

FINANCE COMMITTEE

Tuesday 11 September 2007

Session 3

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CONTENTS

Tuesday 11 September 2007

	Col.
INTERESTS	9
WORK PROGRAMME AND WORKING PRACTICES	10
ABOLITION OF BRIDGE TOLLS (SCOTLAND) BILL: FINANCIAL MEMORANDUM	12
BUDGET PROCESS 2008-09	13

FINANCE COMMITTEE

3rd Meeting 2007, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Elaine Murray (Dumfries) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Liam McArthur (Orkney) (LD)

*Tom McCabe (Hamilton South) (Lab)

Alex Neil (Central Scotland) (SNP)

SUBSTITUTE MEMBERS

*Roseanna Cunningham (Perth) (SNP)

Ross Finnie (West of Scotland) (LD)

Murdo Fraser (Mid Scotland and Fife) (Con)

Peter Peacock (Highlands and Islands) (Lab)

*attended

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 11 September 2007

[THE CONVENER *opened the meeting at 14:02*]

Interests

The Convener (Andrew Welsh): Good afternoon and welcome to the third meeting of the Finance Committee in the third session of the Scottish Parliament. I ask all members to turn off their mobile phones and pagers.

For the record, I note the visit today to Parliament of the members of the Finance Committee of the National Assembly for Wales, with whom we have had a very useful exchange of ideas on committee organisation. Their visit has been much appreciated.

We have received apologies from Alex Neil. Roseanna Cunningham is present as a substitute member. I invite her to declare any relevant interests.

Roseanna Cunningham (Perth) (SNP): I have no interests to declare.

Work Programme and Working Practices

14:03

The Convener: Agenda item 1 is consideration of our work programme and working practices, which were discussed at the committee's away day. The clerks have produced a paper that sets out a provisional timetable for budget scrutiny, the inquiry that we want to pursue on the method of funding capital investment projects and other issues, as well as the one-off evidence sessions that we said at the away day we would like to have. The paper records the decisions that we made about our work programme at our away day, but that does not preclude further discussion now. The paper also sets out the agreement to which we came regarding our working practices.

I invite comments from members. Derek Brownlee was not at the away day. I wonder whether he would like to comment.

Derek Brownlee (South of Scotland) (Con): I do not have any major comments to make. The proposals for the work programme seem to be reasonable. The only concern that I had when I read the paper on the work programme and working practices relates to agenda item 4, but I will briefly outline it now. It relates to giving guidance to subject committees on budget scrutiny, which we all agree is very important. My concern is about the phrasing of the paper, which states:

"The Committee further agreed that the guidance should make clear that subject committees are not expected to cover their entire portfolio areas".

I understand why we would say that—it is unrealistic to expect subject committees to go through everything at once—but are we also saying that we do not expect Parliament in some formal way to scrutinise, in a spending review year, all the portfolio spending? I am not particularly happy for us to signal that we should not scrutinise spending as widely as possible. How we phrase the guidance to subject committees is one matter, but we need to send a clear message that, particularly in a spending review year, Parliament can and will scrutinise any and all expenditure areas across portfolios. I hope that it will cover as much of the budget as possible. However, it is a question of drafting rather than anything more significant.

The Convener: I think that we are trying to be helpful to committees and not overload them. Is it acceptable for the clerks to consider the wording and take that point into account?

Members *indicated agreement.*

The Convener: The clerks will come back to us with suitable wording.

For the committee's information, we hope to have at our meeting on 25 September an initial approach paper on the inquiry into methods of funding capital projects.

On a different issue, we received an e-mail from Alex Neil, who suggests that, in the light of recent events, the committee might wish to consider senior salaries in the public sector in Scotland and the process by which they are determined. He refers specifically to the salaries and bonuses that are paid to Scottish Enterprise executives. I think that the matter appeared in the newspapers yesterday. If the committee wants to look into it, the best course of action might be for the clerks to produce a paper that sets out the mechanisms for determining pay. The committee might then wish to take evidence.

I suggest that we ask the clerks to produce such a paper. We might get into some deep areas if we decide to look into the matter, so I would rather that we thought it through. If the clerks produce a paper, we can give it proper consideration. Is that acceptable?

Members indicated agreement.

Elaine Murray (Dumfries) (Lab): I have a comment on paragraph 9, which covers spending on deprivation. My recollection is that we considered having a one-off evidence session with the Cabinet Secretary for Health and Wellbeing but decided to follow up the issue initially by correspondence. I thought that we agreed to write to all the cabinet secretaries rather than to single one out and ask her for the information that we require.

