

FINANCE COMMITTEE

Tuesday 23 October 2007

Session 3

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FINANCE COMMITTEE 5th 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

THE FOLLOWING GAVE EVIDENCE:

Bill Howat (Budget Review Group)

Bill Hughes (Budget Review Group)

Jenny Stewart (Budget Review Group)

George Thorley (Budget Review Group)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 23 October 2007

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

Budget Process 2008-09

The Convener (Andrew Welsh): Good afternoon and welcome to the fifth meeting of the Finance Committee in the third session of the Scottish Parliament.

I ask everybody to turn off their mobile phones and pagers. I will make sure that I turn off mine. We have received apologies from Alex Neil.

Under agenda item 1 we will take evidence from members of the external budget review group. I welcome to the committee Bill Howat, who was the lead reviewer, and Bill Hughes, Jenny Stewart and George Thorley, who were members of the group. We agreed to take a closer look at the findings of the review because doing so will, hopefully, help with our consideration of this year's draft budget. I ask Bill Howat to make an opening statement.

Bill Howat (Budget Review Group): Thank you for the opportunity to speak to the committee. I suggest that we introduce ourselves first, for the benefit of the committee, so that you know who we are and what our backgrounds are. After that, I would like to go through a few bullet points.

I retired nearly two years ago from the post of chief executive of Comhairle nan Eilean Siar. Before that, I was a civil servant in the Scottish Office and the Scottish Executive. For the committee's interest, I state that I carry out some consultancy work at present. In particular, I am advising the Association of Chief Police Officers in Scotland on the spending review, and I am also chair of Volunteer Development Scotland, but I do not think that that affects anything that I am likely to say today.

I invite the rest of my team to introduce themselves.

Jenny Stewart (Budget Review Group): I am head of infrastructure and government at the professional services firm KPMG. At the time of the review I was head of government services at Ernst & Young. In the past 14 years I have advised the public and private sectors on a range of issues.

As a courtesy to the committee, I mention that my clients in the past couple of years included the Scottish Executive and a number of health boards and local authorities.

Bill Hughes (Budget Review Group): I have been retired for just over two years. Previously, I was director of finance and information technology at Renfrewshire Council. I spent all my working life in the public sector. I am currently carrying out a small number of consultancies.

George Thorley (Budget Review Group): I retired three years ago as chief executive of South Ayrshire Council. Since then I have run SOLACE Enterprises Ltd, which is the commercial wing of the Society of Local Authority Chief Executives and Senior Managers. I am also a non-executive director with the Scottish Government.

Bill Howat: By way of opening comments, and to alert the committee, I will go through some bullet points about our remit, our context and approach, and the generic issues. If I may say so, those issues are well captured in the paper that the Scottish Parliament information centre prepared for the committee—I say very well done to whoever wrote it.

I hope that it will help if I refer you to the relevant paragraphs in our report, "Choices for a Purpose: Review of Scottish Executive Budgets". On the group's remit, I refer you to paragraphs 2.1 to 2.3 and 3.1 to 3.4. As you know, the report was commissioned by the previous Administration—I express my thanks to Tom McCabe, who is present today; we await his comments with interest—so we focused on its priorities and partnership agreement. We were one of several work streams for the spending review. We worked under the assumption that there would be a tight settlement. That assumption has been proved correct and we can now take it as a fact.

Our main aim was to identify areas where resources could be used more effectively to achieve priorities and aims. We used the term "headroom" as shorthand for that. I emphasise that we were not asked to look for waste. We focused on the better use of available resources.

On the context of our work and our approach, I refer you to paragraphs 3.4 to 3.7 and appendix G, which contains your predecessor committee's submission to us—and very prescient it was too. To meet the timescale that we were set, we considered the available evidence. We did not commission research, nor did we have time to analyse and cost all the recommendations that we made. Our approach was to review the available evidence from departments and other key stakeholders and carry out interviews with relevant ministers, senior civil servants and some stakeholders.

Paragraph 3.6 makes it clear that the report is our judgment on a great deal of evidence, but to some degree it reflects back—to the Scottish Executive and others—the views that we heard.

Again, I draw attention to the views that the previous Finance Committee expressed in its submission, which is in appendix G to our report.

We were invited to be radical and provocative. When we have given evidence to other committees, we have been challenged on whether our work could be regarded as superficial. I note that your agenda today includes a much deeper review to be conducted by Lord Sutherland; we did not have time to do such an in-depth review. We decided that, although we had to cover 360 budget lines in an extremely short timescale, we should aim to set out and identify the key issues and ideas that should be discussed in the 2007 spending review. I hope that that will give the committee a good agenda for discussion.

The review was largely completed by May 2006—when we arrived, we commented on the fact that our first meeting was two years ago—so some of the report is out of date or has been overtaken. Some of it has been picked up in the taking stock review of the Scottish Executive, which the committee will no doubt consider when it examines the activities of the Executive. In that case, an action plan was published, which the committee will no doubt wish to follow up.

I turn briefly to some of the generic issues that are contained in the executive summary and in chapters 4 and 5, which are well summarised on pages 3, 4 and 5 of the SPICe paper. Our main conclusion was that there was a need for clear outcome-based priorities and targets at the strategic and political level, regardless of the colour or nature of the Government. We strongly took the view that the Scottish Executive needs a best-value culture and, as part of that, a robust and rigorous challenge function. We recommended that the Scottish Executive needs to move to a risk management, rather than a risk aversion, approach and that it should focus more on strategic issues such as outcomes and less on managing budgets and micromanagement. All of that has significant implications for the Executive's human resources, including the need for training.

Chapter 5 is well summarised in the SPICe paper; I simply draw members' attention to the fact that it sets out the realities of managing public expenditure. We also said that we saw a need to review Scotland's "crowded landscape". If there is one general comment that we would wish to leave members with, it is that we think that there needs to be a much more joined-up—the word that we used was "holistic"—approach to public expenditure policy and decisions.

Thank you for your courtesy, convener. We are happy to take questions.

The Convener: Thank you very much indeed for producing a major and substantial report. You

mentioned Tom McCabe; because of his close relationship with the report, he will allow his colleagues to lead the questioning today but, as usual, he will scrutinise proceedings closely. His advice on such matters is always helpful.

Interviews were held with budget holders as part of the process of identifying potential budgetary headroom. Will you talk the committee through how that worked in practice and how those meetings contributed to the specific "potential headroom" recommendations?

Bill Howat: Certainly. I will start, but I will let my colleagues provide specific examples. Appendix E of the report contains a pro forma that was prepared by the Scottish Executive Finance and Central Services Department, which was circulated to all budget holders. That included questions on specific areas, including the extent to which the budget spend was meeting the Executive's stated policies, aims and objectives, in particular as they related to the partnership agreement. The pro forma was a starting point for discussion with budget holders.

