

FINANCE COMMITTEE

Tuesday 10 June 2008

Session 3

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FINANCE COMMITTEE

16th Meeting 2008, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Elaine Murray (Dumfries) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Joe Fitz Patrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Liam McArthur (Orkney) (LD)

Tom McCabe (Hamilton South) (Lab)

*Alex Neil (Central Scotland) (SNP)

COMMITTEE SUBSTITUTES

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:

Professor David Bell

Dr Peter Collings

Eddie Frizzell

Professor David Heald

Des McNulty (Clydebank and Milngavie) (Lab)

Alasdair Morgan (South of Scotland) (SNP)

Jan Polley

Alf Young

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 10 June 2008

[THE CONVENER *opened the meeting at 14:00*]

Decision on Taking Business in Private

The Convener (Andrew Welsh): Good afternoon and welcome to the 16th meeting of the Finance Committee in 2008. I ask everyone present to turn off their mobile phones and pagers, because they interfere with the broadcasting system. We have received apologies from Tom McCabe.

The first item on today's agenda is to decide whether to take item 6 in private. Item 6 is consideration of how to proceed with our inquiry into the funding of capital investment projects. I propose that we take the item in private. Do members agree?

Members *indicated agreement.*

Budget Process (Review)

14:02

The Convener: Item 2 is a round-table discussion for our review of the budget process. I ask all members and witnesses around the table to introduce themselves for the record.

I am the member of the Scottish Parliament for Angus and convener of the Finance Committee.

Elaine Murray (Dumfries) (Lab): I am the MSP for the Dumfries constituency and deputy convener of the committee.

Dr Peter Collings: I am deputy chief executive of the Crown Office. In former times, I was the finance director of the Scottish Office and then of the Scottish Executive, and I was the chair of the financial issues advisory group during the latter part of its proceedings.

Alex Neil (Central Scotland) (SNP): I am an MSP.

Professor David Heald: I am professor of accountancy at the University of Aberdeen. I was also a member of FIAG 10 years ago. I am a specialist adviser to the Treasury Committee of the House of Commons.

Liam McArthur (Orkney) (LD): I am the MSP for Orkney.

Alf Young: I am assistant editor of *The Herald*. I am the third member of the old FIAG who is here today.

James Kelly (Glasgow Rutherglen) (Lab): I am the Labour MSP for Glasgow Rutherglen and a member of the Finance Committee.

Alasdair Morgan (South of Scotland) (SNP): I am a one-time member and deputy convener of the Finance Committee.

Professor David Bell: I am the budget adviser to the Finance Committee.

Joe FitzPatrick (Dundee West) (SNP): I am the MSP for Dundee West.

Jan Polley: I was the budget adviser to the Rural Affairs and Environment Committee.

Derek Brownlee (South of Scotland) (Con): I am an MSP for the South of Scotland.

Eddie Frizzell: I was the budget adviser to the Justice Committee.

Des McNulty (Clydebank and Milngavie) (Lab): I am the MSP for Clydebank and Milngavie and a former convener of the Finance Committee.

The Convener: We have tremendous experience and expertise around the table.

We will try to structure the discussion into three themes. First, we will ask what budget scrutiny should be for. Secondly, on the basis of that discussion, we will consider how the current process should be amended. Finally, we will consider what resources are needed for proper financial scrutiny. I propose to spend 30 to 40 minutes on each topic. I will introduce each section and then allow open discussion.

I intend to stick to several ground rules. Our aim is to have a discussion rather than a formal question-and-answer session. All members and witnesses are free to ask questions of one another, to ask questions of the whole meeting, or to make general contributions rather than asking questions. Contributions should be made one at a time through me. Members and witnesses should indicate to me or the clerks when they wish to speak. The discussion will be most useful if everyone gets plenty of opportunities to take part, so I encourage everyone to keep their contributions short.

For the first part of the discussion, we will focus on the fundamental question of what the purpose of budget scrutiny should be. The note of the follow-up meeting that the clerks and David Bell had with subject committee budget advisers asks whether scrutiny should be about changing the budget or whether it should focus on testing and challenging the budget and, therefore, whether the Parliament should examine what money is being spent on or how effectively it is spent. What is the purpose of budget scrutiny?

