

# **FINANCE COMMITTEE**

Tuesday 26 September 2006

Session 2

£5.00

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## FINANCE COMMITTEE

23<sup>rd</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

Shiona Baird (North East Scotland) (Green)

Janis Hughes (Glasgow Rutherglen) (Lab)

Alex Neil (Central Scotland) (SNP)

John Scott (Ayr) (Con)

Iain Smith (North East Fife) (LD)

\*attended

### THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

### CLERK TO THE COMMITTEE

Susan Duffy

### SENIOR ASSISTANT CLERK

Rosalind Wheeler

### ASSISTANT CLERK

Kristin Mitchell

### LOCATION

Committee Room 1



# Scottish Parliament

## Finance Committee

*Tuesday 26 September 2006*

[THE CONVENER *opened the meeting at 10:01*]

### Budget Process 2007-08

**The Convener (Des McNulty):** Good morning, colleagues. I welcome the press and the public to the Finance Committee's 23<sup>rd</sup> meeting in 2006. I remind people to turn off their pagers and mobile phones. We have received apologies from Elaine Murray, who is ill.

Agenda item 1 is consideration of further papers from our adviser, Arthur Midwinter, on the draft budget for 2007-08. Members will recall that we had a limited amount of time to discuss Arthur's analysis at our meeting on 12 September. Today's meeting is an opportunity for further discussion. Arthur has also produced a paper on the Scottish Executive's report on the 2002 spending review targets, which will have given him some pleasure.

I invite Arthur to speak to his two papers, then I will take comments and questions from members.

**Professor Arthur Midwinter (Adviser):** We have discussed the first paper, so I will just highlight a few of my major concerns. I will also update you on the position with local government funding.

We now have the first evidence that the growth in public expenditure is slowing down. The rate of growth is now 2.4 per cent in real terms. We have been told for some time that things are getting tighter, and the Chancellor of the Exchequer is saying similar things about the forthcoming spending review. There has been a high rate of growth over the three-year cycle—4.7 per cent on average—but this year's growth, at 2.4 per cent, is much lower than that in the previous two years.

My second concern is about the lack of transparency in the use of growth moneys. We spoke about that at some length two weeks ago. We need to discuss the matter in greater detail with Executive officials to see whether the presentation can be improved before the first spending review after the elections.

My third area of concern is the sheer difficulty of monitoring spend on priorities using the data that the Executive provides. Members will recall that, two weeks ago, I said that I was concerned about what appeared to be a big drop of more than £200 million in the revenue and capital grants to local authorities outwith aggregate external finance. I looked at last year's budget and saw that there

was a major difference between the two sets of figures. The Executive has now sent me all the paperwork on that. It confirmed to me over the phone that there were errors; in fact, the errors were in last year's document rather than this year's. That means that the drop of more than £200 million is a real drop. The grants are under the control of the functional departments—the portfolios—rather than the Minister for Finance and Public Service Reform. Therefore, there will be knock-on effects for local authorities. At the moment, local authority services are being provided from that money, so a drop of more than £200 million is a matter for concern.

In the past week, reports have emerged—I think from the Health Committee—of the underfunding of free personal care. There is an £80 million gap between what councils are spending on free personal care and what the Executive provides. A couple of days ago, the figure of £20 million appeared as the funding shortfall at the Scottish Children's Reporter Administration. Also, a research paper of my own that will come out later this week shows that there is dramatic underfunding—of £160 million—of children's social work services. That is the gap between grant-aided expenditure and what councils are spending, which is 63 per cent above GAE, which is one of the most serious gaps in GAE that I have seen in the nearly 25 years for which I have been studying it.

I am concerned that, while there are problems with funding core services, the First Minister can still find time to announce that he is going to spend £100 million in the next spending review before we have even got down to looking at that. I do not regard that as a robust, strategic approach to taking budget decisions. Even if the initiative is worth while, that is not how things should be done. It is similar to what happened last year, when an announcement was made out of the blue about the reduction in business rates.

My main concern is that, as we come to the end of the cycle—today's meeting might well be my last opportunity to comment on the budget—the aspirations for a strategic approach that we had in our early days as a committee are not being fulfilled. Next time, we need to have a few clear priorities and to ensure that the core programmes are funded properly and not short-changed at the expense of initiatives.

Do you want me to stop there, before I go on to targets?

**The Convener:** No. If you go on to discuss targets, we will deal with both issues together.

**Professor Midwinter:** It is important to be clear that we are discussing the 2002 spending review

targets. The Executive will not report on the targets that were set in 2004 for a couple of years.

