

FINANCE COMMITTEE

Tuesday 6 February 2007

Session 2

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FINANCE COMMITTEE

3rd Meeting 2007, Session 2

CONVENER

*Ms Wendy Alexander (Paisley North) (Lab)

DEPUTY CONVENER

Mr John Swinney (North Tayside) (SNP)

COMMITTEE MEMBERS

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

*Mark Ballard (Lothians) (Green)

*Derek Brownlee (South of Scotland) (Con)

*Gordon Jackson (Glasgow Govan) (Lab)

*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)

Mr Alasdair Morrison (Western Isles) (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 6 February 2007

[THE CONVENER *opened the meeting at 10:32*]

Decision on Taking Business in Private

The Convener (Ms Wendy Alexander): I welcome everyone and ask that all pagers and BlackBerrys be turned off. First, I must apologise on behalf of myself and other members—we were delayed because of a signal failure at Polmont. I believe that Jim Mather is trying to join us, but has been caught by the same signal failure. Finally, I offer apologies from John Swinney, who was able to attend the meeting between 10.00 and 10.30, but has had to leave at 10.30.

We now have a quorum. The first item on the agenda is to consider whether to take in private our draft legacy paper at our next meeting and at any subsequent meetings. I propose that we do so. Do members agree?

Members *indicated agreement.*

Budget Process 2007-08

10:33

The Convener: Our second item is consideration of the Executive's response to the committee's stage 2 report on the 2007-08 draft budget. I am delighted to welcome to the meeting the Deputy Minister for Finance, Public Service Reform and Parliamentary Business, George Lyon, who will answer any questions that members have on the Executive's response. He will stay on for our stage 2 consideration of the Budget (Scotland) (No 4) Bill. The minister is accompanied by John Williams, who is the head of finance co-ordination at the Scottish Executive, and by John Nicholson from the Executive's finance expenditure policy division.

Minister, do you wish to make any introductory remarks?

The Deputy Minister for Finance, Public Service Reform and Parliamentary Business (George Lyon): I have a couple of minutes' worth of comments, if that is okay.

The Convener: Do they relate to this or the next item?

George Lyon: I am sorry—they relate to the next item.

The Convener: Indeed—I suspect that you have no introductory remarks to make to your own response. This is, in fact, an opportunity for committee members to come back on various points. Although we have not been able to allocate questions in advance, the budget adviser's paper on the response sets out four questions that members might wish to ask.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): The Executive's documents refer to cross-cutting issues sometimes as "themes" and sometimes as "priorities". What is the difference between the two terms? What does it mean in budgetary terms to identify something as a priority?

George Lyon: The Executive has clearly set out its top priorities many times. As far as cross-cutting themes are concerned, different areas of the budget contribute to certain themes that spread across different portfolios such as, for example, tackling environmental issues.

Mr Arbuckle: Where do themes and priorities sit in relation to each other? Do priorities come on top of themes? In other words, do you set out general themes and then establish specific priorities?

George Lyon: The priorities sit slightly above themes.

Mark Ballard (Lothians) (Green): If

"priorities sit slightly above themes",

can you explain the difference between, for example, economic growth's being presented as a priority and as a theme? Do you treat the theme of economic growth, which is also a priority, differently from other themes that are not priorities?

George Lyon: The simple answer to your question is that because economic growth is the Executive's number 1 priority, we have concentrated a lot of investment on it. That is the reality of the budget that we have set.

Mark Ballard: So what does it mean for economic growth to be a theme as well?

George Lyon: In some ways, it is much the same. As I have said, economic growth has always been our number 1 priority. Our budget reflects that.

Mark Ballard: Has making economic growth a theme as well as a priority made any difference to Government planning? What is the point of stating economic growth as a theme if it is already a priority?

George Lyon: I am not sure about the rationale behind describing economic growth in both terms. I have always believed that the Executive's priorities are those that we have set out and that the budget should reflect them. That is the case.

The Convener: The Executive response suggests that it might be moving back a bit from its indication at the time of the 2004 spending review, which was that although the process might not be comprehensive, there might be an attempt to put monetary values to the cross-cutting themes. The implication now is that there will be no such attempt. If that is the case, is it really appropriate to focus so much attention on cross-cutting themes? Would not it be better to explore cross-cutting priorities in a strategy document or within the terms of a partnership agreement? After all, it is a little unusual for budget documents to be dominated by a number of cross-cutting themes if there is no intention to attach monetary values to them. How will you approach that issue in the context of the 2007 spending review?