When I taught, such a silence was always the first reaction. Who would like to start? How about Mr Frizzell?

Eddie Frizzell: You are like my Latin teacher, convener: if a pupil caught his eye, he asked them to do a translation.

I have a wee list that I will lob in: is the Government spending money in support of what it said it would support; is there any evidence that the spending will do what the Government says it will do; has it done that in the past; is there value for money—is the money being spent in a way that is efficient, effective and economical—and is the spending proper and ethical?

The Convener: Is that it? Are there any other comments?

Alasdair Morgan: I agree with most of what Eddie Frizzell said. However, I am not 100 per cent sure about the last point, because it takes us into audit and policy issues, and it should not be the Finance Committee's job to suggest that Government policy should change. In other words, if the Government has a policy to do certain things and wants to spend money to do them, that is an issue for the Parliament or, perhaps, some of the

subject committees. However, in the budget process, as opposed to debates on other issues, the Finance Committee should examine whether the money achieves the aim that the Government has set out to achieve, and that is largely what the committee has done—or tried to do—over the past eight years. We then get into the question whether the aims are so vague that they encompass almost any spending anyway, but that is a wider issue.

The Convener: That would be Government-led scrutiny: the Government proposes and others discuss.

Alasdair Morgan: The Government proposes its aims and the Parliament and subject committees agree them—or not, as the case may be. However, once the aims are agreed by whatever method, it is not the purpose of the budget process to try to change them; its purpose is to ensure that the budget is the best one possible for achieving the aims that have been agreed.

Des McNulty: I would hone the purpose of the budget process down to three central points. One is transparency: the budget process exists to make the Government identify what it is spending money on and break it down in ways that allow scrutiny to take place. Its inclination is all too often not to make the information quite as transparent as it might be and, over the years, the Finance Committee has done quite a bit to probe beyond the budget lines and the budget documents to identify what the money is supposed to be used for.

The second issue is one to which Eddie Frizzell and Alasdair Morgan referred. The Finance Committee is, in some ways, the efficiency and effectiveness committee. It is supposed to consider how effectively the money is used against the targets that have been set, monitor that and examine the efforts that the Government makes to improve the efficiency of its spend. Perhaps targeting is linked to that.

The third point has not been mentioned, although it is crucial. Scrutiny entails exposing choices. It is about involving the whole Parliament in identifying where the choices might be and establishing what choices are being made. I am not sure that that has been fully explored yet, because the coalition Government that we had was, in effect, able to vote through its programme.

The Finance Committee had the capacity to scrutinise the Government's choices, but the Parliament did not impose choices on the Government. We are in a different situation now with the minority Government. We might be in that situation for some time, although not necessarily with the same party in control. The electoral

arithmetic means that we are not necessarily going to face a period of majority or stable coalition government for some time. The committee scrutiny process needs to be opened out to see how the parliamentary committees and the political parties in the Parliament can make propositions that are, in effect, budget choices that can be decided or voted on in a more effective way than is the case at present.

The Convener: You mentioned transparency—do we actually get it, or is it lost in the complexity? All budgets, especially governmental ones, are very complex. In other words, is transparency lost in the detail? How possible is it to get transparency?

Des McNulty: We significantly improved the transparency of the process, particularly in the previous session of Parliament. Some steps were taken towards the end of the first parliamentary session to get better information out of what was then the Scottish Executive, and protocols were signed. Early in the previous parliamentary session, we had a review of the FIAG process to see what information was being made available and what use was being made of it. Two or three agreements on the availability of budgetary information at different times came out of that. We required the Executive to publish targets, and we monitored what it did closely on that basis. There were some interesting cross-party debates between Government ministers and committee members.

