, we have always reorganised local government from the top down. Perhaps that was not always the best way in which to do that.

Mark Ballard: The draft budget was published on 1 September. Shortly afterwards, you announced the planned reduction in business rates. How will the draft budget and its budget process relate to that cut in business rates? In particular, can you explain more clearly where the finance and funding for that cut in business rates will come from? Your parliamentary statement referred only to generalised efficiency savings as the source of the funding.

Mr McCabe: First, I want to break the link that was unfortunately made between the efficient government initiative and funding of the cut in business rates. The efficient government initiative is not producing the money that will necessarily fund the cut in business rates. We have explicitly said that the money that is generated through efficient government will be available to the organisations that produce it to reinvest in front-line services.

In our overall financial envelope, there is scope for policy development—we had money set aside for that. We are confident that we can afford the equalisation of business rates in Scotland. You are right to say that the draft budget document was produced before that announcement was made; therefore, we will show where we will go in the budget bill itself, rather than in the draft budget document.

Mr Swinney: Where exactly is the money coming from? If the figures in the draft budget document all add up, £100 million will have to be found. Where will that money come from?

David Stewart: The draft budget document details the money that is to be voted through in Parliament. As the announcement on business rates was made after that document was published, the money will need to be voted through in an autumn or spring budget revision. It will come from a range of moneys that are available and are held on account—as Professor Midwinter mentions in his paper and as Mr Kerr said at the time of the spending review announcement—for use throughout the spending review period, as required. It is an example of how money can be drawn down at a budget revision for that purpose.

Mr Swinney: Where can I find details of that—I do not wish to be so, but allow me to be pejorative—slush fund?

Mr McCabe: You say that you do not wish to be pejorative, but you mention a “slush fund”.

Mr Swinney: Where is the money in table 0.01 coming from?

The Convener: If we could just put some flesh on the bones—

Mr McCabe: Money that is held in an account does not appear in the draft budget.

Mr Swinney: Wait a minute—we have a set of published figures that show the total managed expenditure by portfolio. Are you telling me that the money for the business rates cut does not come from those figures?

David Stewart: If ministers have not allocated a sum of money from the total amount that is available from the Treasury to a particular portfolio when a draft budget is produced, it will not appear in the document. At the moment, the money is held at the Treasury and can be drawn down and added to the budget at the revision stage.

Mr Swinney: So, for each of the financial years, how much of the money that is held by the Treasury is not currently allocated?

David Stewart: The money that we hold at the Treasury comprises money in the CUP from the various portfolios, any end-year flexibility money and any money that is not yet allocated. It does not relate to a particular year, but can be used in any year in which the minister sees fit to do so.

Mr McCabe: That is, any year during the spending review period.

Mr Swinney: So how much money is there?

Mr McCabe: In the Treasury?

Mr Swinney: Aye.

Mr McCabe: I think that we will come back to you on that.

Mr Swinney: I look forward enormously to receiving that correspondence.

The Convener: During the previous spending review, Mr Kerr said that the Executive was paring the contingency back from £130 million to under £50 million. As a result, you were allocating resources and leaving yourself with very little contingency. Depending on how the business rates cut is timed and phased in, we are talking about a significant amount of money. If such decisions are going to be made part way through a financial year, should not the contingency total be greater?

Mr McCabe: We think that we have enough flexibility in that respect. You are right that the contingency fund was reduced to a very low level; however, I do not think that that money would be the correct vehicle for funding the business rates cut. The constant transactions between us and the Treasury contain flexibility, and the kind of money that we have been talking about can fund the cut.

Mr Swinney: I want to pursue the matter a little further. You have told us that the Treasury holds a pot of money outwith the plans in the draft budget.

How can you be sure that the type of financial commitment that you have made can be fulfilled outwith the budget on what will have to be a recurring basis? From Mr Stewart's explanation, it appears that the facility in the Treasury is less a recurring account than it is a holding account for a given sum of money. However, you will have to fund a growing commitment year after financial year.

Mr McCabe: As you know, Mr Swinney, the situation is always fluid. In an ideal world, we would never produce any more EYF; however, the truth is that we produce EYF year on year. We will simply need to take account of and build in those expenditure commitments in the next spending review in 2007.

