

# **FINANCE COMMITTEE**

Tuesday 10 January 2006

Session 2

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## FINANCE COMMITTEE

### 1<sup>st</sup> Meeting 2006, 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)

John Scott (Ayr) (Con)

Iain Smith (North East Fife) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

George Lyon (Deputy Minister for Finance, Public Service Reform and Parliamentary Business)

John Nicholson (Scottish Executive Finance and Central Services Department)

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

Rosalind Wheeler

#### ASSISTANT CLERK

Kristin Mitchell

#### LOCATION

Committee Room 4



# Scottish Parliament

## Finance Committee

*Tuesday 10 January 2006*

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

## Subordinate Legislation

### Budget (Scotland) Act 2005 Amendment Order 2006 (draft)

**The Convener (Des McNulty):** I begin the first Finance Committee meeting of 2006 by welcoming the minister, his officials, the press and the public. I provide my usual reminder to turn off mobile phones and pagers.

We have apologies from Wendy Alexander, whom we will not see for some time. She remains a member of the committee, so we will take her apology for each occasion on which she does not attend. Jim Mather is expected, so his apologies are for lateness.

I welcome Rosalind Wheeler, who is the committee's new senior assistant clerk. She succeeds Judith Henderson, who left us in October. I look forward to working with her.

We move on to agenda items 1 and 2, which we will separate formally when we come to the vote. For the discussion part of the process, we will take the items together. First is the committee's consideration of the draft Budget (Scotland) Act 2005 Amendment Order 2006, which seeks to amend the Budget (Scotland) Act 2005. As well as the draft order, the committee has before it the budget documents that set out the background to the proposed revision, and a note from the clerk. As stated in the clerk's note, the Subordinate Legislation Committee considered the draft order on 20 December and had nothing to report.

I welcome to the committee George Lyon, the Deputy Minister for Finance and Public Service Reform. With him are John Nicholson and Martin Bolt from the finance expenditure policy division at the Executive.

Members will see that consideration of the instrument has been split into two parts. First, I will ask the minister whether he wishes to make brief opening remarks, then I will give members the opportunity to ask technical questions. At that point, officials can assist the minister in answering technical questions, but they are not permitted to speak during the second part of the process, which is the debate on the motion. Once technical questions have been asked, I will ask the minister to move the motion that seeks approval of the draft order; the motion will then be debated.

The instrument is subject to the affirmative procedure and so cannot come into force until it is approved by Parliament. The committee will therefore debate the motion in the name of the Minister for Finance and Public Service Reform, which asks the committee to recommend approval. If the committee does that, the Parliamentary Bureau will lodge a motion seeking parliamentary approval for the order. I will ask the deputy minister to move motion S2M-3763, in the name of the minister, then it will be debated. Under standing orders, the debate can last no more than 90 minutes. At the end of the debate I will put the question to the committee on the motion. Our record for such debates is about five minutes rather than 90 minutes. I am not encouraging members to use the full 90 minutes, but the time is available.

I invite the minister to make a brief opening statement and I remind him that he should not move the motion at this point.

**The Deputy Minister for Finance, Public Service Reform and Parliamentary Business (George Lyon):** I wish the committee a very good new year. I hope that everyone had an enjoyable recess. It is good to meet again.

I will make brief introductory remarks. As members will be aware, the autumn budget revision is a regular piece of Government business. A pattern of discussing the budget revisions for autumn and spring has happened for a number of years. Either Tom McCabe or I will be back before the committee again shortly to discuss the spring budget revision for 2005-06.

Budget revisions are necessary because the details of our spending plans inevitably change over time after the budget bill has been approved. We therefore have to come to Parliament regularly to seek authorisation for those in-year changes. It may be helpful if I briefly explain some of the features of the revision.

The autumn budget revision is usually the more significant of the two because of the size of the proposed changes; this one reflects four main types of change to our spending plans. First, there is additional funding, which is mainly funding from Her Majesty's Treasury to cover increases in estimates of annually managed expenditure programmes such as common agricultural policy market support, roads—the costs of capital charges—and Scottish Public Pensions Agency expenditure. The most significant change in this year's autumn revision is the increase in the AME requirements for the national health service and teachers pension schemes. That increase arose following receipt of the full actuarial report on the pension schemes. The report indicated the need to restate the prior-year accounts, which led to a higher opening liability and a higher interest figure.

The restatement was needed because of an actuarial error during the previous valuation. That increase in liability has no impact on the cash requirements for the pension schemes.

Secondly, there is the take-up of portfolios' end-year flexibility, details of which Tom McCabe announced in June last year. Thirdly, there is the transfer of resources between portfolios and between the Executive and Whitehall departments. The most significant of those is a transfer of £11.6 million between the education and enterprise portfolios that is the result of a change in the responsibility for postgraduate certificates of education. The take-up of resources by portfolios from the Executive's central reserve is also included in this section. Examples of items in that category include additional costs that are associated with policing the G8 summit, the on-going costs arising from the Napier prisons judgment, provision to further the public sector energy programme and additional resources to meet increased demand on the legal aid programme. Of course, the largest of those examples—the additional policing costs for the G8 summit—was announced by Tom McCabe on Wednesday 14 December. It is inevitable that our financial processes lag behind announcements and that to some extent we play catch-up in the revisions. No new announcements or initiatives appear in the figures that the committee is scrutinising today.

Finally, there are transfers to and from the central unallocated provision. Since CUP resources are, by definition, not voted until they are drawn down into portfolio budgets, we are not asking for them to be approved in the revision, but it is important that the supporting document gives a full picture of the overall budget position.

Together, the changes that are sought in the autumn budget revision would increase our budget by a total of £610 million. The largest elements of the changes are an increase in the Scottish Public Pensions Agency budget, driven by changes in AME forecasts, and, as I mentioned, the costs of policing the G8 summit.

I hope that my remarks have helped to highlight and clarify some of the main points in this year's autumn budget revision. I am happy to answer any questions or to respond to points about individual figures in the document. Officials will also be able to help out. In some cases I may be able to offer only an initial explanation, but we can respond to the committee in writing on any specific points on which members want more information.

**The Convener:** I thank George Lyon for his remarks.

We move on to questions. I reiterate that this stage of the process is when the committee can

ask technical questions and seek further information. If we want to move into a more political vein, such a debate can take place once we have dealt with the technical issues. That is just the conventional way of dealing with the process.

The proposal is for an increase in the budget of £610 million, which is an increase of approximately 2 per cent. That is more than I seem to remember being asked to deal with in previous years. Is there a reason for that significant increase?

**George Lyon:** I imagine that the reason is the substantial change in the pensions figure. I was not in post when the last budget was drawn up, so I will ask officials to explain further. I imagine that the change is to take account of the actuarial change in pensions provision.

**John Nicholson (Scottish Executive Finance and Central Services Department):** I agree with the minister. The pensions increases of about £510 million account for the largest part of the £610 million increase. If we take that away, the overall provision is comparable to previous years. As the minister said, the largest part of the £610 million increase is due to pensions.

**The Convener:** You highlighted two significant budget areas, which were provision for teachers and NHS pensions. Is there the prospect that a similar revalorisation will affect pensions in other areas of the public sector? Is the increase in teachers and NHS pensions a foretaste of further changes that might come about if other groups of employees are affected by the same process?

**John Nicholson:** We are not aware of increases of that magnitude in other pension schemes. The NHS and teachers pensions are the main areas that we look after. The increases in those pensions were funded by HM Treasury increases.

**The Convener:** Can you go through what exactly is causing the increase so that the committee is absolutely clear?

**John Nicholson:** I do not profess to be an expert on the matter, but my understanding is that when the actuaries revalued the pension schemes and considered the opening liabilities from the previous year, they realised that there had been an error. When they revalued the liabilities, they had to restate the opening balances of the pension scheme, which meant that there was a shortfall that had to be funded by increased provision from the Treasury.