There are 165 targets, of which, according to the Executive's report, 116 have been met and 23 are on-going. However, that needs to be qualified. Those of you who were on the committee at the time will remember that, at the end of the 2002 process, the committee recommended that 64 of the 165 targets be dropped because they were not real performance indicators. They measured processes rather than output or outcomes, and in some cases announcements of new activities were included as targets. The Executive dropped almost all of those targets from the 2004 document. Although the press has reported that 83 per cent of the targets were met, a much more realistic figure, in my view, would be 58 per cent. That is the figure when we take out the indicators that are not really performance indicators at all.

My final concern is the absence of targets on priorities. In 2002, we had five functional priorities—health, justice and so on—and two cross-cutting priorities, which were closing the opportunity gap and sustainable development. However, the data have been reported in such a way that the one composite measure that we had for closing the opportunity gap, which had six indicators and considered different aspects of health, education and so on, is simply described as “replaced”. It was replaced in the 2004 spending review, but that is no excuse for not reporting progress against the original indicator that was set in 2002. The result is that four years later we still have no objective way of assessing whether we are making progress on closing the opportunity gap, which is one of the two strategic priorities that the Executive set itself.

The closing the opportunity gap target was not met in the education and young people portfolio. In the tourism, culture and sport portfolio, what was a closing the opportunity gap target, because it focused on increasing participation by people from the worst 10 per cent on the deprived areas index compared with the average, has now been dropped in favour of a target based on a simple increase in participation across the population. That will no longer close the opportunity gap.

I am fairly unhappy that there are no data on health inequality, which is an important target because the one that was set runs to 2010. I also suggest in my briefing that the target on unemployment rates, which is reported as being met, because of the way in which the Executive has done the calculation, has not been met. According to my calculations, the ratio between deprived areas and the Scottish average has worsened.

My final point is on a comment about economic growth improving that is mentioned in the report

even though it was not a target in 2002. Ross Burnside has kindly provided me with the most up-to-date measures of economic growth. Members will see that wherever progress is taking place—I have no doubt that it will be in employment and investment—it is not showing in economic growth.

Overall, the Executive's report is deeply disappointing. There is no evidence of effective targeting of priorities and there are no data on results for priorities, which makes me a bit concerned about how the budget strategy is designed and implemented.

**The Convener:** We will stay on the targets first and come back to the broader budget issues; otherwise, we might get a bit confused.

In the targets paper, you highlight the communities spend and the closing the opportunity gap spend. The committee has made a strong series of recommendations to the Executive and we have received a letter back from it in connection with those. It might be useful to consider those aspects together. The Executive's response to our deprivation report will be on the agenda next week. The committee has made its views clear on those issues and we have outlined what we see as the route forward.

I would be slightly more generous than you about the targets. As you say in your briefing, we have stripped out 64 of the targets—57 of which are reported as being met, as you indicated—so that ballast has been taken away and we are left with some of the harder measures, although the committee said that taking away existing targets was not all that we wanted to do. We also wanted to focus clearly on measurability. That is about not only the allocation of budget spend, but the allocation of outcomes and outputs.

Are you saying that when we look forward to the next spending review we should guide the process by laying out a set of prospective targets for the Executive or criteria against which targets should be measured?

10:15

**Professor Midwinter:** I am not 100 per cent convinced of the objective and targets model, as it implies a degree of precision that does not exist in government. I would certainly like there to be performance indicators for the major programmes, but they need not necessarily be set as targets. I do not know whether members are aware of the history of targets, but they are very open to politics; it is possible to set either easy targets or tough targets, to show how bad things are. There are all sorts of problems with targets.

I believe that the set of targets that were set in the spending review 2004 is a huge improvement

on the 2002 targets. I have gone on at length about the matter because it is important that the objective way in which we deal with officials and try to improve the process is carried through when it comes to making announcements. To claim that 116 targets have been met when 57 of them are pretty meaningless is not how such matters should be presented.

I fully commend the Executive for agreeing to remove those targets when it got round the table with the committee last year. It has gone on to a much better set of targets that focus on outputs—a few targets are on outcomes, but more are on outputs—and we need more of that. Some targets are still not as good as they could be. I would like to see fewer targets and I would like them to be even more output or outcome based than are the 100-odd targets that we have now.