As the report explains, we operated in small teams. For example, Jenny Stewart and I dealt with transport and the environment, George Thorley was part of the justice team and Bill Hughes was part of the education team. Ahead of any discussion, we read through the pro forma and sought further information, which was sometimes detailed and pretty bulky. We then interviewed the budget holders on the basis of the information that they had provided in their pro forma and what they thought they were doing. We questioned them closely on how well we could tie spending to stated priorities. As the committee will have noted from our report, we had immense difficulty in making such connections, for reasons that your predecessor committee had alerted us to in its submission, which we published in the report.

That is the general position; I do not imagine that you want me to talk you through any particular interview. Interviews were conducted on that level of detail. I invite my colleagues to provide additional information.

George Thorley: I will give an example of the process that we went through. I was part of a little team that looked at the work of the departments responsible for communities, justice and the Crown Office and Procurator Fiscal Service. Under communities, there were seven budget lines that all dealt with aspects of regeneration and which were all targeted at tackling issues of deprivation in the community. We interviewed each of the budget holders in an effort to get a better understanding of what their objectives were.

We then stood back from that process and thought, "We do not need seven budget lines—we

need one budget. We need a regeneration budget, because the result of distributing funding under seven budget heads is that seven teams of people are dealing with seven sets of issues.” We came to various conclusions. The first was that there was excessive micromanagement by senior people in the organisation—it would be far better for such tasks to be handed out to the many implementation agencies that exist. The second conclusion was that, given that it was the Government’s will to spend funding on such a scale—about £160 million—it would be possible to combine all the funds and reallocate them as family support plans to target the money on the families who were in greatest crisis. In that way we might have a chance of breaking the endless cycle of poverty.

The process was that we had the budget lines, we interviewed and listened to the budget holders, and we then stood back and thought about what they had said before we presented our ideas. Those ideas were tested with the heads of department and, occasionally, Government ministers, who gave us their views on the issues. What you read in the report is what we believe to be the best solution.

The Convener: To what extent did budget holders make specific suggestions? Did you get the impression that they were undertaking many of these actions already?

George Thorley: I will speak from my experience. There were a number of instances when people said, “This could be done better—we could do things differently.” Naturally, we thought about their suggestions. We took a view on whatever they came up with as either an explanation for what they did or a suggestion for improvement. We did not just repeat their idea. We tried to add value to the thinking process.

Bill Howat: In general, I think that we have recognised in the report the positive reaction that we got across the board from senior civil servants and ministers. We got quite a lot of ideas. As George Thorley said, we reflected on them and recommended some but not others. Without telling any tales, I mention that on at least one occasion a budget holder told me that they had been trying to get rid of a particular budget line for years but that it was all too difficult. There were people who were willing to be up front and honest and make recommendations.

Jenny Stewart: People were generous in giving their time and a number of officials have a great deal of knowledge of their budgets, but what we were really interested in was how good the costing information was underneath the budgets that we were examining. There might be a large budget of, say, £1 billion. We looked at how that was subdivided and spent. We also examined how the

officials managed performance and what processes they had in place. We looked for evidence that they had already undertaken work to assess the effectiveness of the spend. There was a wide variety of experience across the piece as to how much evidence had been garnered on the effectiveness of spend. In some areas, the levels of spend had been allocated but had not been subject to independent scrutiny.

The Convener: We will move on to Joe FitzPatrick, to consider the challenge function.

Joe FitzPatrick (Dundee West) (SNP): Bill Howat touched on the challenge function in his introduction. One recommendation is that the Scottish Government should develop a structure similar to the Treasury, so that it is better able to challenge the different budget holders. What barriers are there to that happening just now? How could those be lifted?

Bill Howat: Can I be clear on the question, please? When you say “just now”, we clearly have a new Government—

Joe FitzPatrick: I am referring to when you were doing the review.

Bill Howat: Sure.

The point that we raised is a fairly general point of principle: if someone is challenging people about spending proposals or decisions, is it right that they should also be making spending proposals or decisions themselves? It is no more than that general principle. We were very careful to include that point in the section of the report that states that it is for the consideration of politicians. We did not make a firm recommendation—each Government must take its own view on how it will conduct these affairs.

There was no doubt that the finance function was doing a certain degree of challenging. The problem was that there were 11 portfolios, 10 of which had ministers, each of whom had departments aligned with them, so a great deal of money was being spent within silos—that is probably a pejorative term, but you will take my point. We thought that that was a major barrier and that somebody was needed to look across all the portfolios in a much more co-ordinating way. We recommended a structure “more akin to” Her Majesty’s Treasury. That recognised that the Scottish Parliament is different and has different arrangements and must therefore choose what best suits the circumstances in Scotland.

14:30

Joe FitzPatrick: What would be the benefits for Scotland of moving to a system that is akin to the Treasury one?

Bill Howat: The first point that must be made is that Scotland and the Scottish Government are in a different situation from the Treasury, because the Treasury can have a function that looks across a wide range of departments but it also has the limits of knowing about budget raising, whereas the Scottish block is determined by the Barnett formula. We therefore need a somewhat different set of disciplines and, dare I say it, the incentives might look somewhat different. We recognise that. However, after a fair bit of debate—we were a very debating group, may I tell you—we still felt that it would be better if we had something more akin to the Treasury system and a challenge function. We used the term “challenge function” carefully—we did not prescribe that it should be carried out by a minister. In the checklist of principles that we set out, we said that political authority was needed, but we did not feel that we could go to the point of saying to any Government that it should set itself up in a certain way.

We need somebody who can challenge without anyone turning round and saying, “But you are *parti pris*—you have an interest.” To give an example from personal experience, when I arrived as chief executive of the Western Isles Council, I found that, in addition to being head of the management team, I had responsibility for a fairly substantial budget. One of my early tasks was to convince my councillors that I should not have that role, because I did not think that I could chair the management team when I was seen to be handling that budget. I do not know whether the local government analogy fits, but that was my personal experience. That was the general level of the principles that the budget review group debated.

The Convener: Tom McCabe has a self-imposed restriction, but he has too much knowledge not to intervene.

Tom McCabe (Hamilton South) (Lab): I will not probe certain questions, because that would be unfair on the witnesses, given my past involvement in the review. However, the challenge function issue goes to the heart of almost all your recommendations and to the heart of what you have said on best value and joined-up government. Without a challenge function, it is difficult to break budgets out of the silo mentality. It is easier for me to say that now, because when one is in such a post, it would be easy to open oneself to the accusation that one is looking only to empire build in one's own interest. Whoever holds that portfolio in the Scottish Government would be greatly aided by the ability to challenge and greatly assisted in pursuing more of a joined-up approach across all the portfolios.

Bill Howat talked about creating more of a best-value culture in the Scottish Executive. That

comment is predicated on his good manners and his past experience. We require less of a defensive approach from certain senior civil servants, who see defending the budgets that are within their remit almost as a virility symbol—I think that that phrase has been used—or as a symbol of their importance. That operates against those senior departmental civil servants being able to take a more holistic view—it forces them to look solely at their area of interest and not at how all the areas of interest could be more beneficially joined up.

The Convener: Culture and self-interest.