**The Convener:** The £500 million had to be found from the Treasury to deal with shortfall.

**John Nicholson:** Yes.

**The Convener:** The minister said that the increase did not necessarily affect the budget that was available.

**John Nicholson:** We give our forecast for annually managed expenditure to the Treasury and it provides us with what we need. The fact that the increase is a non-cash element of the budget means that it does not affect our cash requirement. Therefore, no other areas of the budget suffer as a result of the increased provision that we require for the pension schemes.

**Mr John Swinney (North Tayside) (SNP):** Who carries out the actuarial evaluation? Is it done by officials of the Scottish Executive or by Her Majesty's Government?

**George Lyon:** It is done by Government actuaries. I remember that the Audit Committee examined this subject, and it found that the restated figures resulted from revaluation by Government actuaries.

**Mr Swinney:** When an error is identified in the calculation of the opening liabilities, is it communicated to the Scottish Executive so that it can request an increase in AME?

**George Lyon:** Yes. We were informed when the error was identified so that we could inform the Treasury that we needed extra funds to meet the costs of the pension schemes.

10:15

**Dr Elaine Murray (Dumfries) (Lab):** I would like to ask about the environmental protection budget, which is given on page 20 of the autumn budget revision. I am surprised to see that the strategic waste fund is decreasing by £29.9 million and that there is a reduction of almost £9 million in the flood and coast protection budget. Why? The Executive has recycling targets that have to be met this year, but many local authorities are struggling to get anywhere near the target of 25 per cent recycling. Why has there been such a significant reduction in those budget lines? I am surprised, given the recent problems that we have had with flooding, that the flood and coast protection budget is falling.

**The Convener:** When the committee met in Elgin, people there mentioned the requirement for flood protection and their difficulties in getting resources. It is, therefore, perhaps surprising that there has been, in effect, an underspend in flood and coast protection.

**George Lyon:** The information that I have from the Environment and Rural Affairs Department is that there is a transfer to the CUP of £8.9 million for flood and coast protection. Therefore, provision is being made to meet future demand.

**Dr Murray:** Is there an underspend because local authorities have not bid for money from the fund?

**George Lyon:** There is a clear expectation that that money will be drawn down. Therefore, the £8.9 million transfer is being set aside to be used for flood and coast protection.

There is also a transfer to the revenue support grant of £4.844 million to meet other pressures that are dealt with by the environment group of the Environment and Rural Affairs Department. There is a transfer for research on tenement multi-occupancy recycling projects and a transfer to the CUP to meet future pressures.

**Dr Murray:** Are those demand-led budget lines?

**George Lyon:** Yes.

**Dr Murray:** Therefore, an explanation for the transfer might be that there has not been an occasion on which the funds have been drawn down.

**George Lyon:** The funds have not been drawn down as such, but it is probably anticipated that there will be a draw-down, and provision is being made for that.

**Dr Murray:** So, the funds will be available should local authorities come forward for them.

**George Lyon:** Yes, but the funds have to be drawn down. If you wish, I can get a more detailed explanation of that for the committee.

**The Convener:** That would be interesting, because the sums are considerable: £9 million has not been spent, and the revision is to £6.5 million, which is more than 50 per cent.

**George Lyon:** It is a big amount.

**The Convener:** There is a considerable discrepancy between what was bid for and what has been spent.

**George Lyon:** There has to be demand from local authorities. However, we shall seek further explanation from the Environment and Rural Affairs Department and furnish the committee with it.

**Mr Swinney:** It is unlikely that there will be a lack of demand from local authorities. My constituency alone could probably spend all the money that has been put into the CUP—never mind the problems in other members' constituencies. However, we should wait for the explanation.

**George Lyon:** The department knows that bids are coming in, but there may be slippage in capital programmes for the works that go ahead before money is paid out. Until we get a more thorough explanation from the department, I cannot tell you the details.

**Mr Swinney:** You made a significant point about slippage, which seems to be becoming a characteristic of a host of Government programmes. The £29 million that will come out of the strategic waste programme is not as grave as some other transfers. Will that £29 million transfer to the CUP?

**George Lyon:** There is a transfer to revenue support grant of community support grants for local authorities. There is a transfer to meet other pressures in the environment group. Once we get a more detailed breakdown of that figure, we will be pleased to follow up on it.

**Mr Swinney:** One of my concerns about the strategic waste fund is that local authorities are being asked to bid for resources from the fund. The deadline for such bids has either just passed or is to be reached shortly, and local authorities have had three or four months to do that. However, the Scottish Executive will not tell them whether their bids have been successful until about December 2006, which means that the Executive will sit on the applications for 11 months. Meanwhile, local authorities will start to incur fines because they will not have reached the requisite levels of recycling.

Programmes are slipping, and that has been to the detriment of local authorities because they cannot deliver improvements. Could that point be examined as well?

**George Lyon:** Certainly. My experience of my constituency is that the council has perhaps struggled to get up and running in the past 12 months as many projects as it would like. Officials from the council's finance department have told me that there has been slippage in the council's allocation for this financial year: there have been problems in getting the allocation spent and out the door, which can have an impact on spend.

**Mark Ballard (Lothians) (Green):** I want to move on, if that is okay, convener.

**The Convener:** A couple of members want to talk about environmental protection, so I will hold your question.

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** My question is linked and is about a similar situation to that of the strategic waste fund. Under the water services budget, the provision for private supplies has been cut, at a time when the European Union water framework directive is being implemented and we will unearth more and more people with private supplies who have problems with obtaining water and with sewage disposal. That cut is somewhat at odds with policy. In your rural constituency, minister, many people have private supplies; the budget for linking them to the mains water supply is being drastically reduced.

**George Lyon:** I shall ask the relevant minister about the reasons for that and respond to the committee. I am not in a position to say in detail why he has sought such changes in the budget.

**Mr Arbuckle:** There is a contradiction.

**George Lyon:** We will try to clarify the point.

**The Convener:** I remind members that we are asking technical questions.

**Derek Brownlee (South of Scotland) (Con):** I want to return to the pensions issue, if that is okay.

**The Convener:** We will deal with environmental protection first, then we will return to pensions—I want to ask about them, too. Does Jim Mather want to ask about environmental protection?

**Jim Mather (Highlands and Islands) (SNP):** Do water services fall under that heading?

**The Convener:** We will finish discussing environmental protection, go on to pensions, then move on. The point that I will pick up on in relation to environmental protection is other pressures in the environment budget, which the minister has mentioned twice. I would be concerned if money was not being spent on capital projects or on processes that were on a timetable, such as the strategic waste fund, because other parts of the budget show a pattern of overspend.

Under the Environment and Rural Affairs Department, the Scottish agricultural and biological research institutes are overspending by nearly £3 million; the Royal Botanic Garden Edinburgh by £1.5 million; the Scottish Fisheries Protection Agency by £1.8 million; Scottish Natural Heritage by £7.9 million; and the national parks by £3 million. That shows a pattern that raises questions about budget management.

Simultaneously, money is not being spent on matters on which we want it to be spent. Whether that is the result of difficulty in spending the money is open to question, but I am particularly concerned about inefficiency in targeting money on those matters and in ensuring that it was spent effectively or about—which is perhaps worse—using those underspends to balance the books in respect of overspends elsewhere. That seems to be a pattern in the Environment and Rural Affairs Department. Will you comment on that? I will return to the matter, perhaps in the next phase of the process.

**George Lyon:** I shall seek further explanation and get back to the committee. Quite a lot of budgets in the Environment and Rural Affairs Department are demand led, so it is quite difficult to predict outturns and whether there is enough cover to meet demand. When I have heard a fuller explanation from the Minister for Environment and Rural Development, I will respond to the



committee. Do members have any other questions on that budget?

**Dr Murray:** I seek a wee bit of clarification. Do the increases that the convener mentioned represent overspends or end-year flexibility decisions to give projects additional money? That is not clear from the documentation.

**John Nicholson:** EYF allocations are being added to some portfolio budgets and transfers from the CUP are being made into other budgets. None of the increases is an overspend; the figures are revisions to the budgets to which those organisations work, which are based on their latest forecasts.