The Convener: Does the committee agree?

Members indicated agreement.

The Convener: We will make that alteration.

Do members agree formally to adopt the decisions that were taken at the away day, with the amendments that were suggested today?

Members indicated agreement.

Abolition of Bridge Tolls (Scotland) Bill: Financial Memorandum

14:08

The Convener: Agenda item 2 is consideration of our approach to the Abolition of Bridge Tolls (Scotland) Bill, which was introduced on 3 September. As members know from the paper on our work programme, we agreed to continue with our predecessor committee's three-level approach to scrutiny of financial memoranda. As the Finance Committee, we are concerned not with the policy implications of legislation but with the financial implications. We seek to take evidence from bodies upon which costs fall and from Executive officials rather than from ministers.

The paper by the clerks suggests that we adopt level 3 scrutiny of the bill, which involves taking oral and written evidence from affected bodies and Executive officials. We will then produce a report for the lead committee. The paper also suggests that we take evidence from the Forth Estuary Transport Authority and the Tay Road Bridge Joint Board. We would not normally take evidence from affected bodies and Executive officials on the same day, but given that the figures in the financial memorandum were provided to the Executive mainly by FETA and the Tay bridge authority, it seems sensible for us to hear from them at the same meeting.

Do members agree to adopt level 3 scrutiny of the bill and to take oral and written evidence as set out in the clerk's paper?

Members indicated agreement.

Budget Process 2008-09

14:09

The Convener: Item 3 is consideration of interim draft guidance for subject committees on the budget process 2008-09. We usually produce such guidance once the draft budget has been published but, given that the process has been delayed this year by the delay in the United Kingdom spending review, the committee agreed that it would be a good idea to produce early interim guidance. Of course, once the draft budget is published, Professor Bell—our adviser—will produce further guidance for the committee.

The clerks' paper lays out this year's advice timetable, suggestions for joint working between our adviser and any advisers who are appointed by subject committees, and suggestions on how subject committees might approach this year's budget. Do members have any comments on the draft guidance?

Elaine Murray: On paragraph 4, which relates to links between committees, I believe that it was suggested that subject committees might consider appointing reporters to take forward budget scrutiny. Indeed, I think that the same point was mentioned in the previous item.

The Convener: It is mentioned in paragraph 5.

Elaine Murray: Sorry—I missed that.

I was also a little bit puzzled by the reference in paragraph 4 to the Atkinson review, which is after all about efficiencies at United Kingdom level. Should the reference be to the Scottish Executive's efficient government initiative?

The Convener: We can raise that question with the adviser, who made the suggestion.

Elaine Murray: Surely the matter is more the province of the Scottish Executive. As I say, the Atkinson review relates to the UK.

The Convener: You make a good point, which is much appreciated.

Elaine Murray: Again, in paragraph 4, I was concerned about how we would look at equity "through space". Would we boldly go where no one has gone before? Instead of referring to equity "by gender, age group and through space",

we could say "by gender, generation and geography".

The Convener: I think that we can clarify that point.

Do members have any other points? I see that, after Elaine Murray's allusion to trekking, Roseanna Cunningham wishes to intervene.

Roseanna Cunningham: I am not so much suggesting changes to the paper as flagging up two issues that arise for subject committees. I attended the Conveners Group away day and heard Susan Duffy and David Bell talk about the suggestions that are set out in paragraph 4. Subject committees are discussing budget advisers and what to do about budget scrutiny, and those discussions are dictating the nature of the advisers whom they choose to engage. Despite what the paper might say about waiting until advisers are in place, committees might already have made some of these decisions and have second-guessed the contents of any strategic overview of the situation. For example, in the light of our decision to focus on the agricultural elements of Richard Lochhead's announcements in June, we on the Rural Affairs and Environment Committee are looking for a budget adviser who has specific expertise in that area. I am simply flagging up the fact that decisions are being made now and that it might be advisable for David Bell to be a bit more proactive early on. If he is not, he might face a *fait accompli* as far as the committees are concerned.

Secondly, paragraph 9 refers to the suggestion that was canvassed at the conveners' away day about

"incorporating financial scrutiny into any inquiry work undertaken during the year".