**The Convener:** In a sense you are reflecting on the 2002 set of targets, of which this committee was pretty critical. Although the targets that were set in 2004 and are operating now are not perfect, we are satisfied that they represent significant progress. We are confirming the criticisms that we made of the 2002 targets, and as we now have the final results of those, we can show that those criticisms have been borne out.

**Professor Midwinter:** We have the results apart from the gap that has been created by labelling 10 or 11 targets as replacements, which means that we have no report on them at all despite the fact that they were some of the most important output/outcome measures.

**The Convener:** Do you have a list of those ones?

**Professor Midwinter:** No, but I could easily produce one for you.

**The Convener:** That would be useful for committee members.

**Mr John Swinney (North Tayside) (SNP):** I will pick up on some of the points that have been raised.

I was struck by the tone of Arthur Midwinter's paper and the fact that he and the committee, prior to my time on it, have been so stringent in their criticism of the culture of meaningless targets that has percolated through, particularly in relation to the 2002 targets, although the situation was improved in 2004.

To make a constructive contribution on the issue, we must formulate soon, and certainly before the Parliament is dissolved in March, a much better template of what we expect as outcome measures from the Government—of any colour—so that we have a sense of whether the spending of significant sums of public money is

delivering the outcomes that we all want to see in policy areas.

For years, there has been a tick-box culture without any sense of it making much of a difference. The argument that I have commonly heard ministers make when they come before the committee is that it is difficult to work out outcome measures and all the rest of it. The committee's stance must be to reject that idea. A significant sum of public money is being spent and we must be in a position to give comfort to the public that the expenditure of public money and the choices that ministers have made have had a reasonable impact.

The committee has a job of work to do to set out a template of what we expect. I am not saying that we should set out specific outcomes, because decisions on those are obviously intensely political, but we need to set out a template for what we expect an Administration to achieve.

My second point concerns the cross-cutting themes. I am struck by paragraph 8 in Arthur Midwinter's paper, which concerns the way in which an apparently clearly focused target to engage through cultural and sporting initiatives some people whom we would consider to be excluded from the main stream of society can gravitate towards an unmeasurable, floppy target that tells us nothing about whether public expenditure is reaching any of the hard-to-reach individuals. We must examine closely the information that comes out of the budget review to identify whether that is a more general pattern and not only an issue in relation to the closing the opportunity gap targets.

We have previously encountered a difficulty, which Professor Midwinter has raised with us, in determining whether economic growth is the top priority or whether sustainable development runs through all the proposals and whether some of the cross-cutting themes are making any meaningful difference. There is a vast amount of information in the budget documents and process, but I do not get a sense that it gives us a particularly strong, measureable performance base. Therefore, I am tempted by the argument that Professor Midwinter makes for focusing on a much smaller range of key measures of impact to determine whether the expenditure of £31 billion per annum is making a meaningful difference and achieving key performance targets on some of the cross-cutting themes. Unless we narrow that down, it will be a big morass of information and will be difficult to nail down.

**Professor Midwinter:** I know what you are saying, but it is certainly an improvement on the days of the Scottish Office, when the PIs were in their thousands. We are slowly getting down to a reasonable level.

**Ms Wendy Alexander (Paisley North) (Lab):**

The committee should stand by its 2004 report, in which we examined the issue in depth. We said that 165 targets was far too many and stripped out those that were not measurable. As Arthur Midwinter says, that took out 64 and we were left with 59. That report might bear revisiting because, as colleagues who were on the committee at the time—I do not hold it against John Swinney that he was not—will recall, it was made in the context of hearing Michael Barber from the Prime Minister's delivery unit talk about how the unit had got the United Kingdom Government's targets down to five key indicators with no more than three further indicators under each of those headings; the whole UK Government agenda was driven by something approaching 20 targets. We invited the Scottish Executive's permanent secretary to comment on the wisdom of that approach and he indicated that neither he nor the Executive wanted to go for a smaller number.

The report was interesting. We put on the table the idea that 59 targets were measurable and floated the idea of the Executive's using an even smaller number, given that we have more restricted functions than the full range of Westminster, which covers England and Wales. We asked whether, given that Westminster had found that a smaller number of targets had given focus to ministerial priorities, that was appropriate in Scotland. The judgment at that stage was that it was not. As we revisit the issue, we should perhaps look at what we said in 2004.

As I have the floor, can I address the substance of the report?

**The Convener:** I would like to discuss targets first.

**Ms Alexander:** I am talking about targets. We said that we thought that 59 of the 165 targets were measurable and Arthur Midwinter points out that 11 of those targets have been replaced. In paragraph 7 of his paper, he says that the fact that they have been replaced

"is not a reason for failing to report on the specific targets set in Spending Review 2002".