**The Convener:** Some increases relate to administrative pressures—the figures that I listed all result from a lack of administrative control. The real issues are whether the Environment and Rural Affairs Department has tight enough administrative control over such budgets and whether money for programmes is being spent to cover administrative matters. If that were the case, we would be concerned. There is another issue, but I will let Mark Ballard speak.

**Mark Ballard:** Further to that point, under the Environment and Rural Affairs Department budget, schedule 3.4 on fisheries shows that funding for fisheries capital grants is declining by £6.5 million, which is something like a 45 per cent cut. That may well be another example of what the convener said about programme grants. If the minister has no details on that, could he add it to his list for the Minister for Environment and Rural Development?

**George Lyon:** Yes—I will do that. I also ask committee members to let us know about other points, to which we will respond.

**The Convener:** The fisheries capital grants might be an example of a good control at one level, because they should be demand led. We need to get a handle on whether that money does not require to be spent.

There seems to be a disturbing pattern that concerns control of the administrative activities of the Environment and Rural Affairs Department or of the bodies of which the department has financial control and oversight and, at the same time, there is an apparent pattern of not getting money out the door and into key areas, particularly in environmental management, such as the strategic waste fund and flood and coast protection, under the environmental protection heading. The draft budget revision contains several other examples of a pattern of underspending that is beginning to emerge on environmental programmes. Some concerns are felt about that.

**George Lyon:** We will be pleased to obtain the information and to respond to the committee.

**The Convener:** I will return to pensions, and then call Derek Brownlee.

We are talking about £500 million. The committee requires a clear explanation of why that £500 million is needed and the basis on which it was calculated. I acknowledge that the format of the draft budget revision does not lend itself to that, but when such a substantial amount of public money relates to a single cause, the committee would find it helpful to receive a letter explaining clearly the circumstances of how the increase arose and the boundaries around it, to assure us that a similar situation is unlikely to arise in relation to the local government pension scheme or other relevant pension schemes.

**Derek Brownlee:** John Nicholson talked about an error. I am interested in understanding precisely what the error was and the extent to which we separate an error, which I assume was a miscalculation, from a change in the actuarial assumptions. We are all aware of the difficulties with which the actuarial profession must deal. It would be useful to have a clear guideline on whether the figure is all due to a calculation error or whether changing assumptions are an aspect, which would have a broader impact, as Des McNulty said.

**George Lyon:** If the underlying assumptions changed, the actuaries would say that rather than that an error had been made. I am sure that the Audit Committee has worked on that, but we will confirm that an actuarial error rather than a change in the underlying assumptions took place. We will also seek assurance that the increase is a one-off and that it is the only impact in this financial year. Financial impacts might be felt in later years, but we should be able to take them into account in the next budgeting round.

**The Convener:** Financial impacts in other years follow, but we require further information. We will move on.

**Jim Mather:** I will return to water services.

**The Convener:** Fine.

**Jim Mather:** That is great.

On page 22, schedule 3.8 on water services shows an additional £2 million for the Water Industry Commission for Scotland. I assume that that covers the change from the water industry commissioner to the Water Industry Commission, but £2 million seems somewhat excessive for Sir Ian Byatt and his five colleagues.

10:30

**George Lyon:** I will investigate why he needs an extra £2 million. I cannot give you the

information now, but there seems to be a substantial increase in his budget.

**Jim Mather:** I ask for your support on another issue. On 30 November, in this very room, I put it to Sir Ian Byatt that he should meet members to discuss our concerns about the running of Scottish Water. I have now sent him five e-mails and two letters. I received one acknowledgement from a junior member of staff, but I have not had a meeting with him, so my sanctioning the £2 million is somewhat pie in the sky. Do you agree that Sir Ian Byatt should meet me?

**The Convener:** I am not sure that that is a technical question.

**George Lyon:** It is political.

**Jim Mather:** It is a very technical question from where I am sitting.

**George Lyon:** Given the terms in which Mr Mather has portrayed the matter, I am sure that Sir Ian Byatt will be keen to meet him. He might also want to meet the Executive to discuss the issue. As I recall, when the water industry commissioner was the single person who ran the water industry, Audit Scotland raised some concerns about its financial management. Clearly, I will seek further information about the £2 million.

**The Convener:** I would like to ask about the £7 million for the transitional reduction scheme.

**John Nicholson:** Unfortunately, our information tells us the sources of the funding rather than what it is for. Again, I am afraid that we will have to get back to you in writing on that.

**The Convener:** When one ploughs these things, some things stick out fairly obviously. I would have hoped that the officials would be in a position to respond to some of our questions. That is not a criticism, but if these sessions are to be useful, we require answers to questions here and now rather than at a future stage. However, that information would be useful.

**Mr Frank McAveety (Glasgow Shettleston) (Lab):** Concessionary fares are mentioned on page 60, which shows a fairly substantial increase in smartcard applications and in the concessionary fares national scheme. Why are the figures so out of kilter?

**John Nicholson:** The £21 million increase is made up of separate elements. Half of the £6.1 million total increase for smartcards comes from last year's end-year flexibility, and the remainder is additional funding for the smartcards from programme expenditure that, again, was found from the previous year's EYF.

**Mr McAveety:** It is troubling that there is a 200 per cent increase for smartcard applications. The operators would have been familiar with the

technology and link-ups that are required, so why is the figure so off the prediction? It seems such a strange figure.

**John Nicholson:** As the funding came from EYF, the suggestion is that it was supposed to have been spent last year. It is possible that the scheme that was supposed to get off the ground last year has taken longer than expected, and the applications are now being processed in this rather than last financial year. The budget is merely being shifted from one year to the next rather than the allocation being supplemented.

**Mr McAveety:** Is that the case for the concessionary fares increase, which is 150 per cent?

**John Nicholson:** The concessionary fares increase is down to additional section 70 support for local authorities to claim on existing schemes as per the 2002 spending agreement with the Convention of Scottish Local Authorities. It is not clear whether that is EYF.

**Mr McAveety:** I presumed that the increase was to do with demand being greater than expected. That is my hunch, but clarity would be helpful.

**John Nicholson:** It is not clear whether it is EYF or funding that has been taken from the CUP or elsewhere. Unfortunately, I cannot give you any more information.

**Mr Swinney:** Picking up where Frank McAveety left off, I hear what you say about some of the funding being EYF, but I am uncertain why that has not been identified in the budget. I think that Frank McAveety's point is that the smartcard application budget is now £9.1 million and the concessionary fares national scheme budget is £25 million, although in the original budget the figures were £3 million and £10 million respectively. I cannot understand why that has not been highlighted. Is that news about the developing cost of the scheme, or was it always envisaged that that would be the cost of the scheme?

**John Nicholson:** If we take the smartcards, the point that I was trying to make is that the original budget for 2005-06 was £3 million, but a further £6 million was to have been spent in 2004-05. If that is now happening this year, obviously the budget must be supplemented. The plan was always to spend £3 million in 2005-06, but we must now also deal with what we did not manage to achieve in the previous year.

**Mr Swinney:** Why was that not highlighted in the 2005-06 budget?

**John Nicholson:** Because the provision was to carry it forward as EYF, and we cannot put EYF in the original budget, which is set before the end of

the previous financial year. The budget for 2005-06 would have been set in January 2005.

**Mr Swinney:** So that funding is slippage from 2004-05 that has been brought into 2005-06.

**John Nicholson:** That appears to be the explanation that is given here.

**Mr McAveety:** In a sense, you have answered my question, so I will let you go.

**The Convener:** I am more worried about the national scheme. I understand that spending on smartcards might be deferred and that funding might be spent in the year subsequent to when it was initially intended. However, when the announcements on the concessionary fares national scheme were made, the minister at the time, Nicol Stephen, was unable to provide a proper costing for the scheme and we ended up with a range of costs. Now we have a significant increase of £15 million in this financial year, and that is before the scheme is introduced.