One of the problems at present is that the hardness of the targets has reduced and the amount of information is not as it was. I am not making a party-political point: it is a consequence of the change of Government and a new examination of priorities. We need to take on the task of getting into the budget better mechanisms of measurement, not just in relation to performance, but in relation to efficiency and effectiveness. Although we have driven some way towards that, it needs to be kept as a constant focus of the Finance Committee.

The Convener: How difficult is it to get the choices and transparency that Des McNulty has asked for within Government machinery?

Dr Collings: A lot can be done—indeed, a lot has been done—to expose choices and transparency. What is extraordinarily difficult—I notice that there is quite a lot about this in the evidence submitted to the committee—is linking, in a meaningful way, outputs with the resources that are put in. You can often see what output you get when some resources have been added, but it is extraordinarily difficult to say, “Here is the totality of the money that we are putting into the health service and here is the totality of what we are getting out.”

You can do a lot on efficiency and effectiveness in focused services, but the search for global measures of efficiency has occupied people for many years and most attempts end up with nobody believing in them. Therefore, you can do a lot, but mainly for the things that are new. It is much harder to get the same level of understanding of what is going on in an existing budget or spend.

The Convener: Everybody asks for value for money. Although we all want efficiency and value for money, I do not see that they are being achieved. What goes wrong? In other words, are they measurable?

14:15

Alasdair Morgan: I do not want to hog the discussion, but I will do so as there are no other volunteers. What Dr Collings has said brings to mind a report that was prepared by Arthur Midwinter and published—I think that the Finance Committee gave the report its imprimatur—at the end of the first session or the beginning of the second. The report was about how much of Government expenditure could be altered in the short run. Professor Midwinter pointed out that, because so much expenditure is taken up with staff salaries for teachers, doctors and so on and with money for capital projects, about which not much can be done in the short term, the budget process has the power to influence only the bit that is left. That leads to a question to which I do not have an answer: if we can talk about only a small part of the budget, and if most of the money that is being spent will simply carry on being spent in the short to medium term, how much time and effort is it worth expending to put in place the various measures that we are discussing, including outcome measurements?

The Convener: So we are doomed to incrementalism.

Alf Young: There is truth in what has just been said but, if we look back over the period from when FIAG first wrestled with these issues to where we are today, we can see that the amount of money that is being spent has gone up dramatically. That is as a result of the choices that people have made, either through legislation or in other ways, about how that money should be spent. As has just been said, it is very difficult to unravel the choices once they have been made. There is then the argument that almost all the money is fixed, in effect, and that we can play around only at the margins. Ten years ago, we thought that there ought to be greater emphasis on financial implications at the point at which the choices are made.

I will give you a stupid example from my locality. Across from my house is a British Telecom phone

box, which BT wishes to shut down and take away, because nobody uses it. In the local shop is a petition full of signatures, calling for the phone box to be kept. People think that their mobile phone battery might go flat one day, that there might be a time when they really need a phone box or that it should be kept because it is there—the petition is full of such comments. However, at no point does anybody question what it costs BT to keep the phone box there, or indeed what the cost is of keeping that phone box and all the other phone boxes that are not being used. What impact, ultimately, does that have on what BT charges its customers for the services that they actually use?

Early on, we tried to attach a price tag—I think that that was the phrase that we used at the time—to political decisions more publicly and effectively than had been the case before. The price tag has become much bigger in the past 10 years, and we still struggle with the challenge of how to attach it in a meaningful way.

Part of the problem, which I am sure we will cover today because it is covered extensively in the submissions that the committee has received, is the relative failure of phase 1 of the process that we came up with to deliver—or, indeed, happen—since 2004.

Professor Bell: I agree with Alf Young. Arthur Midwinter's paper essentially said that, in the short run, there is not very much that you can do to change the budget. We have not been all that successful—to hark back to our consideration of stage 1 of the budget process—in taking the long view, and it is over the long view that resources can be realigned significantly. One might take the approach of asking what major challenges Scotland faces over the next 10 or 20 years. That is not necessarily to contest what the Government is trying to do, but if the Parliament takes a strategic view of where we are going, that might help to inform what the Government does.