Last week, the Rural Affairs and Environment Committee discussed this very matter. If committees accept the proposal in the spirit in which it has been suggested, they might need to retain a budget adviser all year round, which will have huge cost and resource implications for Parliament. I wonder whether that has been thought through because it would impose an extra and interesting burden on the committee budgets. Actually, I think that the committees share a budget for such things, or perhaps it would need to be flagged up to the Parliamentary Bureau. In the proposed system, we would be looking for budget advice almost all year round, not just at one point.

14:15

The Convener: This is just the beginning of a system that we hope will be of great assistance to all the committees, but the question how it is to be resourced is obviously of crucial interest. I hope that committees would look in the medium to long term to using a system involving the adviser to the Finance Committee and a team of other advisers. I take Roseanna's point about committees moving into early action, but I hope that all committees will also be thinking about the medium to long term and getting a system that is viable, funded and working for the longer-term view.

I suggest that the clerks take a look at the problem that Roseanna has raised about some committees being quick out of the traps. However, the adviser would be for the longer term rather than just one inquiry and would provide financial advice in respect of the whole of a committee's work. I suggest that the clerks take a look at the points so that we can ensure that the adviser system is well established and the funding is assured.

Roseanna Cunningham: There are two different issues. The adviser for the budget scrutiny is specific, short term and set for a certain number of hours. The mainstreaming of financial scrutiny is different: it would involve year-round budget advice and perhaps changing advisers depending on what the committees were considering.

For example, the Rural Affairs and Environment Committee will do two inquiries—one will start next week and the other will start before Christmas. One is on flooding, and the other is on rural housing. They will involve two different sets of financial expertise: if we are to mainstream financial scrutiny in those inquiries, we will need specific expertise that will be different for each one. I am concerned that that has not been considered.

I appreciate what the Finance Committee is trying to achieve, but it is a question of how that becomes achievable in the context of a subject committee's workload. Sorry—I am the convener of a subject committee, so I am obviously looking at the issue with a different hat on.

The Convener: What you are saying in flagging up those points is appreciated. However, the previous Finance Committee agreed to examine the whole question of financial advice, and we are trying to encourage finance always to be part of consideration. In the past, committees have tended to examine the politics of issues and finance has almost been an afterthought. The previous committee recommended that we consider funding and how we could set up such a system. Your comments are apposite, however, and will be taken on board, Roseanna.

Derek Brownlee: I want first to take up some of the points that Roseanna Cunningham raised. I have never been a member of a subject committee, so I do not have experience of that side of the fence. However, mainstreaming financial scrutiny in the week-on-week work of committees is a different scale of task from just looking annually at the budget process. We have a tension between the £30-odd billion that the Government spends annually and the limited resources that are available to the Parliament and its committees to do their scrutiny work.

The Finance Committee should not overplay its hand by telling committees what they ought to do, but there is a point to be made. Additional spending by Parliament on scrutiny of Government spending might well pay for itself many times over in what it would save. However, it is difficult for individual subject committees to be expected to finance that from their current resources. If we are going to suggest that they should do more, we need to be prepared for the usual accusations that we are suggesting increased spending, although increased spending on scrutiny would be useful.

I will make a specific point in relation to the paper. Guidance on public sector pay—mentioned in paragraph 4—is crucial because pay accounts for a significant proportion of public spending. If we are asking committees to comment on changes to the budget and, in the context of other points that have been raised, such as those from the Howat report, what we are really asking them to do is to question what is already in the budget. It is difficult to do that unless there is an understanding of what is effectively there as a cost, which is difficult to alter.

Paragraph 4 says:

“Pay accounts for more than 50% of the total Scottish government budget.”

Rather than have such a bald total, it would be helpful to understand what proportion of the budget at a much more detailed level is made up of pay. For example, what proportion of various level 3 headings in the health budget is covered by public sector pay? That would give some indication of the degree of headroom. I do not know whether those figures are in the public domain. If they are not, perhaps that is something that we should seek from the Executive.

The Convener: That is a good point—it is something that a budget adviser could look into. I very much accept that we are certainly not here to overplay our hand in any shape or form, but our task is to encourage suitable action in order to ensure proper financial scrutiny. We are entering a period in which finance will become increasingly scarce. We have got to be careful that every public pound is spent to the best effect.

Are there any other comments?

Liam McArthur (Orkney) (LD): This may pick up on Elaine Murray's earlier point about the reference to space. There was a discussion at the away day about engaging the budget against the objectives of sustainable growth in the Scottish economy as a cross-cutting feature. I do not know whether that would better be included in the work programme or in the guidance under paragraph 4 of the budget process paper, but it seems to be absent from both.

The Convener: That is a good point. That is an area that we will consider specifically when we get into budget scrutiny.