That is a worrying sign, not just in the context of this year but in relation to what the potential costs might be. As a matter of urgency, I would like to see a written clarification of where we are with the concessionary fares national scheme and what controls the Enterprise, Transport and Lifelong Learning Department is imposing on it. I would also like to see the operators' latest projections, because one reason why Nicol Stephen was unable to give us anything more than a range at the time was because the operators did not provide information.

However, that was more than 12 months ago, so the proper financial costs should be available. We would also like to know whether that £15 million is a one-off—costs being brought forward—or an indication that the costs for the scheme are not under control, and whether there are further implications for next year's budget.

**Mr Swinney:** Are the explanations for the £15 million and the £6.1 million the same? Is the £15 million expenditure that was envisaged for the previous year but that has slipped and is now being spent in this financial year?

**John Nicholson:** The explanation does not make that clear. It is claimed that it is additional support, but it is not clear whether it is additional support from the previous or the current year.

**Mark Ballard:** There seem to be major transfers and changes of funding in the overall transport budget, including a £48 million cut for rail services in Scotland, which is mentioned in schedule 3.10 on page 57, and a £71 million cut in the integrated transport fund, which is highlighted on page 61. The major decrease in capital spending on motorways is more than matched by an increase in operating costs.

In particular, I notice that part of the cut in the figures for rail services in Scotland is made up of transfers to the budgets for the motorway trunk road network and routine and winter maintenance. Can you explain the pattern of changes and clarify what they will mean for overall transport spending?

**John Nicholson:** None of the cuts means an inability to deliver what is supposed to be delivered by the transport portfolio. A large part of the changes to the roads budget that you highlighted—almost £27 million—relate to M74 land acquisition and are dependent on the outcome of the court case on the public local inquiry into that issue. That money has been reprofiled until the end of the court case, when it will be possible to buy the land. It will wait in the CUP until the court case has concluded.

You asked about changes to the rail budget. Track access contractual obligations are taking longer to conclude than was anticipated. A total of £35 million is coming out of the rail franchise money and will go into the CUP, where it will wait until the contractual obligations are completed.

The largest part of the changes to the integrated transport fund relates to reprofiling of capital expenditure for rail projects, which ties in with the contractual obligations discussions regarding track access and strategic rail services.

**Mark Ballard:** What about the changes to the budgets for motorways and trunk roads?

**John Nicholson:** The largest part of those changes are accounted for by the £27 million that relates to M74 land acquisition.

**Mark Ballard:** There are also changes of £28 million for bridge strengthening and £38 million in roads improvements.

**John Nicholson:** The change to the bridge strengthening budget is an accounting change. The classification of bridge strengthening has been changed. It is now classed as an operating cost, rather than a capital cost. All that is happening is that £28 million is moving from the capital budget to the operating budget. The money is not coming out of bridge strengthening.

**Mark Ballard:** What about roads improvements?

**John Nicholson:** The changes to the roads improvements budget are largely of the same type. The net effect is an increase, rather than a decrease, in the budget for roads improvements. The budget is increasing by between £12 million and £13 million.

**Mark Ballard:** Is part of that money coming out of the rail services budget, as listed on page 45?

**John Nicholson:** It may be. The rail money is not required until next year, or whenever the contractual obligations are complete. The object of the CUP is to allow portfolios to manage pressures between years. The transport portfolio may have chosen to use part of its money for this year to deal with road pressures, with a view to using other money that is in the CUP next year to deal with rail pressures.

**The Convener:** If I understand the transport programme correctly, that does not make sense. A number of significant road projects, as well as rail projects, are on the go. It does not make sense to say that money for rail that does not need to be spent this year can be spent on roads and brought back from the roads budget next year.

**John Nicholson:** There may be an excess in the rail budget this year because the transport portfolio does not have to pay out on track access and so on, because the contractual obligations have not been concluded. However, if provision in the CUP is set aside for road projects, instead of moving provision from rail to the CUP in order to move provision from the CUP to roads, resources can be moved from rail to roads, to be spent this year, and what was badged as provision for roads in the CUP can be rebadged as provision for rail, or vice versa, for the following year.

**The Convener:** Having been a member of the committee for some time, I notice that there is a pattern of making commitments to spend money on rail and not following through on them. We find that there is an underspend on the rail budget, whereas there seems to be a persistent overspend on the roads budget. There is a budgeting issue in respect of the management of rail expenditure versus the management of roads expenditure.

**John Nicholson:** I can only assume that there was an expectation that the current negotiations on contractual obligations would be concluded sooner. The budget was in place for what the transport portfolio planned to spend, but it turns out that that has not been possible.

10:45

**The Convener:** I am again seeking an explanation that you may not be able to provide at this point. There were initial projections for the cost of land acquisition in connection with the M74, which you say have been revised but are being held in limbo until the outcome of the court case. Will you be able to give us a report on the land acquisition process and the associated costs at some point?

**George Lyon:** We can seek that information from the Minister for Transport and Telecommunications and try to furnish the committee with it.

**The Convener:** That would be helpful.

**Mr Arbuckle:** I was hopeful that the £28 million for bridge strengthening was for the first phase of the Forth bridge improvement.

My question relates to the increase in the budget for routine and winter maintenance on trunk roads, which comes at a time when all local authorities—which are responsible for the non-trunk road network—are reducing their winter maintenance budgets, because of milder winters. It seems somewhat perverse that there should be such a contradiction. Is there a specific reason for the increase?

**John Nicholson:** Are you referring to the change in the budget for routine and winter maintenance?

**Mr Arbuckle:** Yes—the increase of £11 million.

**John Nicholson:** It is additional funding to address a backlog on trunk road network routine and winter maintenance. The money was not allocated during the spending review period.

**Derek Brownlee:** I have one straightforward question about schedules 3.4 and 3.5 of the enterprise budget. There is a total increase of about £18 million. I appreciate that that is not significant in percentage terms but, given all the talk about efficiencies in Scottish Enterprise, what is the underlying rationale for it?

**John Nicholson:** Several increases make up the change to Scottish Enterprise's budget. The largest ones involve the take-up of end-year flexibility to allow work on the Finnieston bridge to be undertaken—that is capital expenditure—and a transfer from the Environment and Rural Affairs Department for the reimbursement of capital costs incurred by Scottish Enterprise in providing assistance to Landcatch Natural Selection, a smart science aquaculture company. Money has been added to the small business start-up fund. There is also additional budget cover for the West Lothian action plan. The new futures fund and the Scottish co-operative development agency have received additional funds from end-year flexibility and other sources in the enterprise budget. The change to the budget of Highlands and Islands Enterprise is accounted for by capital end-year flexibility that has been taken up to provide additional support for the Inverness medicentre and Western Isles Enterprise's connected communities broadband service.

**Derek Brownlee:** So there is no interaction between the changes and any efficiency-type activity that Scottish Enterprise is undertaking.

**John Nicholson:** No.

**Derek Brownlee:** I have a question about schedule 3.3 of the budget for finance and central

services, on page 105. There is an increase of £1.3 million in the budget for marketing development. What precisely is meant by marketing development?

**John Nicholson:** The marketing development budget is used for expenditure by the Health Department on the smoking legislation campaign, for example.

**Derek Brownlee:** Why is that the case, given that the advertising budget is highlighted separately? In headline terms, there is a reduction in the advertising budget, which one might welcome. However, the expenditure to which you refer sounds like almost the same thing, just under a different heading.

**John Nicholson:** It seems to be similar. You are correct to say that the decrease in the advertising budget is matched by an equivalent increase in the marketing development budget.

**Derek Brownlee:** It is more than matched.

**John Nicholson:** Yes. Resources from the advertising budget have been moved to the marketing development budget. Other money has also been added to that budget. I can check the definitions of advertising and marketing development.

**Derek Brownlee:** It would be useful for us to know in what way marketing development differs from advertising. Superficially, they sound like much the same thing.