Bill Howat: I will make two brief points, because my colleagues would like to come in. It is nice to have it read into the *Official Report* of the Scottish Parliament that I have good manners. Tom McCabe has made a valid point that takes us back to a comment that I made in response to Mr FitzPatrick. We need to look at the incentives in the system—why people do what they do and behave as they do. George Thorley and Jenny Stewart would like to comment.

George Thorley: The challenge function coursed through the veins of much of the work that we undertook and many of the conclusions that we reached. We looked at the organisation from the perspective not that there will be less money available in the future but that growth will not be as large as it has been in the past. The remit that we were given was to establish whether the organisation is ready to face that challenge.

Apart from gateway reviews, which are a new and valuable system of assessing the implementability of new initiatives—they cover all new projects in the Government that cost more than £5 million—we saw an absence of challenge. We personified the challenge function as the Chief Secretary to the Treasury role, because in Whitehall that individual challenges everyone on why they are spending money, what the benefits of that spending will be and what the outcomes and measures are. We saw no evidence of that role in the Scottish Executive. It may be performed by senior civil servants or by ministers defending their turf—the previous Scottish Executive consisted of silos headed by ministers—but its absence was a serious weakness in the organisation that would not make it fit for purpose in a much stricter financial environment.

Whenever there is new money or a new initiative, the challenge is to look at the outcomes. Time and again we ask in the report why people did something, how they knew it had been successful, where the outcomes were and why they did not realise things at the beginning. We identified many examples of policy creep—of well-intentioned initiatives that were started, but not measured, developing into second and third

initiatives, while the volume of expenditure went up all the time. We did not see much closure of projects or programmes—all events seemed to continue once they had started. The challenge function would ensure that initiatives had a beginning, a middle and an end, as we would expect. That is the point that we were trying to make. The role may be performed by a politician or the system may demand it of everyone in the organisation, as happens in the gateway reviews, which were not around when we carried out our study.

Jenny Stewart: I agree with Mr McCabe's point that it is important to put the challenge function alongside best value. We saw those as two sides of one coin. The report includes a whole section on upping skills, culture and attitudes of departments, which would raise the financial game of the whole civil service. If we place alongside that a strong challenge function, there will be a huge win-win all round and we will achieve much better value for the public pound, especially under a much tighter financial settlement that will make it important to be able to judge one pot of money against another. Having the information base to be able to say that £10 million in one pot delivers much better value for the public than £10 million in another will be very important. All organisations, both public and private, struggle with their corporate structures and silo mentalities. That is a difficult problem to overcome, but if the Scottish Executive develops a way of emphasising and supporting more cross-cutting working—the direction of travel is good—progress can be made.

The Convener: What you have recommended is simply good management practice and common sense. Are you up against an in-built culture or unwillingness to change? Is the real problem something that is built into the structure of what is happening?

Bill Howat: My answer to that lies in Tom McCabe's contribution. It is in the incentives in the system. What is it that makes people behave in the way that they do? I should point out that I was in the civil service. A budget manager's aim is to keep their budget and spend their money, and that is an end to it. A distinction that must always be remembered when dealing with civil servants, and Scottish civil servants in particular, is that very few of them manage budgets in the sense of running staff and putting money out to deliver services as local government or the health service might do. You have to recognise that important point; it is a slightly different situation.

However, there can be incentives in a system. For example, if the aim is to spend up to budget, people will find ways of getting money out of the door as they move towards the year's end—it is as simple as that. We had a horrible example in local

government coming up to the 2003 election when money suddenly emerged from a particular department and was parked on local government. During the following year, the Accounts Commission criticised us for having high balances. We could see why that department had done that, as the incentive to do so operated at the time.

I hope that this does not sound like a very light-hearted aside, but in preparation for coming before the committee, I have been reading a book called "Freakonomics", which is all about incentives. If I was giving the committee guidance about something to read before it carries on with its budget discussions, I would say that members should have a quick skim through that book. Some of the connections that it makes are quite amazing, and it will open your eyes, which is a possible answer to the question that you have posed. Open your eyes to the incentives that make people behave in certain ways and see how they can be changed.

The Convener: The committee clerk will follow up your recommendation for compulsory reading.

Derek Brownlee (South of Scotland) (Con): On incentives, I get the impression that you are talking about a culture in which someone who is in control of a £10 million budget is less important than someone who is control of a £20 million budget. In other words, the incentives are informal—there are no formal objectives for the civil servants. Perhaps the issue goes wider than what was covered by your review, but did you look at the formal incentive and objective-setting process for the civil servants whom you interviewed?

Bill Howat: No. We did not have the time to go into such depth, but I can speak from experience of the system.

It must be remembered that the incentive system that is embedded in the Scottish civil service culture still represents that in the Whitehall civil service. Policy is important in the civil service—the closer a person is to policy development, the more important he or she is. Such people have to deal daily with ministers—they have high profiles and make important decisions. Some people in the civil service handle very large budgets but are not at high grades, and some people at high grades deal with small budgets. It is not as simple as a person who is responsible for a £20 million budget being bigger or more important than someone who is responsible for a £10 million budget. The big issue is how important, controversial or high-profile is the policy that the person deals with, how they handle it and how their minister reacts to that. That is how the system operates.

We recognised those issues and, as the committee has heard, our criticism, which was also in the taking stock report, is that the Executive's financial team needs to up its skills—to use Jenny Stewart's phrase—in finance, policy appraisal and expenditure decisions. The decision on whether that requires a much deeper look into the incentives that make people behave in a certain way within that system is one that I will leave to your good selves.

My colleagues might want to add to that.

George Thorley: There is an almost subliminal view that “incentive” means “money” and is to do with spending such and such an amount, or saving such and such an amount. That is the wrong model. The question is whether objectives have been achieved. What is the money being spent on? Objectives need to be set out in advance before we can know whether they have been achieved. That is the challenge function and it means that people can know when they are 50 per cent or 90 per cent of the way there, or whether they are at the end and can move onto something else.

When we considered the strategy for dealing with homeless people and the laudable objective of trying to eliminate homelessness by increasing the housing supply, we did not initially gain a clear impression that the people who were in charge of the strategy understood the scale of the problem. Funds were allocated, but there was no way to for people to measure whether they were 70 per cent or 90 per cent of the way there. People need such incentives so that they can be told, “You have achieved your objectives—well done. Let's move to the next task.” We did not get the feeling that that was happening. That is the challenge function and it deals with achievement rather than with a process.

14:45

Derek Brownlee: That was useful. Paragraph 4.2.11 in the report states:

“We have seen evidence in some departments that the current process is based on the previous year's allocation, with increases to reflect new initiatives. This provides for limited scrutiny on the baseline, creates inflexibility and allows contingency funds to be built in at every level of the budget setting process. Such a process makes it very difficult to stop doing anything and so make room for new and more effective policies/spend.”

You say that there was “evidence in some departments”. Which departments?

Bill Howat: I cannot find that specific reference but I do not need it because I know the point. To answer your question we would all have to go back to our notes and check for each individual budget holder. However, off the top of my head,

among the departments that we looked at there were sections in transport and in environment and rural affairs that thought along the lines that Derek Brownlee described, and it was especially true in departments that had what we called legacy spending programmes. However, to be fair, if people were dealing with European money—an obvious example of where determination of expenditure would be outwith their control—there was no great incentive for them to consider whether there would be a better way of spending the money.