Mr Swinney: The published document contains new financial commitments on antisocial behaviour, the sexual health strategy, reducing reoffending and reducing smoking activity, and a substantial sum of money will be allocated to the concessionary travel and fares scheme. All that new funding in the budget has to be secured on a recurring basis. I also point out that the business rates cut will cost £100 million or—more likely—£200 million. It seems to me that, with all those new financial commitments, you will have to find half a billion pounds in a budget that in real terms is increasing at a much slower rate than it did previously, and which is likely to increase at an even slower rate in the years to come. I am surprised to hear your answers about business rates cuts because what you said seems to run contrary to any prudent financial management.

15:15

Mr McCabe: You may say that, Mr Swinney, but we obviously disagree. I cannot remember the whole list of items—

Mr Swinney: Again, the items—

Mr McCabe: I do not need the list again. At least some of the items that you mentioned are accounted for in the 2004 spending review because we expected that expenditure and provision was made for it. If there is any new expenditure, we will review it in another spending review at the proper time.

When I spoke earlier, I alluded to the fact that eight external reviewers are examining the entire Scottish Executive budget. They are ensuring that the budget is properly aligned to the priorities that we set and are examining the possibility of redirection of some of that money if it does not remain relevant. A range of work is going on that will produce possibilities for the future.

Mark Ballard: I want to pursue that matter. A previous finance minister said that

"the source of finance for new spending commitments would be made clear".

We have the draft budget document and a substantial new financial commitment has been made after its publication. You say that the money will come from the holding account arrangement with the Treasury, but you cannot say how much money is in that holding account. Does that meet the commitment that was made by your predecessor to clarify the source of finance for new spending commitments?

Mr McCabe: You should not get unduly excited about an announcement that was made after the draft budget was published. The budget bill that will follow as a result of the draft budget document will introduce clarity. We cannot include everything in the draft budget because it was published on a particular date and transactions go on all the time. We continue to produce end-year flexibility, although we are doing our best to reduce the levels—

Mark Ballard: We are talking about new money, not end-year flexibility or central unallocated provision.

Mr McCabe: What I am saying is that even though we try our best, we will not spend every penny of a budget of £30 billion in the same year by the time we reach 2007-08. There is always a fluid nature to some of the expenditure in the commitments that we make.

A spending review is coming along in which we will make provision for that spending commitment. A review of all our Scottish Executive budgets is under way to try to ensure that they are properly aligned and to identify any expenditure that is no longer relevant so that it can be reprioritised. A range of actions is going on in the Scottish Executive, which is why I can with confidence tell members that the initiative on business rates that we announced is affordable and we can finance it.

Mark Ballard: It still seems that you cannot identify the source of finance, as your predecessor committed to doing, because you have spoken about things that might happen, such as potential underspends, rather than identifying the source of finance for new spending commitments when you make them.

Mr McCabe: I made the point a moment ago that we published the draft budget document on 1 September and there will be a budget bill as a result of the document. You will find the clarity that you seek in that budget bill.

Mark Ballard: On the uniform business rate, will you explain the logic behind business rates payers having their rates frozen or cut in recent years while council tax payers have had above-inflation increases? Will you explain how the decision to

cut the uniform business rate relates to the cross-cutting themes and priorities?

Mr McCabe: I can answer your second question clearly. We firmly believe that we should give business in Scotland a competitive advantage. We do not think that we have levelled the playing field. When the poundage and—I am sorry, but I will have to ask David Stewart what word I am looking for. [*Interruption.*] When the poundage and the yield are taken into account, we feel that we have provided a competitive platform for business in Scotland, which is what we wanted to do. Businesses have been telling us for some considerable time that a cut in business rates would be of great advantage to them.

We think that what we have done will help to grow the Scottish economy. The more we grow the Scottish economy and produce economic opportunity for people in Scotland, the more we will allow them to make independent choices in life. We regard our action on business rates as being entirely complementary to our number 1 priority of growing the Scottish economy. That is the rationale behind our decision, which has been applauded by the business community. We think that our decision will produce benefits over the years to come.

Mark Ballard: What is your answer to my first question?

Mr McCabe: The Scottish Executive is democratically elected, as are councils the length and breadth of Scotland. If there are councils in Scotland that have levels of taxation that are felt to be inappropriate by their public, I am sure that the public will respond appropriately when those councils ask for re-endorsement.