George Lyon: In his previous evidence and, indeed, in his response, the Minister for Finance and Public Service Reform has promised to re-examine that matter, which the committee has raised as an on-going theme at every discussion on the budget. The challenge is how we identify every sum of money that is linked to a particular theme. Obviously that is not easy. Perhaps we need, in the run-up to the 2007 spending review, to reflect on that and to think again about how to lay things out in the budget documents. It has

simply not been possible to hang every element of the budget on particular themes in order to enable the committee to scrutinise the contributions that specific sums have made. We might have to review our approach to the matter.

The Convener: That is helpful, thank you.

Mark Ballard: In its response to the committee's report, the Executive says:

"cross-cutting themes are about how policies are made and how programmes are delivered."

You said that you will consider how such information is laid out after the next spending review. Will there be an opportunity to ensure that ways in which changes in delivery methods have been influenced by cross-cutting themes are reported in the portfolio responses on those themes? Given that you acknowledge that the issue is not just the amount of money that is spent, but how policies are made and programmes are delivered, will information about policy delivery be included?

George Lyon: We will have to reflect on that. It is not for me to commit a future Administration to what it will do in the 2007 spending review, but the concerns that have been expressed will be taken into consideration by whoever sets the themes and priorities for spending post-2007.

Jim Mather (Highlands and Islands) (SNP): Good morning—[*Interruption.*] Eye contact would be helpful. [*Laughter.*]

George Lyon: I am glad that I am not the Minister for Transport.

Jim Mather: I am not sure that we have got to the nub of the problem. The Executive's approach has been inconsistent: there was a desire to measure spending on cross-cutting issues, but you are not doing so. What is filling the gap? How do you explain your having rolled back on your commitment?

George Lyon: I am not saying that it cannot be done; I am saying that we have found it difficult to identify every piece of spending that is linked to a theme. That is not to say that no attempt will be made to flush out such information in the 2007 spending review. I am giving you a commitment that the matter is still being considered, but I am not in a position to make a commitment on how the next Administration will present its budget.

Jim Mather: This Administration has taken us round the houses. You are saying that what the Executive told us it planned to do cannot be done.

George Lyon: No. I am saying that it has proved to be difficult to achieve that objective. That is not to say that we are trying to walk away from it—

Jim Mather: Okay. We are being told that it is difficult to identify spending. The committee is also being told—including by our adviser—that identification of outcomes is difficult. Do you share that view?

George Lyon: That depends on the outcome that we are considering. In many areas, we can identify the significant progress that has been made by the Scottish Executive across the policy spectrum. I am sure that over the coming months we will argue about what has or has not been delivered.

Jim Mather: In the current circumstances, in which it is proving difficult to identify spending and—some people might argue—in which there is too much focus on spending, should the Executive have a stronger focus on outcomes? In the future, should it ask every budget holder to nominate outcomes that are thought to be in the public interest and monitor those outcomes?

George Lyon: We set targets in the 2004 spending review, which have been reported on. By and large, we have delivered on every target—eleven were set—apart from a small number. We will respond to the committee's questions about particular targets in due course.

Jim Mather: I did not use the word “target”—

George Lyon: There has been much discussion about outcome agreements in local government, which represent an approach that I think the committee supports. The model has been developed to ensure that that part of the public sector moves to a more outcomes-based approach, whereby a target is set in relation to what we want to be achieved and we then give local government the money and let it get on with the job in its own way and—we hope—deliver efficiently and provide value for money.

10:45

Jim Mather: Let me share a thought with you before this discussion concludes: you are conflating targets with outcomes, but many people regard them as being separate. Outcomes are what happen and we try to improve them progressively over time. Targets tend to be arbitrary and short term and there is a risk that budget holders might pervert what they do to meet targets. Rather than set targets, would it be better in the long term to develop outcome agreements in an attempt over time to improve outcomes in ways that are meaningful to Scottish taxpayers?

George Lyon: Targets for reduction in waiting times in the health service have led to outcomes that patients understand well. There is concern when such outcomes are not delivered, as I and other members know from our postbags. We

cannot say that targets and outcomes are necessarily different; in many cases they are the same. We say, “This is what the policy is designed to do and here’s the money that we’re putting behind it to deliver it.” Such outcomes are clearly measurable.

Jim Mather: Resources are, however, frequently drawn from other areas so that targets can be met, whereas other activity, which might have no effect on the target—

George Lyon: I guess that that depends on how broad the target is. There will always be arguments about targets that are thought to be too narrow. Some people argue that targets on waiting times sometimes distort other aspects of the health service, but I think that patients and the general public want the health service to deliver for them and they want access to doctors and operations in a set time, so it is appropriate to set targets in that regard. That is true in other areas.