Did Professor Midwinter raise that with officials and, if so, what explanation was he given for why we do not continue to report on those targets?

**Professor Midwinter:** I have not raised it with officials yet because the timetable for getting the paper out on time was hectic. I am happy to go away and discuss it with them because we really need to have that discussion.

**Ms Alexander:** Will you give us a slightly tighter flavour of the 11 targets that were replaced? For example, were any of them health targets that applied to a period prior to 2010? Perhaps the

best thing would be for you to provide a supplementary paper showing which 11 have been replaced.

**Professor Midwinter:** From memory, I do not think that health was a particular problem, as the indicators for health were one of the better sets. Here is one from the education and young people portfolio:

"By 2006, ensure that at least 15,000 vulnerable children under five, every looked after child, every pupil with special educational needs and every child on the child protection register have an integrated package of health, care and education support which meets their needs.

This target has been superseded by a revised target ... which is identical to Closing the Opportunity Gap Target E",

which simply says:

"ensure that children and young people who need it have an integrated package of appropriate health, care and education support."

The Executive has moved from having a specific target to saying that every child who needs a package should have it without specifying a number, but it still could have reported on the progress on the first target by 2006.

**Ms Alexander:** It would be helpful to have a supplementary paper on the 11 targets that have been replaced. It seems to me unlikely that, in 2002, we set targets for the health service for 2010, so those targets must have appeared subsequently.

When the Executive stopped publishing a social justice annual report, it made a commitment to continue to publish the targets. In your ancillary discussions, perhaps you can establish whether those targets are still being published as was indicated.

**Professor Midwinter:** There is another target that moves from a specific recommendation on reducing violent crime by a certain percentage to a target that the police will improve the clear-up rate.

**Ms Alexander:** It would be concerning if closing the opportunity gap were an area in which targets have been replaced, and the paper appears to indicate that it is. It might be worth asking officials why there is, as you say in paragraph 9, an

"absence of any performance information on health inequality".

In paragraph 10, you state that the figure for unemployment rates measures overall falls in unemployment. Perhaps you could clarify for us whether there has ever been a closing the opportunity gap measure of unemployment rates.

**Professor Midwinter:** Do you mean previously?

**Ms Alexander:** Yes.

**Professor Midwinter:** Okay. I will do that.



**The Convener:** Wendy Alexander has raised a number of supplementary issues and Arthur Midwinter has given us an indication that he can identify those that have slipped.

**Jim Mather (Highlands and Islands) (SNP):** I was taken by the comment on strategy that Arthur Midwinter made towards the end of his remarks. He said that the strategic approach is not being followed and that there need to be fewer priorities.

When I got the outcome report, I discussed it with a consultant who specialises in delivering continuous improvement in industry and other areas. He agrees with me that, to be effective, one has to reduce the numbers. In fact, one probably has to go further than that and avoid arbitrary numeric targets. Even some of the good targets are suspect because people have a habit of achieving arbitrary numeric targets by manipulating the numbers or skewing their resources to get the numbers right. That is no way to run a unified strategic entity. It would be better to run the total £30 billion-plus budget with a small set of unifying goals that everybody was expected to buy into. For instance, all the silos of Government, local government, the enterprise agencies, businesses, parents and teachers could buy into a goal to maximise the number of working-age people in work in Scotland. At a stroke, that would help us to close the opportunity gap and boost sustainability, economic development and health by bringing everyone together.

We should focus on how we improve the process of Government, how we improve cohesion and how we achieve more effectively the goals that I have just mentioned. That would mean less target setting and more trying to work in a cohesive way. We could bring people in front of the Finance Committee and interrogate them about what they are doing to hit a small set of targets, which might even be one overarching goal.

10:30

**Professor Midwinter:** I have a lot of sympathy with that. John Swinney mentioned the templates. I do not know whether the legacy paper is the place for that or whether the Executive wants to leave templates and sets of ideas. I shall leave members to think about it. Many of the targets are microtargets, which politicians should not be in the business of supervising. They may be needed for activities within an Executive department, but politicians should deal with the big issues of the day.

**Mark Ballard (Lothians) (Green):** Along with John Swinney and others, I was not on the committee back in 2004, so I am concerned by

what you say in paragraph 6 about the lack of sustainable development targets in the reports. You mention that

“there are a few in portfolio chapters.”