That question triggers another question about a point that Jenny Stewart was keen to look into to. Many people would say that what happens with spending is what has to happen, because it is a statutory requirement. People say, “We have to spend the money.” At first blush you might think, “Well, that's right,” but then you realise that there are different ways of spending the money. For example, it is a statutory requirement that we educate all our children to a certain level, but there are different ways of doing that. We come back to the question that I asked about incentives: where is the incentive for people to consider how to do things better and get more from less resource? Such an incentive was lacking. From memory, the then Health Department—where much of the work was seen to be demand led—was one department in which budgets were simply rolled forward.

Jenny Stewart: With colleagues, I looked into the health budget and we found that the general approach had been to consider the previous year's budget, then to consider extra pressures related to drugs, pay or whatever, and then to say that an uplift would be required to cover those extra pressures. We were expecting a more sophisticated analysis: we had hoped that it would be recognised that there are pressures to be accommodated, but that there would, equally, be other pressures from running the health service in a different way—for example, from using a different skills mix to deliver the service. However, we found that there was consideration only of cost pressures, as opposed to any more sophisticated analysis. As Bill Howat has said, it is two years since our first meeting—things may well have moved on in the meantime.

Another point related to the need to be absolutely clear about priorities and to be able to reallocate resources accordingly. We found that budget holders did not have enough information to allow them to do that.

Bill Hughes: Whenever budgets were being spent through third parties—external agencies or non-departmental public bodies—the budget-setting process simply involved the previous year's budget. As Jenny Stewart suggested, people identified external pressures and then made an

argument about them in the margin. There was little consideration of core funding or of performance against core funding and there was certainly no evidence that financial adjustments were being made to future funding as a result of such consideration.

Derek Brownlee: Would it be right to say that, across the piece, as you went into departments or looked at budget lines, there was no immediately obvious way of ascertaining the extent to which budgets were required because of statutory or contractual requirements, and that budgets were required simply because a budget had been spent for so long that it was expected that a budget would be spent in the future?

Bill Howat: I would counsel caution against making such a generalised statement. When Derek Brownlee was asking his question, the example of highway maintenance came to mind. Transport Scotland now has an excellent system. We got reams of statistics that showed the condition of Scotland's pavements—I did not know that roadways are called pavements until we did our exercise, but they are. There are now machines that run over those pavements and say exactly what condition they are in, how long it will take for them to deteriorate and when a programme must be carried out. Jenny Stewart and I probed Transport Scotland hard. At the time, I think that it was spending about £127 million on roads maintenance. We asked how much of that money it really needed to spend, to which it replied, "Well, it depends on your target." The target that it had chosen to use related to the backlog of maintenance work. I think that the target at the time was about 6 per cent. At the political level, money could be taken out of the budget if ministers were willing to go to 8 per cent or 10 per cent. That is a specific example that illustrates the difficulty of making generalisations.

I am with Bill Hughes on the matter. Transport Scotland spends the money—it is in charge of the budget and its representatives are liable to appear in front of the Finance Committee or another committee—and it is clear what it is spending money on and what the implications of that spending will be. As a general rule, we found that the closer people were to the money, the more financial acumen they had, the more up to speed they were and the better their best-value approach. As I said, I counsel caution in making generalised statements, but I recognise the view that has been expressed.

I am not sure whether the final comment that I want to make before Jenny Stewart comes in flows entirely from what we are discussing, but the member sparked the issue in my mind. When Jenny Stewart and I gave evidence to the Health and Sport Committee, our recommendation that

there could be up to £50 million of savings on the prescription budget was challenged. Our advice on that matter was taken largely in the exercise that we conducted. I think that Dr Richard Simpson, who is a member of the Health and Sport Committee, pointed out to us that when that analysis was being done, a different bit of the Health Department had launched an initiative for general practitioners to concentrate on particular illnesses, to capture more people and to try more treatments, the consequence of which was that there was even more pressure on the prescription budget. People may have the best intentions and may think that they know what they are doing and that they have the right figures to analyse, but if they do not know that another initiative or policy is being made elsewhere that will impact on them, they will end up in such situations.

Jenny Stewart: That reinforces the point about the challenge function. As Bill Howat did, I caution against a view that we heard that is quite widespread: that there is statutory spend, locked-in spend as a result of contractual commitments and a lump of discretionary spend, and that one should look at discretionary spend if one wants to reallocate resources and address one's priorities. There are issues around the margins in considering statutory spend—Bill Howat gave examples. In respect of locked-in contractual spends, people can get out of contracts if they need to do so. Sometimes doing so is expensive and sometimes it is not, but going that way may be a better-value solution. The key is to focus on best value. Such issues will emerge if there is a standing challenge function. There will be an announcement on the comprehensive spending review on 14 November and we would caution against everyone heaving a sigh of relief then going off and waiting for the next spending review during the next three years. A constant process of challenging expenditure is needed in order to ensure that continuous improvement and continuous best value are being delivered.

There may be a way of saving £50 million on the prescriptions budget, which would be fine. It would also be fine to say that we would then like to spend that money in another area as long as doing so is part of a coherent strategic budgetary process. That is how best value will be determined as we go forward.

James Kelly (Glasgow Rutherglen) (Lab): The health section of the report contains a number of references to wage costs and the fact that they account for nearly 60 per cent of the budget. You say that the view of the wage costs was that they were almost like a fixed part of the budget. Did you conclude that they were locked-in spend and could not therefore be assessed in terms of efficiency savings?

Jenny Stewart: I will answer that because, of the four of us who are here today, I was the main person on the health group.

We looked at the proportion of spend that was wage costs. We commented in the report that there was, in respect of the 60 per cent of the budget that was wage costs, a feeling that that proportion was immutable and unchangeable, but we said that people did not need to think that way. Clearly, there is a general understanding in the health service that there is a no-redundancies policy, but plenty can be done with the overall wage bill. I have already mentioned the skills mix and various processes and ways of doing things in the health service that might lead to savings through different grades of staff doing certain jobs. However, the Health Department was struggling with the general practitioner contract, the consultant contract and the agenda for change. Our message was that, although those issues were difficult, people should not give up and that there are ways around some of the problems.

Derek Brownlee: I preface my question by saying that it is an unfair question. I accept what you say about the difficulties about making demarcations between spending that can be changed and spending that cannot be changed. However, we have had a change in Government, we have a comprehensive spending review coming up and, in about three weeks, we will have before us a draft budget to scrutinise. Given that we will not have an institutional challenge function of the type that you might be alluding to in the review, what can be done within the present system to improve scrutiny of the budget and ensure that we give proper consideration to the question of what could be done, rather than simply going through the motions?

Bill Howat: What an unfair question.

The Convener: Give us a road map.