Addressing the issue of inputs and outputs is like searching for the holy grail: it is about finding out whether we can get value for money. In a place such as Scotland, where markets are certainly not perfect, an economist like me might point out that it is extremely difficult to determine the market price. For example, the supply of services to one of the outer isles of Shetland is not a strongly contested market. The fact that extraneous influences over which we have no control can affect the relationship between inputs and outputs makes it extremely difficult to tie up that relationship. However, we should continue to try to have as much transparency as possible. Ultimately, that indicates to me that we should ask the Scottish people what they think about the public services that the Parliament tries to provide. I do not think that we do that very effectively.

The Convener: What answer do you think we would get if we asked that question?

Professor Bell: Well, if we asked people—

The Convener: “Would you like a new phone box?”

Professor Bell: Rather than ask people about something as particular as the local phone box, in which they have a direct interest, we could ask them something like, “What do you think about the quality of local government services in your area?” We would get a view and, over time, we would build up a picture.

Liam McArthur: I want to pick up on what Alf Young said about decommitment, which is an issue with which the committee has wrestled a bit over the past 12 months. Is it not the case that, instead of taking the hard choice to decommit resources even over the longer term, we go down the route of insisting on a reporting structure that gives us some comfort by at least accounting for the resources that we have committed, even though that does not provide any reassurance that we should continue to put in those resources? Do not such reporting structures simply exacerbate the problem by requiring yet more resources to buttress something that we should not be doing anyway?

Professor Heald: Let me make two points. First, the context in which FIAG met was that of a period of tight public expenditure control—in real terms, public expenditure grew very little during the 1990s. In 1998, I published a paper—it was a chapter in a Hansard Society publication—in which I said that the Scottish Parliament would be short of money. No one anticipated the very large amounts of money that would come through the spending review settlements. That context is fundamentally important in understanding what has happened over the past eight years. Clearly, the context is about to change, as the pre-budget documents give us a pretty good idea of what the upper limits of the next spending review settlement will be.

Secondly, FIAG did not anticipate how much influence the UK system of spending reviews would have on the Scottish and other devolved Administrations' budgeting systems. We had two-year settlements in 2000, 2002 and 2004, but we missed a settlement in 2006; instead, it took place in 2007. As is pointed out in the committee adviser's paper, the 2007 spending review settlement clashed with the Scottish Parliament's election year. No one anticipated—or could reasonably have been expected to anticipate—the extent to which changes in the UK spending review system would constrain both the environment in which the Scottish Parliament made decisions and the timing of those decisions.

Looking forward, one can make a pretty good guess about what the Barnett formula consequentials will be in spending review 2009 and spending review 2011. In a sense, in what FIAG called stage 1 of the budget process—that is, the strategic look—one needs to detach from, and not get too involved in, the UK spending review system. One knows broadly what the numbers will be: there will not be much of an increase on the existing Scottish assigned budget.

The Convener: What follows on from that?

Professor Heald: The Finance Committee and the Scottish Parliament as a whole could think about reconceiving how stage 1 runs. It is clear from the papers that I read for the meeting that there are different ways in which one could do that. One could have the forward look at the beginning of a session, when one has a newly elected Government, or one could anticipate roughly what the formula consequences will be after the 2009 spending review and then, within the next 12 months, think forward. The great danger is that one is at the mercy of the UK cycle. If the UK spending review is delayed a year or is otherwise late, it compresses the reflection and decision-making period that is available to the Scottish Parliament. When one knows roughly what the numbers will be, one can choose one's own timetable for the strategic review.

Elaine Murray: On the issue of consulting the public, we have to be careful that in doing so we do not raise people's expectations to the extent that they will not be fulfilled. The public can become disillusioned if they are consulted and then nothing seems to change. I have often felt that about the little external sessions that we do every year. We go out and people tell us that there are issues and so on—but so what? Does anything change as far as those people are concerned? Will they see any change in the funding and delivery of services in their area? We have to be careful about not raising expectations beyond the changes that we are able to offer.