**Jim Mather:** I refer to page 58, schedule 3.11, which takes the minister into familiar territory regarding ferries. Is the additional money available for independent piers and harbours grants and Caledonian MacBrayne piers and harbours grants planned to have a beneficial effect on fares?

**George Lyon:** My understanding is that the funding is for investment in new piers and harbours, such as the second linkspan at Oban. A new building has just been completed at Oban, a new linkspan is being drawn up for Wemyss Bay and there are improvements at Kennacraig. That is what the budget lines are for. Some moneys are drawn down by local authorities and some are spent directly by CalMac, depending on ownership.

**Jim Mather:** I understand that useful point of clarification. Last night I was at a meeting in Dunoon with your colleague Alan Reid, where Councillor Dick Walsh was talking about Argyll and Bute Council's review of its prudential borrowing and its plan for a reduction in the subsidy for piers and harbours, which it was said last night would be more than marginal and would materially increase costs.

**George Lyon:** Does that mean that the council is proposing above-inflation increases in harbour dues, or increased fares—

**Jim Mather:** It is looking for increased dues. In essence, because the subsidy is being reduced, the dues will go up.

**George Lyon:** The council did the same two years ago on ferry fares, which resulted in a 20 per cent increase in fares for Argyll and Bute Council ferry services, about which you will recall there was some disquiet.

**Jim Mather:** Exactly. I am just flagging up the fact that the disquiet might well reoccur.

My final point on ferries is that I note that the money for the Campbeltown to Ballycastle ferry service is again down as £700,000 rather than £1 million. Was £300,000 on the table from elsewhere?

**George Lyon:** Yes, that is correct. It was a joint venture between us and Northern Ireland.

**The Convener:** Why is the figure in the budget £700,000? Why is that still required, if no one has come forward to run the service?

**George Lyon:** That will be confirmed only at 3 o'clock this afternoon with the closing of the tender process. We are not in a position to say anything about that until it happens. A notional figure had to be put in the budget in case there was a successful tender.

**Dr Murray:** In schedule 2.2 of the Health Department budget there is a capital-to-revenue transfer of £118 million. Is there an explanation for that? You might be aware that the decreasing level of capital spend has been of concern to the committee.

**John Nicholson:** Although there is a decrease, the money is still being spent on the same things, but, from an accountant's perspective, it is referred to as non-value-added capital. When the budget was set originally, it was anticipated that it would all be spent on true capital. The department is still spending it on the things that it intended to spend it on, but it is classed in the accounts as resource rather than capital. That is why we are having to adjust the budgets to match the accounts.

**Dr Murray:** Is that fairly common? It seems a little bit strange to have a change in definition of the magnitude of £118 million, which is a lot of money.

**John Nicholson:** Every year at the autumn budget revision, we are required to reclassify a portion of the health budget. This is the last year in which that must happen because, in the previous spending review, the budgets from 2006-07 onwards were set correctly. It is a correction of a previous problem.

**Dr Murray:** I refer to the tourism, culture and sport budget on page 40. Concern has been expressed about what appear to be higher operating costs. Can you confirm whether the additional £7 million for VisitScotland and the £4 million for Historic Scotland are EYF decisions?

**John Nicholson:** The £7 million for VisitScotland is almost entirely a transfer from the Enterprise, Transport and Lifelong Learning Department, to increase marketing quality assurance for VisitScotland. The Historic Scotland increase is an increase in receipts, which has allowed it to increase the budget.

**Dr Murray:** So it is income.

**John Nicholson:** Yes.

**Dr Murray:** On page 39, on school buildings, there is a shortfall or reduction of £250,000. Is that related to a lack of uptake of public-private partnership projects?

**John Nicholson:** It is a transfer to the Gaelic in education grants to assist local authorities with increased funding requirements associated with that initiative.

**Dr Murray:** So it is for expansion of Gaelic-medium education services.

**Mr Swinney:** I take the minister to page 37, which is on teachers. There seems to be a £14 million reduction in teacher funding. In an environment of reducing class sizes, increasing teacher numbers and the McCrone agreement, that seems worthy of question.

**John Nicholson:** The largest part of it is the transfer that the minister highlighted in his opening statement to the Enterprise, Transport and Lifelong Learning Department for postgraduate certificates in education. It is money for teachers that is going into the training of teachers rather than to pay for existing teachers. It is a transfer in that direction of £11.7 million.

**Mr Swinney:** So, in effect, it is an £11 million transfer to expand teacher training.

**John Nicholson:** Yes.

**Mr Swinney:** So it is consistent with what the Government is doing.

On page 105, the efficient government fund shows a dramatic reduction of £9.8 million to only £200,000. Can you shed some light on that?

**John Nicholson:** The £9 million transfer is a transfer to the Finance and Central Services Department CUP to be reprofiled into next year's expenditure. It is planned to be used in a future financial year, rather than in this financial year.

**Mr Swinney:** What is driving that process?

**George Lyon:** Demand. It is open to organisations to bid for the money to assist with efficient government projects.

**Jim Mather:** Is that indicative that there will be latency in the release of the efficiencies?

**George Lyon:** I do not think that that necessarily follows.

**Jim Mather:** Why else would the money not be being drawn down?

**George Lyon:** I do not think that there is any correlation between the two.

**Jim Mather:** You are saying that the savings are flowing through and yet the money is not being drawn down.

**George Lyon:** That is the case. We are putting it aside for next year. I do not think that that relates to whether we are able to deliver efficiency savings, because—

**Jim Mather:** So people are making the savings but they are not claiming the money. That sounds like an inconsistent position.

**George Lyon:** As I understand from some of the bids that are coming in, the bids are for specific projects where there needs to be extra up-front funding to allow the efficiencies to take place. That is what the fund is there to try to help. Bids come in on a regular basis. I do not think that it is necessarily linked into—

**Mr Swinney:** If the Government is allocating £10 million for an efficient government fund in the financial year 2005-06, given that we are having such a big push on efficient government, with ministers making statements that it is a central part of the funding arrangements of a number of aspects of Government just now, I find it a bit odd that the process is not working sufficiently efficiently to ensure that the spend can be undertaken when it has been budgeted and profiled for.

**George Lyon:** The first point to make is that this is year 1 of the efficient government programme, so the budget would be allocated and set for this first year. Secondly, it does not necessarily follow that every project to make efficiency savings needs up-front funding or needs to bid for that—

**Mr Swinney:** I quite understand your point that this is up-front funding—spend to save—but my concern is that if you are allocating a budget of £10 million for efficient government projects and that is not being spent in this financial year, there must be slippage in the efficient government programme. There can be no other explanation.

**George Lyon:** That does not necessarily follow.

11:00

**Mr Swinney:** If the Government has planned to spend £10 million on efficient government projects in the current financial year, but then plans to spend £200,000—I am afraid that my mental arithmetic is not such that I can give the percentage that is involved right away, but I will work it out—that suggests that the Government programme is not up and running, that the Government is not considering projects timeously and that it cannot deliver the spend that it predicted that it would be able to spend at the start of the financial year. A slippage in the efficient government programme is suggested.

**George Lyon:** I return to my original point. Up-front funding is not necessarily needed to achieve efficiencies. One does not beget the other.

**Mr Swinney:** My point is that if the Government decides to spend £10 million on efficient government projects in its budget, its being unable to spend that money when it had planned to do so will indicate a slippage in the efficient government programme. My point is not that the money must be spent to guarantee efficiency, but that there could be even more efficiency if the money was spent timeously. There is slippage in the programme.

**George Lyon:** As I said, I do not necessarily agree with your logic.

**Mr Swinney:** My logic is pretty sound.

**George Lyon:** I think that you are arguing that money must be spent to make the efficiency savings.

**Mr Swinney:** No, I am not. You are misinterpreting what I am saying.

**The Convener:** We are getting into a debate.

**Mr Swinney:** Perhaps we are. I suspect that your hopes for a five-minute debate have just haemorrhaged, convener.

The other question that I have is on the £470,000 reduction in the international relations budget, which is shown on page 105. I do not know whether that budget includes money for the international aid work that the Executive is undertaking. Am I looking at the right budget line, or am I looking in the wrong place?