Bill Howat: The first thing that I would allude to is the point that there will not be a challenge function in place. In my opening remarks, I mentioned the taking stock review, which covered most of the issues that we have covered, including the challenge function. That means that the body administrative has, at the very least, had our report for 18 months and the taking stock report for more than a year and it has an action plan. Therefore, one of the practical things that the committee could do is ask about the degree to which the Scottish Government—both as the Executive and as the Government—has had regard to the recommendations.

I accept that it is unlikely, even with the best will in the world, that the sort of robust and vigorous challenge function that we recommend will be achieved. Therefore, the onus is placed on the

parliamentary committees, in the first instance—after all, you are given a certain chance to conduct that level of scrutiny. You have our report and the taking stock report and you will soon have a draft budget.

What can the committee do? To speak in generalities, what we are saying in our report is that you should start at the top level and ask what the priorities are—the first thing that we were asked to do—and whether there is spending against those priorities. If you know what the priorities are, you should ask what outcomes are desired under each of them. The critical question to ask—and probably the most difficult question to answer—is this: how do you know that those outcomes are being achieved? That is what all my colleagues have been referring to.

Somewhere in the scrutiny process, you need to ask those high-level questions. From a personal point of view, I say that you should satisfy yourselves about what is in place at the strategic level and then ensure that systems and mechanisms exist to drive the priorities, to ensure that the outcomes are achieved and to ensure that you have, when officials report back to you and to ministers, robust information that allows you to form conclusions.

As we found out, that is hard to do in relation to 360 budget lines in a five or six-month period. We should be realistic—we recognise the limitations of our own report. That said, our work was probably as thorough as possible in the circumstances. We have highlighted for this committee and all the other committees where the main pressures are and where the main scope for adjustment is.

15:00

I will throw in a last thought. We were all aware that every public pound has its champion. There is nothing in our report and no recommendation that we made that no one will contest. I like to think that we are experienced enough to change our hats and to make a counter-argument to our recommendations. The problem—as Jenny Stewart mentioned—is in getting down to the nitty-gritty and testing the robustness of the evidence and information that could allow judgments to be made on progress.

I repeat—as we are all saying—that it should be a continuous process. The committee should not regard signing off the budget as an end. As Jenny Stewart said, members should go on to drive changes.

George Thorley: I reinforce that. The budget is just an indication of spend, albeit that it is £30 billion of spend. That should be the end state. Before that comes a question about what we want to spend money on. What is it for? Throughout our

report, we say that a stronger organisation in which money was tighter would have a clear idea of what it wanted to achieve. When the Finance Committee sees the budget, it should ask what the Government is trying to achieve, what its objectives are and, below that, just as Bill Howat has said, what the outcomes are, how they will be measured and what the profile of the outcomes is. The parliamentary session will last for another three years and so many months—when will the objectives be achieved? That approach would link policy and budget and the committee is in an ideal position to do that.

The Convener: We have again heard succinct answers that get to the heart of the matter.

Liam McArthur (Orkney) (LD): You said that the challenge function has yet to be put in place. You have talked about the removal of some silos and you seem reasonably optimistic that the direction of travel is encouraging. Now that the finance department has expanded in size, remit and budget and the First Minister's department has expanded in budget and size, I am interested in where you think that the challenge function should be centred in the new Government.

The report talks about not just the challenge function but classifying and analysing legacy spend, locked-in spending and revised priorities, sunset clauses on initiatives, and challenges on demand-led budgets. Is there a danger that full implementation of the report's recommendations might lead to the Government's sucking resources into the centre and being overly focused on monitoring—to an extent, micromanaging or putting a one-size-fits-all straitjacket on programmes at the expense of front-line delivery that is sensitive to regional or local variations in need?

George Thorley: I will make a start on answering that. We did not envisage a huge central treasury department. The challenge function is an attitude and should exist everywhere. We need a fail-safe system that ensures that the challenge function that we have described, proper operational plans and proper operational objectives are all in place and linked to finance. I have no doubt that members are aware of the gateway review, which challenges any new capital or resource expenditure of more than £5 million.

We never saw the need for a large central function but, if it is needed, it is needed. We are talking about a £30 billion organisation—it is huge. We said in the report that we need to free up civil servants from micromanaging activities. The landscape is littered with implementation agencies, so why are senior civil servants dealing with little funds, asking for and assessing applications and doing auditing? Different effort is

required in the organisation. We argued not for a large challenge function but for a challenge principle. If a stronger challenge function was wanted, I would eliminate micromanagement from the organisation. We were strong on that in the report.

Bill Howat: I offer a general thought—it is personal and was not debated in a group. I am always cautious about solving organisational problems by making structural changes while not changing the behaviours, culture and attitudes, as we identified in the report. It is not about how big the department is, as George Thorley and my colleagues have said, but about the attitudes that run through the organisation. That is my first, cautionary, point.

On a chirpier note, our report recognises that the organisation has coped pretty well. It is full of good people who are keen to do a good job. It has had nearly 18 months to consider this report and the taking stock report, and I am sure that it is having regard to that in taking matters forward. On the challenge function, as a group we were cautious—as I said earlier—about making any specific recommendation. It is for the Government of the day, working with the civil service, to address the principles and issues that we have set out in the report.

I do not think that we would want to comment on whether departments should be big or small; as George Thorley said, it is a matter of attitude. That is far more important, and the committee should be driving towards those issues rather than focusing on whether departments are big, small or whatever else.

Bill Hughes: There is an interesting parallel with local government, which currently has a duty of best value and a stringent external scrutiny process whereby Audit Scotland looks at how each council operates and how effective it is in its performance and the management of its resources. Central Government could usefully learn from that example. The committee might want to consider that.

The Convener: I detect a fund of local government knowledge and experience in those answers.

Liam McArthur: You have talked about the talent in the Government, and you alluded earlier to the helpful approach that ministers and officials took into the review that you carried out. Did you find wide variations across the different budgets in terms of linking those budgets to performance indicators, targets and outcomes? If so, can you draw any specific examples to the committee's attention?

Bill Howat: That is a pity. I was going to answer yes to your question, but then you asked for examples, which requires me to talk a bit more.

There are some examples in the report, but we can give you others. I invite George Thorley to speak, as the example that always comes to my mind is the Crown Office and Procurator Fiscal Service. Some very good work was going on in relation to the court process, but there was no linking across to all the other budgets that could deal with that.

George Thorley: Thank you, Bill.

We thought that the Crown Office was an exemplar in the Executive—we found lots of good practice. I hope that the committee does not get the impression that we think that the organisation is failing—it is not; it is very successful, but it needs to be fit for purpose for the future with less financial resource available.

The Crown Office is well managed and is clearly thinking about where it can contribute. It is rationalising property and processes and it is taking pressure off the police. We thought that it was really good—and not just at one stage. It is embracing information technology to change how it operates and is introducing huge efficiencies as a result. We argued in our report that that should be celebrated across the Executive. The reform of the solemn court service and, currently, the sheriff court service are further examples of that single-minded determination to remove inefficiencies from the system.