On a revived stage 1, there was a variety of reasons why stage 1 fell by the wayside, such as timescale and pressures of legislation. There is an opportunity at the beginning of every new session, because the new Government will come in with a legislative programme. In the case of the coalition, the legislative programme was based on the partnership agreement, and in the case of the current Government, there was a period in which it had a number of thematic debates on its strategic objectives. There are opportunities to quiz the Government politically, but the issue is the extent to which we can put a price tag on the legislative programme—the budgetary decisions can be difficult to reconcile. That process may have to be undertaken later, through the challenge function,

when we can challenge whether the funding has been allocated in accordance with the strategic objectives that were announced early on. Of course, that is not easy.

Related to that is the issue of choices. Are we here to challenge the budget and whether funding is being appropriately allocated according to the Government's strategic objectives, or are we here to consider alternatives? We have a reasonably robust system that allows for the challenge function that has been developed over a period. What we lack is the opportunity for Opposition parties to develop alternative proposals. That is a striking difference between local government and the Scottish Parliament. In local government, opposition parties are tested to produce their own budgets. There is no opportunity to do that in the Scottish Parliament. That is a bit of a failing in the political process.

Jan Polley: My point links in with some of what Elaine Murray has said. As budget advisers, we were asked for our reflections on the process and to consider whether it was robust enough, irrespective of whether we were talking about a coalition Government or a minority Government. We asked what the scrutiny system is for: lots of hooks come out of the process that can be used to scrutinise, but only if there is some follow-up and if that scrutiny is not done over a short period.

14:30

For example, in the area on which I was working, there were shifts in the money that was allocated to budget headings, but at that stage no one in the Government was able to say precisely what the money was going to be spent on. That is useful for scrutiny and follow-up at a later stage. There is an ideal opportunity to scrutinise things by asking the right questions when money is shifted, whether that happens in-year, which is another opportunity to look at things, when there is a new Government, or when an existing Government changes its priorities.

It is not too depressing that we cannot get down to some arithmetic formula whereby inputs times money equals outputs. By asking the right questions and following things through, it is possible to get the transparency that Des McNulty talked about, which provides more choices. If people want to make alternative proposals for either political reasons or reasons of effectiveness, there is more ammunition and information. When I worked in the Government, often it was the minister who instigated change in the light of questions from a parliamentary committee, because they realised that the money that they were in charge of was not being spent in the most effective way to meet their strategic objectives. It is quite hard for ministers to be able to get a grip

on all that. Sometimes questions from a committee can be quite useful.

The Convener: There are quite a few responses to what Elaine Murray said.

Alex Neil: A lot of these issues, such as the difference between minority government and majority government are important. However, in trying to devise a mission statement for the budget scrutiny process, I suggest that the purpose of budget scrutiny is to ensure that we maximise the impact of available resources to achieve our strategic objectives. That is what a budget is about.

I have four comments to make about how we have not done as effective a job as we could have done in the past. I am not blaming anyone; I am just looking at how we could improve things. First, we tend to be obsessed with throughputs and the number of people using, or enrolling in, a programme. University numbers and throughput on training programmes and modern apprenticeships are classic examples of that. The target for every Government has been the throughput figure, rather than the outputs, outcomes or impacts. For the Finance Committee, what really matters is the impact of schemes such as the modern apprenticeship scheme on improving economic growth, productivity or innovation. The numbers who start programmes often bear no relation to the numbers who complete them. Therefore, to take an holistic view, it seems to me that it is the impact of programmes that matters, rather than the head count. We need to make a distinction between throughput, output, outcomes and impacts, which are four different things.

Secondly, we ignore leverage when we are trying to measure the bang for the buck. Among the investment programmes of Scottish Enterprise and Highlands and Islands Enterprise, the R and D plus programme reputedly has a leverage of about 5:1 or 6:1—for every £1 of public money we put in, we leverage £5 or £6 of private sector money. It seems to me that that is having a much more substantial effect than other programmes that have a leverage of 1:1, or no leverage at all. However, nowhere in the budget process do we measure leverage systematically.