James Kelly (Glasgow Rutherglen) (Lab): My point concerns what Derek Brownlee said earlier about committees, in relation to paragraph 6 of the paper. The comment had been made about committees not being able to cover their entire portfolio. Paragraph 10 suggests that committees should decide which area of the budget they are going to consider. We need to tidy up our thinking on that. Are committees going to consider one area of the budget or take a more detailed approach?

Elaine Murray: I made a similar point to James Kelly's, but to follow on from Derek Brownlee's earlier point, it will not be possible for subject committees, particularly the large ones, to consider every area of the budget. We should perhaps encourage committees to consider where there are changes in spend that reflect the priorities of the new Government. What is going to be most interesting is whether money that has been transferred from one area to another—even within a budget—demonstrates the Government's priorities, which may at the same time demonstrate the areas that are no longer considered to be as important. Some of that will come out of Howat, to the extent that the Howat recommendations are taken on. However, while we should not perhaps tell committees what to do, we would all have an interest in seeing who are the winners and losers in the budget this time around.

Joe FitzPatrick (Dundee West) (SNP): On the wording of the paper, we should be more open by simply asking the subject committees to examine the budget as deeply as they can. Clearly, subject committees have other priorities as well, so to say that subject committees should look only at what the Government is doing suggests that they should not look at what was done before—

Elaine Murray: I was trying to say that subject committees should make those comparisons.

Joe FitzPatrick: We need to find the correct wording, as Derek Brownlee suggested earlier, about encouraging subject committees to engage with the process of finance. However, it should be up to subject committees to decide how deeply they go into matters.

Elaine Murray: I clarify that I meant that subject committees will need to consider the budget that was set by the previous Executive and the changes that the new Government has introduced, which will highlight the policy differences. The previous Finance Committee tried to get a grip on the issues by trying to tease out how the money

followed the Government's priorities. That is important whoever is in Government.

Derek Brownlee: I have less difficulty with paper FI/S3/07/3/3 than I had with paper FI/S3/07/3/1 simply because the paper provides some context on why we are suggesting that a subject committee should not necessarily look at its entire portfolio. My point is that, during a spending review year, someone needs to take an overall view. The wording in the draft guidance states:

“committees may wish to concentrate on one or two areas of considerable budgetary significance”.

In combination with the scrutiny that we will undertake, that suggestion should lead to a more focused effort by subject committees to complement what our committee will do anyway.

However, we need to send out the signal that the whole budget—not just bits of it—is up for robust scrutiny. In theory, the budget process should provide a comprehensive overview of the whole budget. However, I do not think that we are in a place where we cannot find a solution.

Roseanna Cunningham: It must be understood that subject committees will make their own decisions about their priorities for investigation. If they choose to investigate a specific budgetary line to the exclusion of others, that is their choice. Although subject committees may take on board the advice and suggestions of the Finance Committee, the fact is that subject committees are making up their minds right now and are proceeding accordingly. Notwithstanding that this is a comprehensive spending review year, the suggestions in the draft guidance are probably much more for the longer term. My committee has already made a decision and we have not seen the guidance. Given the timing, it is a moot point what impact the guidance will have this year. We should remember that, ultimately, subject committees make up their own minds about their priorities.

The Convener: Absolutely. However, the Finance Committee has a duty to point out the need for budget scrutiny to ensure that the finance matches the policies that are adopted. Otherwise, budgets quickly go awry. We want all committees to realise the importance of financial matters and to investigate them fully. In the past, committees tended to consider only the politics of the situation so financial memoranda tended to go through without much scrutiny. Given that there will be tighter finances, we need to work as an organised system by working together and using advisers, who are there to help committees.

The difficulty is that there is a great danger of getting lost in the detail—these are complex matters. All that the Finance Committee can do is

give advice and try to encourage maximum financial scrutiny of bills and of the other matters with which committees deal. We are looking for clarity of vision and clear recommendations from the committees, which have the individual expertise in their own subjects. Those recommendations will be gathered together in the reports back to the Finance Committee. Our common objective should be to get a financial system that provides proper scrutiny and which maximises the value of each public pound that is spent. That is the objective.

It is clear to me that the wording of the paper is posing problems, so the clerk has taken on board the members' comments. I ask members to agree to the guidance on the basis that the points that have been raised today will be changed by the clerk and brought back to the committee. We will look at the draft guidance again at our next meeting. Is that agreed?

Members indicated agreement.

Meeting closed at 14:29.

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