The Convener: I want to pick up on the point about business rates. The ministerial statement in which the decision to cut business rates was announced said that funding for the cut would come from general efficiencies. If I have interpreted you correctly, you seem to be saying that although some elements of the funding might come from good housekeeping in management of budgets, it might be possible for the balance of that money to be drawn from the unallocated resources that are available. Will the budget revision make it clear how much of the funding is attributable to general efficiencies within existing budgets and how much will be drawn from money that is currently with the Treasury?

Mr McCabe: We will obviously pursue general efficiencies within the Executive's budget—it would be strange if we did not do that, given that we have appointed eight external reviewers. It is clear that we expect something to come from that, as we know that there is more than enough scope for generating efficiency savings. At the start, I

was trying to separate the initiative on business rates from the efficient government initiative because there was confusion about the position, especially in some of the media comment. It is important to clarify the situation. We know that we can fund the change in business rates without there being a shortfall in the Scottish budget. We think that significantly more resources will be available for reallocation than are required to equalise the business rates poundage; our budget documents will show that.

The Convener: Yes, but I want to be clear that, in the context of the next spending review period, the business rates reduction will represent a significant new commitment because you will have to find efficiencies elsewhere in the budget to pay for it. In the longer term, all the money will have to come from general efficiencies.

Mr McCabe: Not necessarily. It is not for me to predict what level of expenditure will arise from the 2007 spending review or to suggest that that review will be as generous as the 2004 review; some people might say that it will be less generous than the 2004 review. You seem to be predicating some of your questions on the notion that the spending review in 2007 will be entirely flat. At the moment, that is perhaps a speculation too far.

The Convener: I was not doing that; I was simply making the point that the business rates reduction will need to be factored in when you look ahead and frame the parameters for the next spending review period, as it will necessarily have effects elsewhere.

Mr McCabe: Absolutely.

Mr Swinney: Are there sufficient resources in the holding account at the Treasury for you to be able to afford in 2006 the full business rates reduction that you have promised for 2007?

Mr McCabe: Yes.

Mr Swinney: So it is possible that enough resources will be available in 2006 to reduce business rates by the full amount and that it will not be necessary to stagger the decrease over two years.

Mr McCabe: If business rates represented the whole sum of the Executive's activity—they do not, even though we regard them as being very important—we could focus all our attention on them, but there is a range of priorities.

In my parliamentary statement a few weeks ago, I said that when we consider all our commitments in the budget and all our ambitions, the right thing to do is to move progressively towards equalisation. That is why we will move halfway towards it in 2006-07 and will fully equalise in 2007-08.

Jim Mather: I was interested to hear the minister say that the business community applauded the move on business rates. Will it still do so after what I have heard this afternoon? The business community has a strong suspicion that Scottish Water charges have fuelled EYF. Scottish Water has not taken up £374 million. In the past three years, the pattern has been that water charges have funded on average 84p in the pound of capital expenditure. How does the minister answer that concern of the business community? Can we expect more end-year flexibility from Scottish Water as the funding source for business rates reduction in the years to come?

Mr McCabe: You make that connection, but I do not. We do not badge every pound for a purpose, as you know. I have met a good few business organisations in the past few weeks and I have not necessarily heard that concern from the business community, but I will take your word for it. I suppose that you attend different gatherings from me. That concern has not come across my desk.

I confirm that, as you are well aware, the business community warmly welcomed the move that we have made on business rates. I give the absolute assurance that we will sustain and can afford that. We back that with absolute confidence that the move will contribute to improving the economic climate in Scotland.

Derek Brownlee: I return to the independent budget review group. I am a newcomer to the process. Did you decide to create the group because of a failing or something that could be improved in the budget process?

Mr McCabe: That is a kind of *Daily Mail* take on the group. I do not necessarily say that you intend that—

Derek Brownlee: I do not read the *Daily Mail*.

Mr McCabe: We should be big enough to examine what we do and to use as much advice as possible from outside our organisation to examine what we do. That is professional—some people think that it is quite brave. We have done that for the right reasons.

