

FINANCE COMMITTEE

Tuesday 6 December 2005

Session 2

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CONTENTS

Tuesday 6 December 2005

	Col.
PUBLIC FINANCES MANAGEMENT (RESEARCH PROPOSAL)	3211
ITEMS IN PRIVATE	3219

FINANCE COMMITTEE 29th 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

Janis Hughes (Glasgow Rutherglen) (Lab)
Alex Neil (Central Scotland) (SNP)
Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

CLERK TO THE COMMITTEE

Susan Duffy

ASSISTANT CLERKS

Kristin Mitchell
Merrin Thompson

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 6 December 2005

[THE CONVENER *opened the meeting at 10:02*]

Public Finances Management (Research Proposal)

The Convener (Des McNulty): I welcome members, the press and the public to the 29th meeting in 2005 of the Finance Committee. I remind everyone to turn off their pagers and mobile phones. Wendy Alexander will be at committee this morning—she is just outside the room for the minute—which means that all our members are present for the meeting.

Item 1 is consideration of a research proposal, which we discussed some time ago; we agreed in principle that such research should be carried out. The paper from Arthur Midwinter puts the flesh on the bones for us. It will be useful if he says something about his paper, after which I will move to questions from members.

Professor Arthur Midwinter (Adviser): Thank you. I have obtained a copy of the Executive's document on management of public finances, which links to our concerns about economic growth. The Executive says that the devolved Scottish Government's expenditure supports the Scottish economy in several ways through the provision of public services, which support and raise growth; investment expenditure on infrastructure, which also supports growth; the multiplier effects, which generate demands for goods and services; and the direct provision of employment and income. The Executive sees the management of public finances as an important element of its work.

Members will recall that when the item was discussed previously, it was agreed that the committee should commission research on more effective management of public sector resources, which is the fifth of the Executive's five drivers of economic growth. The research should also help the committee to scrutinise public finances, given that the bulk of the committee's work in recent years has been on the budget process and on the information that the Executive presents to the committee as part of that process.

However, only in the past year has the Executive highlighted for us that it uses appraisal techniques before taking decisions. As we have not had sight of the techniques, consideration of them would be valuable. The argument is that those techniques help to drive productivity.

I am keen in particular to look at the pre-expenditure assessment, which asks us to consider the effectiveness of expenditure before making a decision. The Executive says in its document that that is designed to ensure value for money. The assessment goes through a fairly rational model of appraisal that sets out aims and objectives; options for addressing the objectives; the evidence base, which is probably the most crucial element in comparison with the past; the proposal's financial impact; and the plans for monitoring and evaluation. That is a really important subject for us to get into.

Having examined the process and appraisal techniques, I know that there are several other techniques in addition to the pre-expenditure assessments. The second technique that I want to examine is the best-value review. I have worked with local authorities on the development of best value and have a fair idea of how robust the local government framework is. We are aware that the Executive has undertaken several best-value reviews. Last year, the committee asked for them to be published. As far as I am aware, we have still not had a formal reply to that request but, if there is a decision to do research, we should ensure that we have access to the proper documents.

The third thing we want to look at is the newly formed independent budget review group, which is intended to bring in an external challenge to the process. It is worth our while to examine that.

Finally, the efficient government initiative would contribute to a nice package of four areas to consider. We will continue to monitor how efficient government evolves in the next year. I understand that the plan is to produce an annual report around next June.

The proposal brings together four issues relating to appraisal techniques that should promote value for money, which would be appropriate for the committee. If members agree to the proposal, we will be able to make early contact with the director of finance, with a view to accessing the proper documents and officials. I would expect to do some preliminary research, after which I would provide the committee with a summary of my findings, which could form the basis for your questioning of Executive witnesses.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): Will we let the Administration know of our proposed timetable? You said that it had not responded, but if it knew that we were timetabling our programme, that might help to concentrate minds.

The proposal seems ambitious. I agree totally with it, but I question whether we have the resources to deal with it.

The Convener: If we agree to the proposal, the paper will be on our website, so the Executive will be made well aware of the timetable to which we are operating. Arthur Midwinter will talk about resources.

Professor Midwinter: The Executive had not responded only to the request that we made last year for access to best-value reports; this exercise is different. We would of course have to operate selectively and to consider only a specific range of documents within each area, but I have no doubt that I could do the fieldwork to the required level. If that turned out not to be the case, the decision whether to go further on the basis of the early work would be for the committee. However, I know from experience of working with Executive officials that they are good at giving me access to the most relevant documents, so I am not worried about not being able to give the committee a worthwhile report.

Ms Wendy Alexander (Paisley North) (Lab): One of the things that we are trying to do to deepen our already impressive credibility as a committee is to engage the wider financial community in Scotland. Every one of the five major accountancy firms in Scotland now has a dedicated public services partner who, in effect, works exclusively with the Scottish Executive. All those partners have experience of working on an individual programme. I have the names of the individuals at PricewaterhouseCoopers, Ernst & Young, KPMG and Tribal HCH, but I do not know the individual at Deloitte & Touche.