Thirdly, we do not consider the deadweight factor—in other words, whether something would have happened without a certain amount of money being spent on it. I can think of many programmes in my specialist area of economic development in which things were going to happen anyway. Some of the studies of the skills programmes for young people show that between two thirds and three quarters of the companies that were involved in the programmes would have recruited the young people anyway, even without the subsidy being

available. Therefore the subsidy was pure dead weight and was not necessary to make the programmes happen.

The final issue is displacement. It is not so bad now but, in days gone by, when one area had a food park everybody wanted a food park and investment was simply displaced within Scotland. The enterprise zones were a good example of that. Things were shifted around Scotland instead of value being added to the Scottish economy as a whole.

If we are talking about maximising the impact of the available resources in achieving our strategic objectives, we must look primarily at impacts, leverage, displacement and dead weight.

The Convener: So we should be maximising the impact of resources and getting value for money. How does the inside of the system react to that, Dr Collings?

Dr Collings: I will come to that after I have said what I intended to say.

Eddie Frizzell and Des McNulty set us thinking about transparency, challenge and so on. Those are the areas in which things have developed extremely well in many ways. Although the situation is still not perfect, 10 years ago there was no transparency or challenge. In the early days of the Parliament, we were trying to get that to work but struggled with it a bit. The situation has steadily improved, and I hope that it will continue to improve. What is much more difficult to determine is whether scrutiny should, as FIAG suggested, include subject committees and the Finance Committee coming up with their own ideas. That is what David Heald and Elaine Murray were taking us into.

That could be done at two levels. At stage 1, it would be at the level of the big strategic issues. From where we are now, I find it difficult to imagine how we ever thought that a committee would reach a view on something like how health expenditure should be split between acute hospitals and community-based services. Ministers have no choice but to make those decisions, but they are incredibly difficult and I am not sure why a committee would ever come down on one side or the other.

However, there were occasionally examples of committees doing useful stuff when the detailed evidence that they had taken suggested that, at a fairly detailed level, we were not getting it right. For example, one of the committees identified that we were funding a voluntary organisation that was key to the delivery of public services—I have forgotten its name—on a yearly basis. It had no certainty, more than 12 months ahead, whether it was going to get any more money, and that was affecting its operations. That information came to

us through committee representations to the Finance Committee. We said, "Oh, we hadn't spotted that. We'll change it." That is the sort of situation in which the committees' expertise and the evidence that they gather could be brought to bear in producing ideas, rather than on the big, strategic issues.

I will comment briefly on what Alex Neil said. I entirely agree with him; the question is how much of that should be done during the spending review or the scrutiny process and how much should be done as an on-going task. Over the years, within Government, we have made various attempts to broaden out the process into the spending review or, before that, into the public expenditure round. Typically, we always run out of time. In my view, some of the fundamental looking at things can be done during the budget process, but the bulk of it must be a process of continuous improvement outwith the budget process.

Derek Brownlee: I want to pick up on some of the points that Elaine Murray raised, relating to the way in which we involve the public in the choices element of budgeting. I do not imagine that my experience of representations from the public is different from that of any other MSP. I get a lot of representations that ask for more money for specific matters. Slightly fewer representations—but still a lot—oppose cuts. I receive few suggestions of how savings can be made. To an extent, it is obvious that that will be the case. In a budget process, the Government will not necessarily suggest where savings can be made, because it does not want to invite any more challenges than it will already receive.

However, when we talk to individuals one to one, they are not unrealistic. People tend to accept that if money is spent on one area, it will not be spent elsewhere. There is a breakdown between what people accept individually about the need to make choices, which are sometimes difficult, and how the political process deals with choices. Overall, the system does not encourage even the floating of difficult choices. The minute that an unpopular suggestion is floated, it tends to be jumped on.

Given that people are realistic and accept that public spending will not increase at previous levels, does a better way exist by which we can have the more mature discussion that people are happy to have privately? Can we build that into the system? That might just be pie in the sky, but can we institutionalise the need to talk about hard choices? When people talk about alternatives, can we encourage them to reflect on what we could do better and how we could save money?

Alex Neil: Before or after the election?