When people with fresh eyes examine a situation in any organisation, they can approach it from a different angle and then suggest alternatives. They can also consider programmes more dispassionately. It is no great revelation to say that in portfolios and departments the individuals who oversee programmes may become attached to them, so it might become more difficult for them to assess objectively the remaining relevance of a funding stream. Bringing in people from outside the organisation is healthy. In the weeks to come, I hope to complement that group by adding more individuals from the private sector to assist its work.

The group is in no way predicated on the notion that the Executive is failing. It is predicated on the notion that we should be open to the suggestions that people with fresh eyes can make in order to ensure that we use resources as effectively as possible and direct them to the priorities that we have set.

Derek Brownlee: I was not coming from the perspective that failings necessarily exist.

Mr McCabe: I know that.

Derek Brownlee: I have not really been reading the press in the past week.

Mr McCabe: I highly commend that—

Derek Brownlee: Or even appearing in it.

Given what you said about the group's merits, could it become a permanent and regular part of the process?

15:30

Mr McCabe: I have to be honest and say that I have not thought of it as a permanent feature, but my mind is not closed to the idea. Obviously, we have non-executive directors on the management board in the Scottish Executive. We should always be alive to the advice and assistance that people from outside the organisation can give us, and alive to their take on things. That is entirely healthy. In principle, I am not opposed to having much more external assistance.

Derek Brownlee: You said in your opening remarks that the timescale was not set in stone. However, I got the impression that you did not expect any major deviation from the February timescale that you have referred to. What factors could influence whether there is slippage, or are you committed to quarter 1 of next year?

Mr McCabe: You would expect me to ensure that we do not have an open-ended process. There are natural time limits. For example, a spending review is coming up in 2007 and before that we will have to have scanned the horizon, considered all the different advice and started to prepare the direction of travel for certain policies, which all takes time. However, the biggest determinant for me would be if the group said, "Ideally, minister, we would be reporting in month X, but we think we need a bit more time." I would take the group's advice on that. Just as you and I do, the group does not live in an ideal world. If it felt that it needed more time to carry out its task more comprehensively, I would instinctively be sympathetic to that.

Derek Brownlee: How much time have you asked individual group members to give to the task?

Mr McCabe: The average is about two days a week.

Derek Brownlee: In his briefing note, Arthur Midwinter spoke about resources. What additional resources have been given to the group to enable it to carry out its task?

Mr McCabe: There is support from within the management group in the Scottish Executive. So far, no request for support has been refused. I have said that I will keep in close contact with the group, and I expect that we will have frank exchanges. If the group expressed any concerns to me about a lack of support, I am determined that I would address them.

I have said to the eight individuals who are on board—I will say it to any others who come on board—that I greatly appreciate the efforts that they are prepared to make on our behalf. It would be entirely wrong if we did not support them adequately. I stress that I have had no indication that we are not supporting them, but if any such indication were made, it would be only right and proper that we did our best to address it.

Derek Brownlee: Is there any budget to support those individuals if they choose to go outside the Executive for anything that they might require?

Mr McCabe: If they came forward with such a suggestion, we would obviously listen to it.

Derek Brownlee: The timescale is ambitious. Consideration of the entire budget of the Scottish Executive is no small undertaking, as I am sure you realise. Eight people will be working for two days a week for perhaps not even three months. It will be very tight for them to reach meaningful conclusions after doing a review that is detailed as opposed to just being a headline-type thing that anyone could do.

Mr McCabe: I do not want it to be a "headline-type thing"; we have not entered into this in any other way than completely seriously. Different comments will appear in the press—that is part and parcel of public life—but the exercise is very important for the Scottish Executive. It will be important in helping to develop and fund future policy initiatives.

You are right to say that the timescale is ambitious. However, there are certain limits and we have to be in a position to take decisions at certain points. If flexibility is required for that, I am prepared to offer that flexibility. However, as I said, I do not want the situation to be open-ended. That would be in no one's interest. It is an important piece of work and we want to give people all the assistance that we can in order to ensure that they can do work with which they are satisfied. Those people are professionals in their own right. They do not want to do a papering-over job; they want

to do a comprehensive job that will allow us to consider a range of choices. The individuals in the group will not be the kind of individuals who would happily play along with a process that was less than rigorous. If we manage to recruit individuals from the private sector, I do not think that they would be prepared to play along with a process that was no more than a sham.