How was that dealt with by the committee in its report in 2004? Have there been any issues on sustainable development targets similar to those that you highlight on closing the opportunity gap targets?

**Professor Midwinter:** The 2004 report came after a fairly major piece of work and discussion involving outside experts. There was a specific report about the future of targets. While there were problems with targets, the committee wanted to stick with targets as the only game in town and to make them more strategic. One of the difficulties we faced was that, at the same time as the budget, the Executive was developing a set of sustainable development targets outwith the budget. I have always felt that if something is going to be a cross-cutting priority and you do not have a cross-cutting target, you might as well forget it because you will be unable to monitor whether you have achieved it.

In the draft budget, there are targets only for each portfolio. I cannot remember whether there was a detailed discussion about sustainable development. There was concern that all three strategic outcome indicators needed to be developed because none of them—economic growth, closing the opportunity gap and sustainable development—had strategic targets. Sustainable development would have been treated as one of the package of three that was being neglected, rather than dealt with separately as an issue in its own right.

**The Convener:** We suggested to the Executive that in budget documents it should separate out and identify expenditure linked to closing the opportunity gap and sustainability. That has been done in subsequent budgets. That was a product of the committee's discussion.

**Professor Midwinter:** There is a huge difference in how portfolios deal with targets. In some portfolios we can see the money that is going to a target, while others have general targets that may or may not be related to the budget. We are making progress, but slowly.

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** I agree with Wendy Alexander about the health targets. I do not recall the committee saying, “It's okay if you don't report back until the end of 2010.” That is not towards the end of this Parliament, but the next one. That is amazing. I remember that the health status targets were quite significant. It is strange that we are three years into this initiative and there are no figures. We

need to know whether there is some progress on health.

**Professor Midwinter:** Each of the health targets is marked as continuing.

**Mr Arbuckle:** Yes, I know, but—

**Professor Midwinter:** And each outlines where it is at present. However, the dates do not fit with the model of a spending review with a three-year cycle and targets. I am happy for the Executive to have long-term targets for health—we should have such targets—but the budget should be narrowly focused on what can be achieved with the moneys in the budget years. That is the problem. Five important targets, including cancer and heart disease, are reported as continuing.

**Derek Brownlee (South of Scotland) (Con):** Your report illustrates the weakness in having the Executive assess its own performance against its own targets. Arguing whether a particular target is relevant or whether it has been met does nothing to enhance the credibility of ministers. There must be occasions on which an independent assessment would bolster the rigour of the process.

I want to pick up on what you said about moving from a targets culture to placing a greater emphasis on performance indicators, which seems pretty sensible. If we consider the range of devolved services, we can easily pluck out numbers that we could make into performance indicators and we could easily track progress, but the main benefit of doing that would be if we could compare those indicators against other areas of the UK, other countries and regions of other countries, and get a feel for the relative performance. However, that depends on those areas and so on having the appropriate measures and data in place. If the Executive was able to get its numbers right, could we make such comparisons?

**Professor Midwinter:** You could do it for some indicators, but not all. That model is used in local government because local authorities have the data for comparable authorities. Not only do they consider their own progress, they consider it against four or five councils with similar problems, which makes such indicators very useful for local authorities. Some data are available, particularly comparisons on educational attainment and health status.

We always get into the problem of when the indicators are produced. We usually find that indicators are three or four years old by the time they come out as a comparative set. Even then, there will be caveats about particular results. However, I would have thought that such comparisons could be done for the devolved administrations.

**The Convener:** Before we leave our discussion of targets, there are some points to make. This is a final report on the 2002 targets. The committee expressed its dissatisfaction with the targets regime that was in place, which has resulted in some significant changes to the targets and performance measures system that is coming in from 2004. There are two things we need to do in the context of Arthur Midwinter's paper, one of which is to pull out the replaced measures—Arthur has indicated that it is possible for us to do that.

The second thing is to look again at our 2004 report and see whether, in the light of the 2002 experience, any updating of our recommendations is required. We can perhaps fit such updates into criteria facing into the next spending review period; I suggested that and I think that John Swinney backed me up. The Finance Committee would want to place a clear marker of the kind of financial management systems and targeting processes it wants. No one round the table has dissented from the idea that, above all, we want targets to be strategic and measurable but without—as Jim Mather suggested—spurious numerical measures that do not necessarily echo process. That might be more work, Arthur, but it feeds into the 2007 spending review period.