Jim Mather: How many of your targets genuinely reflect outcomes?

George Lyon: A significant number.

Jim Mather: More than 50 per cent?

George Lyon: I cannot give you a figure now, but I am willing to reflect on the matter and get back to you.

Jim Mather: Thank you.

The Convener: I am aware of the time, given members’ transport difficulties this morning. If there are no more questions, I thank the minister and his team for their comments on the Executive’s response to the Finance Committee’s report.

Budget (Scotland) (No 4) Bill: Stage 2

10:47

The Convener: As members know, item 3 is the formal part of the budget consideration process. Members have a copy of the bill and a paper by the clerks on procedure. I draw members' attention to two points in the paper: first, only a member of the Scottish Executive can lodge and move an amendment to a budget bill; and secondly, it is not possible to leave out a section or schedule by disagreeing to it, because to do so would require an amendment to be lodged and moved, which could be done only by a member of the Executive. Before we begin the formal procedure, I invite the minister to make explanatory remarks on the bill. I will give members an opportunity to ask questions.

George Lyon: Stage 2 offers the main opportunity for the Finance Committee to scrutinise the detailed numbers in the proposed budget for 2007-08 and, in particular, to consider changes that have been made to the budget plans since publication of the draft budget last September. To assist the committee, I will explain some of the major changes. As would be expected, the figures are largely unchanged from the figures that were published in September. However, to facilitate understanding of differences between the two documents, we have for the first time included a new table—table 1.8—in the supporting document, which reconciles movement in departmental budgets.

Before I turn to the main changes in budgets, it is worth reminding members that the numbers in the budget bill are presented in a form that is rather different from the presentation in the draft budget. The usual differences arise from non-departmental public body resources and cash adjustments, the different presentation of the Scottish Water and national health insurance income budgets and the fact that the draft budget presents budget information by portfolio rather than by department. My officials and I will be happy to answer questions on any aspect that has caught the committee's eye, but I do not think that we will need to spend too much time on those areas.

I will now address the three most noteworthy changes to the figures in the document. First, members will have noticed a significant increase of almost £250 million in the budget for the Finance and Central Services Department. That is largely due to the increase in the revenue support grant that the Minister for Finance and Public Sector Reform announced on 13 December in response to the committee's wish that the local

government settlement for 2007-08 be augmented.

Secondly, there is an apparent reduction of almost £60 million in the Education Department's budget. That is due to the payment mechanism for the changing children's services fund and payment for some public-private partnership projects now being made via the revenue support grant for local authorities.

Finally, there is an increase of £19 million in the budget for the NHS and teachers pension schemes. That increase in funding is provided by HM Treasury. It reflects the growth in the pension schemes and the subsequent increases in the cost of the pension service and interest on the scheme liabilities.

The committee might have noted that a few departments have put resources into or withdrawn them from the central unallocated provision for 2007-08. The provision that has been treated in that way is set out in table 1.3 on page 4 of the supporting document. I draw members' attention to the negative figures against the Finance and Central Services Department and administration. They represent a draw-down in the next financial year of resources that are put into the CUP and carried forward from the current financial year.

I hope that members have found my remarks helpful in assisting with their consideration of the Budget (Scotland) (No 4) Bill. We are, of course, willing to listen to any suggestions that the committee has on how we can further improve the transparency of the budget process and the presentation of the information. I and my officials will do our best to answer questions, although we might have to write to the committee on some points, given that the bill covers a wide range of Scottish Executive departments.

The Convener: Thank you. Table 1.8 is a significant advance that will be welcomed in the next session of Parliament. You commented on some of the lines in it, but what is the reason for the apparent reduction of almost £1.4 billion in the health and community care budget?

George Lyon: That is a direct payment that comes to the health budget from the UK budget. It is national insurance receipts and it comes straight in, outwith the departmental expenditure limit budget.

The Convener: It is a remarkably high figure for national insurance. It is a significant figure—£1.4 billion out of an £8.8 billion budget. Of course, the cost of staffing in the NHS is significant, but given the magnitude of the figure it would be helpful if you could drop us a note on that.

John Nicholson (Scottish Executive Finance and Central Services Department): It is the Scottish health service's share of the take of

national insurance in the UK, which is redistributed back to Scotland. We fund most of the health budget, but some of it is funded by the income that we receive from national insurance. We show the Health Department's total expenditure in the draft budget, but when it comes to the bill we have to authorise the Health Department to retain the receipts from the UK. That allows it to fund some of its processes through national insurance receipts.