Given that those five public services partners are earning huge fees from the Executive for doing such work, a brief fieldwork interview with them would be helpful. Looking further ahead, we need to grow that capability in Scotland and let those partners know that this sort of work is going on. It would mean five more interviews, but it would make the research even more substantial and it would prevent the committee, or indeed our adviser, from being singled out as unique for focusing on those issues. All five professional organisations are doing a lot of work on linking budgets to outcomes. I will pass the names to Arthur Midwinter and Susan Duffy.

Professor Midwinter: I am not sure whether, under the legal contract that those individuals have with the Executive, there would be any constraints on their talking to me in detail about what they have done. However, there would be no difficulty in their talking to me about the general process.

Ms Alexander: Exactly. They could talk about the potential of linking budgets to outcomes and where they have reached in much smaller areas. We want their insight. This is clearly not going to be a report that has all the answers, but it will point

to a way forward. If we were to corroborate our findings with those of professional advisers in the Scottish firms, who could tell us what they thought was possible, that would add a different dimension to our performance management work.

Professor Midwinter: A lot of the option appraisal work is contracted, so it would certainly be worth our while to do that.

Mr John Swinney (North Tayside) (SNP): This is not the first time Wendy Alexander and I have been on the same wavelength—I am delighted to hear what she has said. As well as taking evidence from Executive officials, I would like to broaden the oral evidence to include the individuals that Wendy suggested. One of the questions that were left by the announcement of the independent budget review group was about the degree of private sector involvement in that exercise. The people who were initially announced all had deep local authority or public service backgrounds, although it was subsequently announced that private sector input would be sought. We should not conduct our inquiry without private sector input to the background research by our adviser and in formal evidence on the record in relation to the conclusions of the research.

I do not know what we would end up producing if we were to get into the nitty-gritty of individual decisions and advice given by those private sector advisers, but it would not be particularly thorough or helpful. It is more about understanding better how the Executive conducts the process. Although I am sure that there is good practice that we will be able to comment on, we will want to challenge parts of that process.

Professor Midwinter: That would add to the value of the exercise.

Mark Ballard (Lothians) (Green): Arthur Midwinter emphasised the importance of pre-expenditure assessments. The landscape for such assessments has been changing because of, for example, the Environmental Assessment (Scotland) Bill, which will transpose the European directive on environmental assessment into Scots law. The appraisals that I am familiar with, such as those under Scottish transport appraisal guidance, include value for money as one of a number of elements. Will you consider the whole pre-expenditure—

10:15

Professor Midwinter: I will look at the whole framework. Equalities need to be taken into account, as do sustainability and many other issues. I will include all dimensions and report to the committee on the merits or otherwise of the framework that is in use.

Jim Mather (Highlands and Islands) (SNP): I have a couple of questions. In carrying out the review it is legitimate to ask what would be needed for there to be a process of continuous improvement. I note the comment:

"The Efficient Government Initiative ... is expected to run for many years".

In my opinion, it should run in perpetuity. What do we need to get out of the review to put our finger on the pulse of that initiative, as measured by outcomes over time?

Professor Midwinter: It is interesting. Without revealing who I have been working with in local government, I will say that a council has a baseline on spend and a baseline on service standards. It monitors the data over a five-year period and is required to demonstrate continuous improvement. The limitation is that of the 75 indicators suggested by the Accounts Commission, only about 12 are what you would call outcome measures. There are a lot of process measures, just as there used to be in the Scottish budget, which we complained about. However, as a basis for going forward that process is fine.

The central concept of best value is delivery of continuous improvement, which requires that information be provided in a way that allows monitoring of whether continuous improvement is being made. The gaps that we have identified within the efficient government initiative would need to be covered in the process, so that we have spending baselines, service baselines and indicators for improvement, which we can monitor over a number of years.

Jim Mather: In addition, what steps can be taken to strengthen and increase the openness of any after-the-event assessment? An interesting contribution was made to the debate recently by Bob McDowell, a Scottish Enterprise international advisory board member, who has just written a highly persuasive book on the subject.

Professor Midwinter: We might want to consider that when we take evidence. The issue that I am most concerned about is the fact that the most systematic sources of after-the-event appraisals have not yet been published in the best-value reviews, whereas for all other public organisations they are required to be published and are published readily. We can usefully include that in the exercise and, I hope, in our recommendations.

The Convener: I have two points. First, we should focus on procurement issues as a subset of the efficient government initiative, given that it is intended that a high proportion of savings will come from procurement. John McLelland has worked on procurement for the Executive. He is likely to complete his report during our review, so

perhaps we should target him for evidence. His report might fit in with what we are doing.