**George Lyon:** I do not have details about that matter, but I will get back to you with a detailed explanation.

**Mr Swinney:** International relations probably covers a wider canvas than the international aid budget, but the numbers that I am comparing look relatively similar. I would be grateful if you could clarify matters for us.

**George Lyon:** The figures will include money for promoting Scotland abroad as well as direct aid money.

**The Convener:** I want to discuss the justice section of the budget revision. From schedule 3.1 on page 78, it appears that the legal aid budget may be overshooting by £14.5 million. Can you give any explanation for the 10 per cent increase?

**John Nicholson:** As you know, the legal aid fund is demand led. The fund is under pressure as a result of a large increase in the volume of criminal cases. Money has been transferred from savings elsewhere in the justice budget and assistance has been received from the centre to ensure that there is enough provision to cover costs.

**The Convener:** The legal aid budget is indeed demand led. However, is the point being reached at which corrective action must be taken every year to deal with its demand-led nature? Must we consider that matter and whether better controls can be put in place to deal with an area in which there is persistent overspending?

**John Nicholson:** This is not the first time that the budget has had to be supplemented in such a way. We may have to consider how the budgets are set in the next spending review.

**George Lyon:** If there were evidence that a budget has consistently been unable to meet the demands that arise each year, we would have to consider reprofiling it in the future.

**The Convener:** That is one option. Another option is to look at how to manage the demand more.

**George Lyon:** That is an alternative mechanism.

**The Convener:** Different approaches can be taken.

Schedule 3.7 is on justice support to local authorities. Although there is a relatively small percentage change in budgetary terms, a significant amount of money—£15 million—is involved. We might add a much bigger change to that as in schedule 3.12, which deals with antisocial behaviour, there is a proposed increase of £8.5 million. Can you tell us anything about those forms of support and the increases in those budgets?

**John Nicholson:** Those apparent increases are due to a change in the mechanism. The moneys previously came to the police through the local authority revenue support grant, but they now come through the police grant under the Justice Department. There has been a transfer from the FCSD to the Justice Department because of the change in the way in which the grant is paid out.

That appears to be as a result of a decision to stop reclaiming police forces' contributions from the police grant and to pay the full grant through grant-aided expenditure rather than through revenue support grant. The figure reflects the transfer in how the grant is being paid rather than an increase in what is required.

**The Convener:** Schedule 3.11, on page 88, deals with the Accountant in Bankruptcy. When that body was relocated, it was argued that relocation would result in greater efficiency and a more even spread of such organisations across Scotland. Why does the budget revision propose an increase in expenditure of approximately 20 per cent?

**John Nicholson:** There are two elements. Part of the increase is to help the Accountant in Bankruptcy to implement a new information technology system, which was delayed until after relocation. Also, a specific relocation budget was not allocated at the time of the relocation, so a budget from elsewhere has been allocated to cover the relocation costs, which will be repaid in future.

**The Convener:** Given the level of interest in such relocations and the significance of the proposed budget increase, we need a more detailed analysis of what is happening to staffing costs and so on rather than simply a line in the budget revision. I appreciate that IT might account for one aspect of the increase, but we are aware of issues elsewhere. We need more information about that.

**George Lyon:** Do you want an explanation only for that one-off increase or do you want a look ahead at how things will unfold once the relocation has been completed and the new cost regime is in place?

**The Convener:** The more comprehensive the report, the better. Obviously, it would be useful to the committee to have more information on the issue, especially given that the committee will shortly deal with the Bankruptcy and Diligence etc (Scotland) Bill. It would be helpful to receive an early explanation of what is going on.

**Dr Murray:** I have another brief question on the Justice Department budget. I note on page 80 that the Scottish Prison Service's direct running costs have reduced by £13.2 million but that its other current expenditure has increased by £8.4 million. What is the explanation for those changes?

**John Nicholson:** The decrease in direct running costs follows on from the SPS's general efficiency programme, which has allowed it to free up about £12 million of extra resources. The service plans to reinvest those resources in capital projects, so a large part of that £13 million forms part of the increase in the budget for capital

projects. Additional funding has been taken from the CUP and from end-year flexibility from last year to supplement the capital programme for the prison estate strategy.

**Dr Murray:** My other point was about the increase in other current expenditure. Why has that budget line increased by £8.4 million?

**John Nicholson:** That increase is also connected with the prison modernisation contracts, as there are additional current costs associated with the capital works. I believe that the increase reflects the need to rehouse prisoners in temporary accommodation while the capital works are on-going. That involves employing extra staff and so on to look after the prisoners. That is part of the reason for the increases in both the current costs and the capital programme.

**Jim Mather:** Page 105 shows a decrease in the budget line for the office of the chief statistician. I am one of the tribe who favour Peter Drucker's line, "If you can't measure it, you can't manage it." As I recollect, the budget line for the chief statistician has also decreased in previous years. Why has that budget decreased by more than 50 per cent?

**John Nicholson:** As the work that the office of the chief statistician is undertaking is on population and international passenger surveys, that money has been transferred to the Enterprise, Transport and Lifelong Learning Department and to the General Register Office for Scotland so that it sits within the budget of the department for which the work is being done rather than within the FCSD budget.

**Jim Mather:** You are saying that the office of the chief statistician of Scotland has a budget that is half as much as the increment that we have put to Scottish Water for the Water Industry Commission for Scotland to be formed. The office of the chief statistician has a budget of £1 million.

**George Lyon:** What John Nicholson is saying is that the work is still being undertaken but that it has been rebadged under the relevant department in which the work is carried out.

**Jim Mather:** I take issue with the term "the work". Some work is being undertaken, but there are still huge gaps in the data that Scotland produces. The data are not up to international standards. We do not produce gross national product data and our health data are way behind the data that are produced elsewhere. How can you justify the continuing contraction in the budget of the chief statistician?

**John Nicholson:** It is not a contraction. The £1 million that is coming out of the budget is still being spent by the chief statistician on statistical work, but the work is being undertaken in other



Scottish Executive departments. The budget is still £2 million. The £944,000 is for the work that is being undertaken in the FCSD.

**Jim Mather:** Okay. It still seems parsimonious to me. Thank you.

**The Convener:** I have a question about Audit Scotland, which is covered towards the end of the document, on page 123. Audit Scotland received what was proportionately a very large increase in the previous financial year. We scrutinised that pretty diligently and expressed some concern about it. The revised budget is just over £8 million. Do you want to comment on that? A significant element of the increase is due to take-up of EYF.

**John Nicholson:** You are correct. The largest part of the increase is due to take-up of EYF, but we do not have an explanation of what the additional funding is expected to achieve, I am afraid.

**George Lyon:** Executive ministers cannot answer for Audit Scotland's—

**The Convener:** The committee might want to write to Audit Scotland to ask for a more detailed explanation.

**George Lyon:** Or the Scottish Commission for Public Audit, which oversees Audit Scotland's budget.

**John Nicholson:** The only thing that I would add is that the majority of the EYF that is being taken up is capital. I believe that Audit Scotland is refurbishing one of its properties in George Street at the moment. That might be the reason why it needs the extra funding.

**The Convener:** Do members wish to raise any other questions of detail?

**Mr Swinney:** I have two brief questions. Page 105 shows a reduction of £900,000 in the budget for the Improvement Service. Can you explain that? Is it a carry-over?

**John Nicholson:** Yes.

**Mr Swinney:** The service is not improving things quickly enough.

Secondly, table 1.5 on page 6 shows a summary of changes to provision by type. Will you explain what makes up the additional funding that is shown on the first line?

**John Nicholson:** Certainly. The largest part of the additional funding is the G8 policing costs of £75 million. There are also some smaller amounts, such as the funding that relates to the Napier judgment for prisons.

**George Lyon:** It also includes funding for the public sector energy programme and additional resources to meet increased demand for the legal

aid programme, as outlined in the original statement.