**Professor Midwinter:** I finish in March.

**The Convener:** Do members have any burning issues to raise on the briefing note that we discussed earlier?

**Mr Swinney:** You said earlier that you were going to update us on the local government situation. Did you do so? Did I miss it?

**Professor Midwinter:** I did update you. I also dealt with something else that you asked about last time.

**Mr Swinney:** The local government section of the budget troubles me enormously.

**Professor Midwinter:** I updated you only on the table showing grants outwith aggregate external finance. I think that there is a separate paper on it. I was talking about the money outwith AEF, which you can see is £1.5 billion—it is big money—but it is dropping by more than £200 million this year. We now have the accurate figure. We know that the errors were in last year's budget document, so we can safely assume that this year's figures are right. Therefore, there is a big reduction in the moneys going to local government in those specific grants.

**Mr Swinney:** Okay. In the report that we received on 12 September, paper FI/S2/06/21/3, the presentation of the information about the local government settlement—in paragraphs 23 to 27—is truly dismal. I certainly did not feel that any light was shed last week on where the Government is

going with the local government finance settlement. It would be helpful if the committee agreed to write to ministers asking for an urgent update on where the settlement is going. The months will tick past and local authorities need some idea of what financial framework they are operating in. I hope that the committee will agree to write to ministers about that.

My second point is about the summary table in paper F1/S2/06/21/3, on the £725 million real growth expenditure plans. My concern is that, with the exception of the significant, continuing and increased priority given to health, it is difficult to see from the table what is driving Government decisions. It is a bit of a jumble showing where spending priorities are being changed without any coherent pattern. That goes back to the point about the way in which financial information is presented. The committee's ability to scrutinise the Government would be assisted if this type of table was explained in more detail, not by our adviser but by the Government, so we could see what is driving commitments.

Finally, I have a question for Arthur Midwinter on the supplementary note on the changes to the revenue and capital budgets outwith AEF. Can you shed any light, for illustrative purposes, on the type of expenditure that we are talking about? The scale of squeeze is dramatic and I would like us to have a better idea of where it is likely to be felt within the public expenditure process.

**Professor Midwinter:** Unfortunately, the data are presented simply by portfolio. I could prepare a supplementary note, because more detailed information is available about the programmes that fall within the portfolios. However, at the moment, all that is in the draft budget for your approval is a sum of money for health and community care, enterprise and lifelong learning and so on. I have a detailed breakdown of the grants, so I could have a look at the pattern and prepare a similar supplementary note to the one that Wendy Alexander asked for.

**Mr Swinney:** That would be helpful, because £210 million out of £1.3 billion is a substantial factor of difference. We need to understand what is happening there.

10:45

**Professor Midwinter:** The two portfolios that have consistently had growth are education and health. However, with education the amounts are small, because we are talking about central Government spending on education, and there has not been the same level of increase over the period in further, higher or school education in local authorities.

**Mr Swinney:** It strikes me that there are significant policy priorities, such as reducing class sizes, which one would think would be expensive to deliver as a rule.

**Professor Midwinter:** I have never seen this in the budget documents, but school rolls are falling. With a declining school population, service could be improved by just holding money still. I have never seen a rationale for that underpinning policy.

**Mr Swinney:** Of course, school rolls are not falling in all parts of the country.

**Professor Midwinter:** I will prepare another note for the committee on the issue that John Swinney has raised.

**The Convener:** That would be helpful. We are looking for background information, as John Swinney suggested. Arthur Midwinter is being asked to go and speak to the Executive about whether we can get a more systematic exposition of the allocation of the £725 million of new money. John Swinney suggested that we write to the Executive seeking more information about local government funding. Could we also seek more information from the Executive about the single status situation and what the Executive's projections are in that context? The committee has done a major report on that.

**Members indicated agreement.**

## **Prostitution (Public Places) (Scotland) Bill: Financial Memorandum**

10:47

**The Convener:** Item 2 is to consider what level of scrutiny to adopt for the Prostitution (Public Places) (Scotland) Bill. As members will see from the clerk's paper, it has been suggested that, given that there are minimal costs, we should adopt level 1 scrutiny, which would involve sending our questionnaire to bodies on which costs would fall and forwarding completed questionnaires to the lead committee. Is that agreed?

**Members** *indicated agreement.*

**The Convener:** As previously agreed, we will now go into private session to consider our next item, which is commissioned research on the economic impact of the Scottish budget, and, subsequently, our draft report on the Transport and Works (Scotland) Bill.

10:47

*Meeting continued in private until 12:29.*

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**Tuesday 3 October 2006**

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