The second issue—on which I will have something to say in the context of the budget report—came out of the evidence that we took from John Elvidge and others. There is a mismatch between the performance monitoring framework that the Executive is putting in place, which is geared towards partnership commitments, and a system that is geared towards focusing on the links between the overall strategic policy commitments and the budgetary allocation process. I wonder whether as part of the exercise we need to examine how the Executive is taking that forward through the office of the permanent secretary.

Questions arise that hit at the heart of the Executive's definition of its performance management role. Perhaps we should focus on that dimension.

Professor Midwinter: The Chancellor of the Exchequer's statement yesterday on progress on the efficient government programme in England focused heavily on the scale of gains through procurement. We will certainly have to consider that issue. I am not sure whether a decision has been taken yet, but there will be a performance report on the partnership agreement at some stage. From memory, the review in the previous session of Parliament was not particularly helpful; it simply said that the Executive was either on course, had missed a target or had got there—the report just ticked boxes, which is not adequate if we are trying to evaluate what is going on. I will certainly make an effort to clarify the Executive's intention on that, but for me that is less important than the other element that you spoke about, which was the need to link policy, resources and outcomes in the budget with the policy documents. Many of the partnership agreement commitments are straightforward and do not even have outcome consequences; they simply say that the Executive will take certain actions. However, if the issue is a source of confusion, we should certainly consider it.

Mr Swinney: My recollection of the assessment report on the previous partnership agreement is that it simply said, "A lot done, a lot more to do," to quote a slogan. I agree with the convener that we should focus on performance monitoring. If we are to introduce rigour to the expenditure of public money so that we generate the greatest value and achieve other objectives, such as economic growth and the improvement of public services, the objectives must be the drivers of policy and not—dare I say it—a rather arbitrary combination of policy commitments that were put together in the aftermath of an election, although I do not imagine that the process is as casual as that.

Ms Alexander: That will fall to you one day.

Mr Swinney: I am sure that the same casual attitude will be taken.

In the interests of rigour, it makes a lot of sense to pursue the convener's suggestion, so that we guarantee that we get maximum value from public spending.

Professor Midwinter: That is a good point. If John Swinney's turn comes, I hope that he gets the number of targets below 400.

Mr Swinney: Perhaps it will be 399.

Jim Mather: A wider concern is to ensure that new efficiencies in procurement do not have a negative effect on economic growth in Scotland. We should not bulk up orders so that they are cross-border when they should not be. I am concerned about the impact on economic growth nationally and locally, especially given that procurement savings are often not all that they are cracked up to be once we analyse the costs of stockholding, storage, personnel, losses, capital expenditure, write-offs that may accrue and the insurance cover that is required to look after major assets. I seek an assurance that strict accounting will be applied so that we know exactly where we are. We should not lose the opportunity to create genuine partnerships with local suppliers, in which, working with the public sector, they are out to optimise outcomes.

Professor Midwinter: That is a serious and fundamental point. However, I must say that I am not now, and nor have I ever been, a procurement expert, although I propose to put effort into getting on top of the law on the matter. However, I know someone who is a professor of procurement and I will seek his help on the matter, if necessary.

Mr Swinney: I am sure that there is an endless amount of private sector evidence on procurement performance that the committee could benefit from listening to. In the chancellor's statement yesterday, the extent of dependence on procurement as a source of efficiency gains was interesting.

Jim Mather: Another fundamental point loops back to the business in the Parliament conference, at which Iain Graham and the girl from M Computer Technologies made a case for high levels of procurement from Scottish suppliers, on the basis that that could be economically strategic for Scotland. In other words, we could do a deal with a local supplier that did not breach competition rules because we place a heavy emphasis on local supply. That could bring the company up to a higher level of advancement in its technology and give it the boosted credibility of being able to say to international markets that it sells to its own Government and public sector.

The Convener: Another dimension is that savings targets that are geared towards procurement can sometimes be achieved at the expense of quality. A balance is always to be struck in streamlining procurement—we should not always go for the cheapest supplier, particularly with public buildings such as schools and hospitals.

Members seem to be interested in several dimensions that relate to procurement. Given that Arthur Midwinter said that he is not an expert on the issue, we should consider whether to get specialist advice or support on that subset of the work. Do members agree to the parameters in the paper, along with the suggestions that have been made, and to conduct a specific piece of work on procurement as an adjunct? We can discuss with Arthur Midwinter how that could be done, if members agree.

Members indicated agreement.

Items in Private

10:27

Meeting continued in private until 12:23.

10:26

The Convener: The second agenda item is to consider whether to discuss in private at our next meeting our future work programme and our draft report on the Scottish Schools (Parental Involvement) Bill. Do members agree to take those items in private?

Members *indicated agreement.*

The Convener: As previously agreed, the next two items on the agenda will be taken in private. I should have mentioned earlier that we have a delegation from the Romanian Ministry of Public Finance—I welcome them. I am sorry that the public part of the meeting has been so short, but it just so happens that we have substantial items to take in private. I thank them for coming and I hope to see them later today.

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