There are lots of examples of good practice, which should be celebrated and should be introduced to discussions where the conclusion is, “We can’t do that.” There are great examples in the organisation of people focusing on outcomes, performance and delivering. The problem, however, is that that is not standard.

Bill Howat: The Crown Office could tell us how many hours the changes that are being made in summary court procedures could save a police officer, a court officer, and so on; however, what did not emerge from that analysis were the knock-on effects.

If we take people out of the sentencing regime—which is a good thing—and give them alternatives, does that mean more work for social workers or probation officers, for instance? I think that that is what the question is driving at and that is what came to mind. Something good is happening, but not all the linkages are seen. Another example is the one that arose when Jenny Stewart and I went to the Health and Sport Committee. We were unaware of it; it has happened since our time.

That brings us back to the challenge function. We need a challenge function that operates along all the principles that we proposed for it, which takes an overview, can co-ordinate matters and, above all, can deal with all the unseen consequences and perverse incentives. I have not

mentioned perverse incentives before. They are probably a lot more dangerous than incentives and arise if we do something that we think is good but which gives somebody else a reason to do something that contradicts it or makes matters worse. It is necessary to have somebody thinking along those lines.

Jenny Stewart: I think that the question was really about identifying where there is good practice and where we can focus our efforts because there is slightly less good practice. We considered a vast amount of budget—I think it was a total of £22 billion. The issue for anybody who scrutinises that is what to put their best efforts into and where to put the money. If we had divided our time equally across each budget line, we would have spent the same amount of time on a budget of £6 million as we did on one of £6 billion, so it was important to follow the 80:20 rule and to consider the big opportunities. One of the issues that we found within the Scottish Executive was that a lot of management attention was focused on small amounts of money. Officials would spend a lot of time performance managing the £10 million budget for a ministerial initiative in which the minister was particularly interested, whereas large swathes of money would go out to other organisations that are a tier down but would not be subjected to the same level of performance management or scrutiny. I caution the committee on that point.

Elaine Murray (Dumfries) (Lab): In the previous parliamentary session, we discussed the publication of the Howat report a lot. How long have the senior civil servants known the contents of your recommendations?

Bill Howat: We explained the timescale in the report. Most of the interviewing was conducted from roughly December 2005 to about March 2006. We then started to draft our conclusions and take views. As George Thorley said, we checked those back with people who had given evidence so, from as early as March 2006, budget holders found out what we were thinking about individual budgets. The generic chapters, which are probably of greatest interest to the committee, did not begin to take shape and emerge until April or May 2006 and the full report did not reach ministers until late June or early July 2006, I think.

The full scale of the report has been known for more than a year. The taking stock review, which started about the time that we finished, had access to it and pretty much said most of the things that we had said. In fact, we felt that it had pinched some of our comments.

Elaine Murray: There have been a number of changes since then. Obviously, there has been a change of Government. Also, the comprehensive spending review was delayed first of all by a year

and then, because of changes at the top of the United Kingdom Government, it was delayed again until October. However, that should not really be a reason why your recommendations could not be taken into account, so we expect some of them to feed through into the spending review despite all the changes that have happened. If that is the case, what parts of your report can the new Government take forward in this spending review?

Bill Howat: I will draw a distinction between the portfolio issues and the generic issues. First, as we found out when we gave evidence to subject committees, some things have moved on. For example, the Scottish Police Services Authority now exists. George Thorley and his team more or less recommended its establishment and it was more or less in train. As Jenny Stewart and I found out at the Health and Sport Committee, other changes have taken place. Therefore, not all our recommendations can be seen as stand-alone proposals; one must understand the context and see how it has moved on.

I strongly encourage the committee to consider all the generic issues and to challenge ministers and the Executive on the extent to which they are having regard to and implementing our recommendations. Our collective view is that you can argue all you like about the recommendations for individual portfolios, but if the generic changes are not made we will not see the progress that I think everyone wants.

15:15

George Thorley: All the recommendations are implementable. They are positive recommendations, which we made to strengthen, not disrupt, the organisation. As Bill Howat said, some of the ideas that we expressed in the portfolio chapters have been implemented, some are disputed, and time has passed others by. However, the preceding two chapters, which we are considering, are standing the test of time, which is quite proper, because they deal with the fundamentals of the organisation. All the recommendations can and should be implemented, because that will make the organisation stronger.

Elaine Murray: Are you encouraging the Finance Committee to press the Scottish Government on all those issues?

George Thorley: Very much so. The Scottish Government has reduced the number of objectives and has created civil service and ministerial portfolios. Many of the things that we said would strengthen the organisation seem to be happening. However, matters that we have discussed in this meeting, such as the challenge

function and the need for clear objectives, are crucial.

The Convener: We are asking a new Government to do what previous Governments did not do. From your practical experience, can you suggest a reasonable and feasible timescale for making the generic changes that you call for? I think that everyone would like them to be made.

Bill Howat: What a really unfair question. *[Laughter.]*

The Convener: Okay—

Bill Howat: No, it is a fair question. I suspect that only the permanent secretary can answer it, because he is ultimately the accountable officer in charge of the organisation.

When we made our recommendations, we knew that some of the action that we were calling for was already in train. For example, a review of financial management arrangements was going on. That review was completed after our work was completed, and we knew that regard was paid to many of our recommendations. The organisation has started to address many of our recommendations and comments about financial aptitude, skills and culture.

From what we witnessed, we think that a start can be made more or less as soon as there is the will to start. A timetable can then be set. Work must be on-going—you must keep doing what you are doing. Most of our recommendations are not about reaching an end state; they are about changing a way of thinking and working. If you read what we said about best value, which underpins attitudes, you will find that we talk about continuous improvement. If I were a member of the committee I would say, “You have had most of this material for the best part of a year. What have you done? Where have you got to? Where are you going?” Those are simple questions.

Elaine Murray: A distinction can be made between the headroom figures that you give for departments’ potential savings and your recommendations on culture. The change in Government is not a reason not to pursue your recommendations on cultural change, because civil servants and ministers—incoming as well as former ministers—knew that you were making such recommendations. Are you recommending to us, as the cross-cutting committee, that we should pursue such change rather than the headroom figures and potential savings?

Jenny Stewart: In response to the convener’s question about the timescale for implementing generic changes, I refer members to the taking stock review, which identified pace as an issue. The timescale will depend on the pace at which the Scottish Executive is willing to move.

My own view, which has not been discussed in the group, is that it would be realistic to expect it to take the whole of the next spending review period to get the organisation into a state of continuous improvement in which it has implemented a best-value culture. We can say, "By the time the next spending review period concludes, we want to be in a position in which we have good cost information and understand how we spend our money and the value and outcomes that we get. We will be able to manage programmes accordingly." To be realistic, that is the kind of timescale we are talking about. Obviously, there are things that can be done on the way and progress that can be made that should already be in train, but I think that that would be a realistic timescale.

On the specifics, we were asked to point up areas that might be changed but it was all about ministers' priorities. We did not necessarily recommend changes from a policy point of view. As Mr Welsh said, many of our recommendations are about sound financial planning and good management, so a raft of them should be implementable almost irrespective of the policies of the day. However, we have also indicated where a significant shift in policy could lead to changes. Understanding the impact of those changes of policy will be helpful.