**Mr Swinney:** So that is new money, unlike the other lines in table 1.5, including EYF and net Whitehall transfers.

**John Nicholson:** The net Whitehall transfers comprise additional money that comes from Whitehall departments, but you are right to say that the additional funding is new money for portfolios.

**Mr Swinney:** The net Whitehall transfers obviously include a big sum for pensions, but what else is in there?

**John Nicholson:** The largest part is the £507 million for pensions. There is additional funding of about £14 million for common agricultural policy funding—again, that is AME funding—and £4 million for the transfer of the Strategic Rail Authority's responsibilities from down south.

**Mr Swinney:** Where would any Barnett consequential show up?

**John Nicholson:** We have not had any Barnett consequential for the current year.

**Mr Swinney:** Thank you. Where does the additional funding come from?

**John Nicholson:** The additional funding comes from the central reserve. In this case, the money that has gone into the CUP has been reissued at the moment for other portfolios and it will be repaid at the end of the year with money that we have available at the Treasury, which we have discussed before at length.

**Mr Swinney:** That is the holding account stuff.

**John Nicholson:** Yes.

11:15

**The Convener:** As there are no further questions of detail, we now move to the debate on motion S2M-3763. When the debate is finished, I will put the question on the motion, which is that the Finance Committee recommends that the draft Budget (Scotland) Act 2005 Amendment Order 2006 be approved. We will find out the committee's view on that. As I said, the maximum time that is available for debate is 90 minutes—we will take 11.16 as the start of the process. I invite the minister to speak to and move the motion.

**George Lyon:** I move,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2005 Amendment Order 2006 be approved.

**The Convener:** That was a short speech. Do members have any comments?

**Mr Swinney:** I will lift up the gauntlet and try to sustain the debate for 90 minutes.

A large proportion of the recommended changes are technical or mechanical and I have no great issue with them. However, I place on record my concern about schedule 3.3 on page 105, which relates to the efficient government fund. As the Government has been unable to spend £9.8 million that it planned to spend on improving the efficiency of government, the only logical conclusion that any rational individual could draw is that the Government's efficient government programme is in some difficulty. At best, it is experiencing slippage on a par with the slippage that seems to occur regularly in the Environment and Rural Affairs Department and the Enterprise, Transport and Lifelong Learning Department; at worst the programme is not being driven as rigorously as Parliament is being told it is being driven. Although I have never argued that we need to spend money to make efficiencies per se, it is a poor omen that the Government has been unable to deliver its spending plans when it clearly set out to undertake certain work in this financial year. When the Government comes to us with a revised budget that involves a 98 per cent cut in the efficient government fund—my mental arithmetic has now caught up with me—that is rather ominous for the efficient government programme.

I also want to raise an issue about the strategic waste fund, on which I questioned the minister earlier. My concern about the matter, which is consistent with my concern about the efficient government fund, is that the Government is putting in place provisions to ensure that one of its policy objectives is achieved, namely, an increase in recycling levels by local authorities—which is an objective that is shared across the board in Parliament—but the local authorities in the area that I represent tell me that the biggest obstacle that they find to achieving the recycling targets is that to do so they need investment in infrastructure, which will come through projects that are funded by the strategic waste fund. There is already a delay in decisions on the fund. As I said, applications are due in about now, but the Executive will not make decisions for 11 months, which seems an inordinate amount of time to reflect on the budget bids.

At the same time, unless local authorities reach the levels of recycling that they are supposed to reach, they will start to be fined by the European Union for failing to achieve those levels. Council tax payers will be expected to pay fines for councils not reaching those recycling levels, so councils need investment through the strategic waste fund. The Government is delaying the provision of those funds and is asking us to delay it further by supporting the budget revision. That seems to be an illustration of a lack of coherence

in the Government's programme when it comes down to the detail of how we spend money, how we allocate it and how we ensure that things happen according to a reasonable timescale.

Those are my concerns about the changes that we are being asked to support today and I look forward to hearing what the minister has to say in respect of those points in his 85-minute closing speech.

**The Convener:** Just to take away some of the minister's time, Elaine Murray wishes to make a contribution.

**Dr Murray:** I echo some of the concerns that have been raised about the strategic waste fund and about flood prevention, but we must await a more detailed explanation from the responsible minister before we can take our concerns further.

There are two points at issue. First, I would like the minister to explain what the consequences would be if we did not accept the motion before us. Secondly, I would like to make an observation about some of the sums involved. We are talking about a sum of £610 million. As has been explained, £529 million of that is money coming from Whitehall for pensions. Of the remaining £81 million, £70 million seems to be going towards the higher operating costs of Executive agencies and non-departmental public bodies. I know that there are individual explanations about each one of those costs, but for 87 per cent of the total to be going to quangos and Executive agencies for operating costs does not seem to tie in terribly well with the aspirations of efficient government.

I have some concern about that, particularly when that is overlaid with the problems of local government in meeting equal pay obligations. This issue gives me the same concerns that I expressed in the budget debate last year. The increases seem to be within the Executive's departments and quangos, while other bodies, such as local authorities, which have more specific and particular needs, do not seem to be getting much of a share of the increased expenditure.

**Jim Mather:** I echo Elaine Murray's point. It seems somewhat ironic that 21 agencies and NDPBs, the Administration and the Parliament are all proposing higher operating costs in a climate of efficient government. It makes the aspirations and the rhetoric look a bit weak.

There are two aspects to the issue. As John Swinney pointed out, it ties in with the fact that only 2 per cent of the efficient government fund has been spent, but we also need to know what additional outcomes will flow from the £70 million. What will the people of Scotland get for that extra £70 million? It calls into question the nature of the process and the logic and credibility of efficient government. What worries me about that is that it

has an impact on the credibility of Scotland. If we cannot do this properly, where does Scotland stand to external sight and to potential investors—both capital investors and those who might consider coming in and investing their lives here?

**Mark Ballard:** I want to emphasise the concerns that have been raised by Jim Mather, John Swinney and the convener. When we look at such things as the integrated waste fund and fisheries capital grants, we are faced with a situation in which there is strong demand for investment in recycling facilities—there is a lot of concern in fishing communities about their need for support to make the transition to a sustainable economy—but where there are major cuts in some of the demand-led funding lines.

In particular, I reiterate my concerns about the overall impact of the changes in the transport budget. We see a £48 million cut in spending on rail services in Scotland, taking spending on rail services down to £212 million, and a £71 million cut in the integrated transport fund, taking it down to £152 million—and, as has been said, that money is being transferred to roads budgets. Although the Executive may say now that that deficit will be made up in future years, I lack confidence that that will happen.

In particular, I am concerned about the Executive's oft-repeated claim that 70 per cent of funding is going into public transport. I am not sure how that will stack up. That may appear to be the case in the initial budget, but when the budget revisions come along we see money being stripped out of rail services and the integrated transport fund and some of that money going into roads budgets. It is a worrying picture when we hear about the strong need for support for fishing communities, waste management and sustainable public transport but the budget revisions appear to reduce the funding that is available in those areas.

**Derek Brownlee:** Most of what we have seen today is relatively technical and most budget line items seem, on the face of it, pretty reasonable so far as they go. They are all heading in the same direction. My overall comment on this and on the entire budget process—the first one that I have been through—is to amplify what Jim Mather said. He asked what the people of Scotland could expect for an extra £70 million. The bigger question that I suggest is pertinent is this: what are we getting for the £26 billion-odd relative to what we got for the £16 billion or whatever it was back in 1999? None of the budget documents seems to deal with the strategic aspect of what the significant expansion in public spending has delivered.

**The Convener:** Before I sum up on behalf of the committee, does either of the two members who have not spoken want to say anything?

**Members indicated disagreement.**

**The Convener:** I will make a few comments, initially picking up on the point that Derek Brownlee just made. It is probably not reasonable to expect the process of scrutinising budget revisions to provide the kind of strategic overview that he suggests. Over the course of the year or of the spending review period, the Finance Committee considers the strategic questions and what we get for the money. That is something that the committee will be doing vigorously next year and the year after.