Derek Brownlee: Do the group's terms of reference set out the level of detail that you expect? That seems to be pretty fundamental, because whether you achieve results in the given timescale will depend largely on the level of output that you expect.

Mr McCabe: At the risk of telling tales out of school, when I first met the group, the members asked me about targets, but I said that I did not want to set targets, because that was not fair. I have left that matter up to the group.

Derek Brownlee: That was about monetary targets. How detailed will the targets be? Will the group go down to the lowest budgeting line and include every spending item, or are you leaving that matter entirely to the group's discretion?

Mr McCabe: The group is in the process of gathering information and setting up meetings with portfolio ministers. After that, it will consider the best way in which to tackle the task. I am reluctant to condition the group's task too much, because it is important that it be allowed to analyse the situation and to come to its own assessment. I cannot say often enough that the group's work is serious. I have no problem with people saying that we could give the group more time, because I have not ruled that out. However, people should understand that I cannot give the group all the time it might want, because we must adhere to certain long-stop dates. We are trying to carry out the process as comprehensively as possible. We will provide as much assistance as we can to the people who, to their credit, have offered their time and professional knowledge.

The Convener: I will make two points on the committee's behalf. We have considered what input we can have into the group's work and we are producing a preliminary submission, which, I hope, we will send off in the next week or 10 days. Our view is that the timescale makes it difficult to carry out the full-scale budget review exercise for which we have called. It was partly through our advocacy that it was accepted that such an exercise would be useful. The timescale for the group and for the committee in feeding into its work is certainly an issue. I hope that the expectation of what can be achieved within that timescale will be addressed quickly. We do not want a situation in which the exercise is too time constrained and the timescale is shifted, but is

shifted too far down the road to allow a change in the way in which the exercise is carried out.

My other point relates to our earlier discussion about simplification of budgets. I hope that the exercise is not aimed only at an audit of budget headings, but that it has a strategic aim of simplifying the decision-making process and streamlining the financial allocation procedure so that we get the benefits of general efficiencies and specific governmental efficiencies as part of the review. I accept that you do not want to dictate to the group how it should carry out the review, but I hope that the review will be consistent with your and the committee's views about the need for the way in which we manage government to be more simple and transparent.

Mr McCabe: I do not disagree with that. A similar process is going on south of the border where, in a sense, the timescale is tighter than ours because the Chancellor of the Exchequer has to make a spending review announcement, whereas we will have an election first, after which whoever is responsible can decide how to deal with the matter. I see some anticipation in Mr Swinney—I hope that he will not be disappointed.

Mr Swinney: You took the word out of my mouth—I was looking forward with anticipation.

Mr McCabe: There are natural long-stop dates that we cannot avoid. We are trying to get into the best position in the time that is available to us. Some people were surprised that we were prepared to carry out the review and to bring people in from outside the Executive to examine the budget. Others will always criticise the review because they do not like the Executive and it is part of their remit to criticise the Executive. I say genuinely that I am not necessarily talking about people in this room; it is just part and parcel of the to-ing and fro-ing of public life. The review is a serious attempt to analyse objectively the resources that are available to us, how they are targeted and whether they address properly the priorities that we have set and the possibilities that are open for the future.

Mr Swinney: I asked earlier about the allocation for local government. One issue about which I am specifically concerned is the allocation of resources to accommodate the cost of the Education (Additional Support for Learning) (Scotland) Act 2004, particularly the cost to local authorities of educating children who have special educational needs. I cannot see in the budget document a pattern of changed expenditure that substantiates the comments that the Deputy Minister for Education and Young People made in Parliament only last Thursday about substantial changes to expenditure to deliver the expectations in the act. What provision has been made to cover the implementation of the act, which is an issue

that is causing concern to many parents of children with special needs?

Meeting closed at 15:41.

Mr McCabe: I do not have details with me on that, but I am more than happy to get back to you with them.

The Convener: The transport constraints of Elgin and our need to get back to the central belt impose a limit on our available time, but we have conducted a thorough exploration of the issues. I thank the minister and his officials for coming and responding to our questions. I also thank all the people from the area who have come to listen to the process—I hope that you have found it instructive and useful. We have certainly done what we can to take on board your issues and concerns. I also thank Parliament staff, who have done a lot to make the meeting possible, and Moray College, for its hospitality and for allowing us to meet here.

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