Elaine Murray: To summarise, then, we should ask ministers for their road map over the next three years for reaching the position at which the budget review group's recommendations on changing the culture have been reached.

George Thorley: Let me comment on that. The taking stock exercise is very interesting, because it suggests that pace is an issue in the organisation, which is slow to change. However, there is no reason why that should be the case. The Scottish Government has its own boundaries—it can do anything that it wants and it can organise itself in any way that it wants. My reaction to the suggestion that any change will take three years is, "Oh God, don't say three years, because it will then take five years."

As our report identifies, there are simple things that can be done. Eliminating micromanagement would free up resources and get tasks out to the landscape of delivery mechanisms and organisations. We need to introduce an attitude—this seems to be coming—of having clear outcomes and clear measurement of outcomes so that people know when they have achieved the outcomes and can move on. We can do that now, not three years hence.

If we can sort that out, the challenge for the organisation will be whether it can respond. Bill Howat's comments on how the organisation embraces financial management are crucial in that

respect. He said a lot about training people, making them feel comfortable and rewarding successful financial management. The organisation is a policy organisation in which people get rewarded for doing policy—it is a political organisation—rather than for balancing the budgets. When the budget grows as quickly as it has done since the Parliament was formed, balancing the budgets is not an issue. However, it will be an issue. We are trying to anticipate that by recommending that higher priority should be given to financial management skills, which will be at a premium as we try to change the balance of the budgets.

I would not suggest three years at all. The change is needed now, because the budget is changing now and the financial pressures will get much stronger.

Liam McArthur: On that point, Mr Howat referred to John Elvidge as the ultimate accountable officer; he also described some issues as arising from a classic Whitehall approach. In your opinion, would processes be if not faster at least less problematic if the civil service in Scotland was decoupled from the UK civil service?

Bill Howat: That goes way beyond the terms of our review. On a personal level, I do not think that I would like to comment on that. As I said earlier, I do not think that we solve very much by changing structures and reshuffling organisations. Whether we would change very much by disengaging the Scottish civil service from the home civil service is, in my mind, a moot point.

If I may, I will recommend another book for you all. The book is now at least 30 years out of date but should be compulsory reading for anyone who deals with public finance. It is "The Private Government of Public Money: Community and Policy Inside British Politics" by Messrs Heclo and Wildavsky—I am sure that the convener has already read it. To be honest, I read the book when I joined the civil service and it provided a fascinating insight into how Whitehall operates. When we had the benefit of a briefing from the Treasury as part of our work, I sensed that things had not moved on very much. I leave you with those general comments—form your own judgment.

The Convener: Wildavsky is very much to be recommended.

Bill Howat: Indeed.

James Kelly: When expressed as percentages of the budget, the headroom savings that you have identified in the various portfolios show a wide variation. For example, you have identified a 15.4 per cent potential saving in the transport budget but only a 2.6 per cent potential saving in health. What factors influenced such variety?

Bill Howat: I will make a general point and then my colleagues will deal with specific portfolios.

We consciously decided not to look for a particular target in each portfolio. Instead, we took our brief to mean that we should challenge each budget line as we found it. That is what we did; the table to which you refer was not a result of simply sitting down and seeing whether we could get, say, 7 or 15 per cent across the board. We took each budget line and asked people, "Why are you doing this? What are you getting out of it? How does it relate to the partnership agreement or, indeed, to 'Building a Better Scotland'?"—which, I note, no one has mentioned yet.

We tried to find out how each budget line performed against certain priorities and to judge how much could be achieved by moving things around without actually affecting them. Of course, that raises the question of what those priorities were and how they were explained.

That was the general view; I do not know whether my colleagues wish to comment. I should perhaps explain that there are only four of us here today because, between us, we covered all the portfolios. As a result, we did not need the whole team.

George Thorley: In our report, the third column under the heading "Type of headroom" in the various tables that highlight potential headroom savings for each of the portfolios simply identifies potential. Obviously, the headlines always go to the big figures. As Bill Howat said, if we thought that savings could be made, we said so. However, if we felt that in certain areas future savings could be made or performance improved by changing how things were run, we said so in the potential column. I do not know what the committee's remit is with regard to examining such matters, but, in the justice and communities areas in which I was involved, the potential column was fuller than any of the other columns. After all, you cannot simply switch these things off and on. We genuinely believe that there is gold to be mined in the potential column.

Jenny Stewart: I was involved with the areas of transport and health, which Mr Kelly highlighted. Because transport, for example, involved large-scale and significant projects, we said to ministers that if they changed their priorities and dropped one or two of those major schemes—which, after all, were the priorities of the previous Government—it would have a significant effect on the budget. Obviously, the new Government has taken a different view on a number of those schemes. The transport budget is more susceptible to such moves, because it is very much capital dominated.

On health, our key point was that the Scottish Executive Health Department had already been

asked to deliver efficiency savings as part of the efficient government review, and it had forecasted a 1.5 per cent efficiency saving for that year. We did not check or audit those figures in any way, but the savings that we identified were over and above that figure.

One of the lines in the health budget is the £6.9 billion that is paid out to health boards for pay, drugs and staff costs. We looked at those key drivers. However, although we had some discussions with health board chief executives, we did not go into any details of individual health board expenditure. That would account for some of the differences between the figures for health and transport.

15:30

James Kelly: You mentioned at the start that you had worked through the issues and identified potential savings as a group. Can you give us a practical example of how you did that? One of the potential savings identified in transport was to scrap the bus service operators grant, which is £57 million. You identified that that could result in a 17 per cent increase in bus fares. One view might be that if that happened, fewer people would travel on buses, which would undermine the environment and, potentially, the economy. Will you explain how you worked through that specific example, what your thinking was and how you reached your conclusion?

Jenny Stewart: The report is called "Choices for a Purpose", so the idea was to identify the potential savings and pass it to ministers to decide their policy priorities. That takes us back to my point about prioritisation. If we want to spend a £30 billion budget as effectively as possible and to deliver the best possible public value for that money, we need to understand what each budget line is doing. In the specific example of the £57 million bus service operators grant, we were saying to ministers that the money was not committed in the future, that the grants were time limited and running out, and that they had the choice not to renew them. The likelihood is that, if they did not renew the grants, there would be 17 per cent increases in bus fares, but it is up to ministers to decide whether that is a high or low priority in the grand scheme of things and to make their choices for the future.

As Bill Howat mentioned, the report was part of the comprehensive spending review. It was one strand of work that was done to allow ministers to make choices. We were not saying that ministers should definitely get rid of the bus service operators grant; we were saying that there was a potential saving, what the likely impacts were, and that it was worth considering further whether that was the kind of saving that ministers wanted to make.

Bill Howat: In my opening remarks, I made the point that we did not have the time or expertise to delve into all the implications of the headroom that we found. However, as Jenny Stewart says, the bus service operators grant is an area in which there is a choice to be made.