We probably do not get all the information to which we think that we should be entitled in Executive responses. I do not want to be critical of officials and the minister, but there were a remarkable number of questions today that they said that they would have to go away and consider. I would hope that if areas were identified in the budget document in which significant revisions are taking place, we would get an explanation of what is going on and the reasons for those significant changes. It does not take a lot of effort to go through the budget document and see where the 20 most significant changes are taking place. We do that and we presume that the Executive does that. The dialogue would be better if we received coherent responses to the questions that it could reasonably be expected that the committee would put. Committee members will always come up with some questions that one could not reasonably anticipate and, under those circumstances, it is fair enough for officials to consider the issues and respond later. However, it would be helpful if we could get a more defined response.

In this instance, there are a number of issues to which that is particularly pertinent. The most obvious is the pensions matter, which is responsible for more than 80 per cent of the changes. I hoped that we could have a reasonably detailed statement about why the actuarial changes that are resulting in £500 million being provided for teachers' pensions and health service pensions are necessary. Having that on paper would have helped, so that we could see the arguments and ask more informed questions. We will want such an explanation before the process is finally agreed by Parliament, although that should not hold us up at this stage.

11:30

Elaine Murray's point about the £70 million increase in administrative and operating costs is significant. It raises the question whether the budgets of agencies and NDPBs that are under Executive control are being firmly controlled and the fact that underspends seem to be in areas in which investment or changes in programmes have been proposed. I acknowledge that the Executive

will not always be able to achieve instant change or instant expenditure everywhere that it wishes in the budget, but in some budgets—the environment and rural affairs budget and the transport budget are the most obvious examples—significant underspends on programmes and significant overspends on administration and operating costs are occurring. I want the Executive to consider the pattern that is emerging.

A significant capital-to-revenue shift is occurring in the health budget, which Elaine Murray raised. I am concerned about that, because part of the thrust of the committee's contention to the Executive is that more investment should be made in capital assets such as hospitals, roads and schools. Expenditure should be pushed in that direction, rather than towards revenue budgets. I am not clear that that is not happening, but the presentation of the figures makes that a possibility. We are concerned about that.

Given the previous lack of definition of the national concessionary travel scheme's costs, some worrying issues arise. The significant increase in the scheme's budget this year, before it is implemented, is a worrying straw in the wind. We would like more information about that.

I will end on John Swinney's point about efficient government. The committee intends to continue to explore and examine the Executive's progress on efficient government. I expect the committee continually to pay attention to that issue. If the efficient government programme is still on track and there are good explanations for why the money for that has not been spent, we want to hear those assurances.

Those are the main points that committee members have raised in their analysis.

**Jim Mather:** I have a supplemental point to build on what Derek Brownlee said, which was absolutely right. We have agreed in the past that, when we consider the budget in totality, we should have time-series data that show the major outcomes by department, so that we have our finger on the pulse of what is happening, what progress is being made and what value Scotland is accruing from increasing spend.

**The Convener:** I give the minister the opportunity to respond to the committee's debate.

**George Lyon:** First, I assure the committee that we will respond in detail to some of the questions on which we could not give detailed information today. On most subjects, we managed to furnish the committee with the relevant explanations for changes. As Derek Brownlee said, the revision is relatively technical. It represents prudent management of our budget and gives us the opportunity to spot where money needs to be reallocated during the financial year.

If we strip out the pension element, which I hope and expect will be a one-off, the net figure is approximately £101 million, which is less than one working day's spending out of the Executive's budget of more than £26 billion. That puts the changes that have taken place into proportion. One day's spending is being shifted around during this revision statement.

In response to some of the particular issues that John Swinney raised on efficient government, I say that I do not necessarily accept that we have to spend to save. In my experience, efficiencies can be identified and delivered without an upfront capital cost. It is interesting to note that local authorities, which can bid for that money, have achieved quite significant efficiency savings; indeed, we expect them to go way beyond our original targets. Therefore, I do not think that it is logical to say that we have to spend the whole budget to deliver efficiency savings. Clearly, the prudent approach is to ensure that that money is available to be used when the efficient government programme goes into year 2 and that good projects that meet the relevant criteria are funded.

The other criticism that was made was to do with an environment budget. In some ways, there might be a common denominator because that budget too is demand led—budgets are allocated and public bodies make bids for money. The argument that local authorities appear to be constrained from delivering on their objectives does not bear scrutiny if the budget has not been fully drawn down. I am not clear about Mr Swinney's argument, but if he wants to make an intervention, I will be happy to clarify.

**Mr Swinney:** I am not sure whether it is appropriate.

**The Convener:** Yes.

**Mr Swinney:** The strategic waste fund is designed to support local authorities so that they can achieve higher recycling targets. Several local authorities already have comparatively high levels of recycling—say 20 to 25 per cent. To get higher percentages than that, they need investment through the strategic waste fund. There is no other way for them. They have made all the easy hits and they now require to make the big hits. They have put in bids to be scrutinised by the Government. My point is that while those bids are sitting with the Executive—they are going to be scrutinised for 11 months—local authorities will not reach the levels of recycling that are required by European directive and will start to face financial penalties that will have to be paid by council tax payers.

The budget document proposes that the expenditure of budgeted strategic waste fund

money should be delayed into the next financial year. Council tax payers will have to start picking up the tab for fines incurred by local authorities because the Government has not delivered the strategic waste fund quickly enough.

It is one of those cases in which money requires to be spent to achieve the required levels of recycling. All the quick wins of collecting newspapers and bottles have been done and now the bigger issues need to be tackled. Local authorities need the investment from the strategic waste fund to allow them to do that, but it is ge y slow in coming to them.

**George Lyon:** I note the point that you make. It would be interesting to see the detailed information about which local authorities have not drawn down the funds. Clearly, the money has not been drawn down in particular areas so there might be an obvious correlation between those authorities that are not improving quickly enough and those that have not drawn down the budget; I will not know until I get the information.

As the budget is demand led, it would be prudent to set aside that money and roll it over to the next financial year. By then, many projects might be close to fruition and local authorities might be ready to start drawing down the money. It is prudent to set aside the money so that it is ready to be used in the next financial year.

I have a few more responses to finish up with. The idea that placing money in the CUP for next year is a cut or that it is stripping out the budget is nonsense. That is prudent management of finance. The money can be rolled over into the next financial year and portfolios get the chance to ensure that their spend continues. Otherwise we would have to go back to annualised budgets and all the nonsense that used to happen when the money had to be out the door before the end of the financial year, which resulted in a lot of poor spending decisions being made.

I ask the committee to support the revision statement because it represents prudent management of the Scottish Executive's budget. If the one-off pension costs are stripped out, the budget is in line with the previous year's provisions and the total increase is less than one working day's spend by the Scottish Executive.

**The Convener:** Thank you. No amendments have been lodged and all that remains for me to do is to put the question on the motion.

*Motion agreed to.*

That the Finance Committee recommends that the draft Budget (Scotland) Act 2005 Amendment Order 2006 be approved.

**The Convener:** I thank the minister and his officials for coming along.

We are now required to report to Parliament and, as such reports are normally very brief, I propose that we agree the text of our report by e-mail correspondence. Are members agreeable to that?

**Members indicated agreement.**

## **Bankruptcy and Diligence etc (Scotland) Bill**

11:42

**The Convener:** Item 3 is to consider what level of scrutiny we should undertake on the Bankruptcy and Diligence etc (Scotland) Bill, which is the weighty tome that we have in front of us. As members will see from the clerk's notes, it is proposed that we adopt level 3 scrutiny, which is taking written and oral evidence from bodies on which costs fall and oral evidence from Scottish Executive officials. Do members agree to that approach?

**Members** *indicated agreement.*

**The Convener:** We will now go into private session to consider our draft report on the Scottish Commissioner for Human Rights Bill.

11:42

*Meeting continued in private until 12:06.*

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