The Convener: So, by implication, there is no material change from the autumn.

John Nicholson: No. We spend the same—

The Convener: It is simply a restatement.

John Nicholson: Yes.

The Convener: I am checking the footnote, but it does not state that. The table is useful, but it might be helpful if, in the future, you could point out which changes are material and which are associated with such restatements. That information might be elsewhere in the document.

John Nicholson: It is, but we might need to make it clearer. In paragraphs 3 and 4 on page 1 we try to set out the main changes, but it might be better to put that information next to the table.

The Convener: A footnote to the table would be helpful.

I am anxious to move on, although I am the one who has asked questions. Are there any other questions before we move on to the formal proceedings?

Jim Mather: The information on the environment and rural affairs budget on page 17 shows gross expenditure on water services of £314.4 million in 2006-07, but I am aware that there was a repayment of £161.8 million that was not taken up by Scottish Water. Do you believe that the document gives a true and fair picture, given that the numbers have been adjusted during the year?

John Nicholson: The bill tries to provide a comparison of the starting budget in 2006-07 and the starting budget in 2007-08. There were lots of changes to all budgets during 2006-07, but we would be comparing different points in the two years if we picked a point in the current financial year to compare with the—

Jim Mather: So what do you consider to be actual—the starting position or what we finish with?

John Nicholson: The figure for 2006-07 was in last year's bill at this time last year.

Jim Mather: So the figure was deemed to be more appropriate to use, compared with what was actually spent.

John Nicholson: We have not yet reached the end of the financial year, so we cannot compare what has been spent. We do that through the accounts.

Jim Mather: In that case, a comparison could be made involving the money that is currently committed to be spent.

John Nicholson: Options are available to do that, but a spring budget revision will follow the autumn budget revision and the figures could change again. Therefore, we would pick an arbitrary point in the middle of the year rather than a final or a starting point. We thought that the most appropriate approach would be to compare the budgets at the same point in the year. However, if the committee thinks that another approach would be more appropriate, we will certainly listen to its suggestions.

George Lyon: It is important to point out that the Scottish Executive acts as Scottish Water's banker. Therefore, we are in some ways at the mercy of its ability to draw down and deliver the capital works that it has planned. Any delays must be reflected in adjustments that are made to how much it has drawn down from the Executive. The important point to note is that that money is still available for Scottish Water to draw down when the capital plans come back on track. It may look like Scottish Water has not drawn down money in the first place, but money will still be available for the capital plans in its four-year plan.

Jim Mather: I hear what is being said and understand that, from your standpoint, it seems to be logical to compare the starting budget in 2006-07 with the starting budget in 2007-08. However, anyone who arrives at the matter cold and discovers what has happened will be concerned that such an approach does not show a true and fair view of matters. Perhaps a comment should be made that there has been a change in that the 2006-07 figure was a starting point, but it no longer gives a true and fair view.

John Nicholson: I do not disagree, but we should consider the number of changes that are involved. We are talking about one body that is mentioned in the document. If what has been suggested had to be done for every department, the document would become unwieldy again.

Jim Mather: I understand the argument about causes and effects, but what I have described would be an appropriate way ahead. The current document does not give a true and fair view of what is happening.

George Lyon: You would get a much better picture of the movements of, and the reasons behind, the different figures if you considered outturn figures for the year rather than the budget. At some stage, the committee may want to reflect

on whether considering outturn figures for the financial year might be of value.

The Convener: That is a helpful suggestion. We may discuss that in the seminar on the budget process.

We now turn to the formal proceedings for stage 2 of the bill. Although no amendments have been lodged, we are obliged under standing orders to agree to each section and schedule of the bill and to the long title. We will consider the sections in order, but we will consider the schedules immediately after the section that introduces them and we will consider the long title last. Fortunately, standing orders allow us to put a single question on groups of sections or schedules that fall consecutively and I propose to do that, unless members disagree.

Section 1 agreed to.

Schedules 1 and 2 agreed to.

Section 2 agreed to.

Schedules 3 and 4 agreed to.

Sections 3 to 5 agreed to.

Schedule 5 agreed to.

Sections 6 to 10 agreed to.

Long title agreed to.

The Convener: That ends stage 2 of the Budget (Scotland) (No 4) Bill. I say goodbye to members of the press, as there will now be a discussion in private. Others will join us or remain with us for the seminar on the budget process.

Meeting closed at 10:59.

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