Interestingly, one issue that we have not touched on today, which you have sparked in my mind and which I would like to leave with you, is what in the report we call the apples versus pears issue: is it better to spend £1 to subsidise a bus operator than to do something different? One example in the report was spending money to stop people smoking, which is essentially discretionary. However, if we actually stop people smoking, there are big long-term benefits to be worked through.

That is a difficult issue, and at the moment no one has an easy answer to it. We were given a number of presentations by analytical services teams, who told us what was happening throughout the world. Lots of people are looking at how to make such a judgment, and no one seems to have a simple model. In a sense, that is what politicians exist for: to add the values once the officials have done all the necessary calculations. Perhaps one thing that will come out of our recommendation is a greater sense that all the necessary thinking, connections and costings are available to allow politicians to make better judgments on the apples versus pears issues.

The Convener: We have reached the end of the question session, but I will give our witnesses a final chance to make any comment.

Bill Howat: All that we can do is wish you well in what we found to be an interesting and challenging experience. We have opined, and we hope that you find the report helpful in your consideration of what I know will be a fairly difficult budget process. Thank you.

The Convener: You have wished us well, but you have also pointed us in a useful direction. I am sure that your task was not to be an alternative Government but to point a way forward for better government, and we appreciate that. We have had an interesting, challenging and informative session, and I thank all the witnesses for their time, effort and expertise in producing what I believe to be a very important and substantial report from which we can all learn.

Bill Howat: It would be remiss of me not to acknowledge our thanks to Tom McCabe, who gave us the chance to do this.

15:34

Meeting suspended.

15:40

On resuming—

Smith Institute (Seminar)

The Convener: Item 2 is my report to the committee on the Smith Institute's fair tax seminar, which I attended on the committee's behalf. The seminar was the first in a series on what a fair tax system is.

The Smith Institute describes itself as an educational charity that strives to ensure that as many people as possible better understand the process of policy formulation. It works with partner organisations to identify where the most relevant and recent research is being undertaken on a particular topic then presents it as part of a seminar series. Its publications are publicly available.

At the seminar, a panel discussion was followed by an open question time and general discussion among a large group of participants. To give members an idea of it, the panel participants came from academia, industry, finance, commerce and the media. For example, there was the chairman of the United Kingdom small business committee of the Association of Chartered Certified Accountants; a director of the Institute for Fiscal Studies; the governor of the National Institute of Economic and Social Research; a professor of taxation law; and a senior fellow of the Hudson Institute who was also a former principal adviser to the Chancellor of the Exchequer. The audience members represented a massive range of economic, political, legal and other organisations. I have given this information to the committee clerk, along with the Smith Institute's publications list.

The discussion was high level, but it was presented in a lively and informative way. I will give members a flavour of it. My notes show that the taxation issues discussed ranged over the fairness of distribution, redistribution and process—including the practical effects of tax methods—philosophy, participation, consultation and self-interest. A professor of taxation law even analysed the problems of tax avoidance and the Government's role in encouraging or discouraging taxpayers' behaviour.

We considered equity and efficiency in taxation policy principles, which can sometimes pull in opposite directions, as well as difficulties with collection costs, tinkering and complexity in taxation systems. We also considered transparency, hypothecation and the problems of using taxation to change behaviour, raise revenues and achieve Government objectives, as well as the need to inform the electorate better about how and on what its taxes are disbursed at central Government level. An obvious fact that

emerged was the complexity of UK central Government taxation and the problem of defining and introducing fairness as a guiding principle.

I encountered a problem that was similar to the one that was mentioned earlier, which was the lack of available literature that could be of practical help to our committee. I pursued that problem with panel members and I can report that they have provided suggestions that, I hope, will prove helpful to all of us in our work.

Another aspect that will be followed through is that the institute will be in touch with our committee adviser and the clerks to ascertain whether it can be of specific help to our committee in its work. I think that some useful contacts have been established.

I will leave all the literature with the clerk so that committee members can see it. I am frightened to ask for questions, because you may expect answers on this difficult subject. However, it will be of importance to us, and we can hone our skills as and when required.

Elaine Murray: I am sorry, because I was slightly late coming in and I missed your initial comments. However, do you perceive that there is a need for more research on taxation?

The Convener: The topic was fairness in the taxation system. The Scottish Parliament's taxation powers are limited, but we do have the council tax and alternatives to it have been proposed. There can be a useful discussion on how we can make any taxation in which we are involved as fair as possible.

There were a whole host of issues, some of which I have already mentioned, about the process and practical effects of tax. Examples were given to demonstrate that in trying to achieve one objective, tax can sometimes achieve the very opposite. It quickly emerged from what the experts said during the seminar that the subject is very complex.

15:45

Elaine Murray: Is the UK Government undertaking any active research into different tax systems and so on?

The Convener: I have brought back the list of attendees, and they included representatives of political parties. The Smith Institute was, of course, established by Gordon Brown when Chancellor of the Exchequer. The contacts are available, and Government does listen to what the institute says.

The Smith Institute exists for educational purposes and to encourage debate on the practical effects of various policies, including those

on taxation. I will leave the papers for members to peruse afterwards.

James Kelly: Thanks for your detailed report, convener. Was there any discussion about the impacts of central taxation versus those of local taxation?

The Convener: No. Clearly, however, we could follow through on that issue. I spoke to a representative of the Smith Institute who expressed great willingness to explore ways to encourage debate or inquiry in the Scottish Parliament to assist this committee. The institute will be contacting our adviser and clerks to establish how to explore the subject further. The institute focuses on UK central Government, but it is willing to explore whether it can assist the committee in some discussion areas.

Free Personal Care (Independent Funding Review)

15:46

The Convener: Item 3 is consideration of a letter from the independent review group for free personal care, which is headed by Lord Sutherland. Members will note that the review group has asked whether we would like to make a submission to it. As the note from the clerks makes clear, the timescale for responding is tight, with a deadline of 9 November.

The Health Committee and the Audit Committee last session undertook inquiries into free personal care, but the previous Finance Committee did not do any work on the issue. Whether we decide to respond to the review or not, committee members are not precluded from making submissions on an individual basis. As I have said, the timing is tight, and two other committees are also examining the matter in a specialist way. Do members think that we should make a collective submission?

Elaine Murray: I do not see how we can. We have taken no evidence on the issue, in this session or in previous sessions, so we have no basis on which to make a submission. However, as you say, individuals could make submissions from their own perspectives.

Tom McCabe: The answer is yes, we should make a submission, but I do not think that we can.

The Convener: Yes. It is a matter of practicality.

Joe FitzPatrick: Looking at the options that are before us, I think that it would be more useful to do some work after the publication of the group's report and to consider the financial implications then. That would be the correct point for us to come in, and we should definitely do so.

The Convener: We could ask the clerks to draft something and bring it back to the committee by a suitable date. We are clear that we do not wish to make a submission to the review group, but I ask the clerks to look into the relevance of the subject for the committee. That will be of great help.

Is it agreed that the committee does not wish to make a submission?

Members indicated agreement.

15:48

Meeting continued in private until 15:54.

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