The Convener: Mr Frizzell could help us out.

Eddie Frizzell: I will pick up on what Peter Collings, Alex Neil and David Heald said. I agree with Peter Collings. Those of us who remember the process will know that we run out of time in the budget round, because of deadlines. Some of the in-depth stuff that we would like to do just cannot be done. I am sure that a timing solution to doing some of the heavy-duty work can be found, but I would still like to have a way of getting down to asking the fundamental questions about the big chunks of expenditure that are never really challenged.

The budget process tends to consider increases or decreases. We have never managed to say, "Is it appropriate that the national health service should account for this big percentage of the zero-sum game that the Scottish budget largely is?" I argue that the central Government contribution to local government expenditure is now less transparent, although it is a big proportion of the budget. Do we have the chance to question whether we just continue to add in money to higher and further education? At some point, do we say that the participation rate in higher education is high enough? Those big strategic questions are difficult to ask in any scrutiny process. That would be pretty hard to do during a budget process, but if members could find time to do that in a parliamentary session, the budget scrutiny process could be better informed.

I agree entirely with Alex Neil about giving due regard to leverage and to looking at outcomes. The problem is that I do not know whether we have the data to demonstrate leverage. It would be difficult to demonstrate over a parliamentary session, because investments in economic development tend to be made for a long-term pay-off. However, we could spend more time on moving in the direction of considering outcomes and not just counting inputs.

Des McNulty: I will add two points. One constraint of the budget process is that it is linked to an annual budget round, whereas much of the scrutiny that Mr Frizzell and others have talked about is more appropriate to a multiyear period. For example, an investigation into the appropriateness or otherwise of the capital infrastructure spend cannot be done in the narrow context of a single-year budget round. While continuing to have that annual scrutiny process, we need to find a way of being more strategic and of considering bigger issues such as infrastructure spend, the active choices between higher education spend and economic development spend and where priorities lie between acute sector provision and public health provision in the health service—whether prevention is better than cure and the economic implications of that. I am not sure that we are very good in the Parliament at conducting such overall strategic analysis in a

multiyear context. That should come out of the process as something that we need to consider instead of focusing narrowly on the annual round.

14:45

My second point is that 18 months ago the Finance Committee had a fairly extensive discussion about having outcomes-based budgeting rather than output or input-based budgeting. We argued, in the context of deprivation spending, that, rather than having a series of different funds for specific purposes, we should consider having a single regeneration fund that would be output focused. We said that that needed to be done within fairly tight parameters and all sorts of arguments were attached to that proposal.

I do not know whether John Swinney was picking up on that or on something else when he started to talk about single outcome agreements for local government, but if we take the argument in favour of single outcome agreements seriously, that also becomes a multiyear process in which one tries to identify exactly what one wants to achieve and there is a negotiated agreement between the council and the Scottish Government about what is expected for the money that is being put in. I suspect that, because of the timescales involved, we will simply get a read-across of corporate plans from local councils in this year's single outcome agreements. If we are going to take the approach seriously in the future, we must have much more consistent engagement that looks at two or three-year outcomes and the investment patterns must be subject to a scrutiny process that is different from what we have had up to now.

The budget process must move from focusing on what is in a document relating to this year's budget to a process of asking how we are looking at the pattern of capital spend ahead, what the terms of the exchange are between local government and the Scottish Government or between the health service and the Scottish Government in outcome agreements, and how those will be honoured over a multiyear period.

Professor Bell: I agree with Eddie Frizzell and Des McNulty that timing is crucial and that there is a strong argument for removing the big choices from the annual budget round. It does not make sense to think that those processes should be precisely synchronised.

Taking up Alex Neil and Peter Collings's point, I agree with Alex that we want to be able to identify the effects of programmes in terms of leverage, dead weight and so on. The question is where the effort is to be put. Should it be within Government? To what extent should the Parliament have

oversight of it or be prepared to put resources behind the effort to measure it? That is an open question.

Finally, in case I was misunderstood, I was arguing previously that we should develop more objective measurements of single outcome agreements. That might include establishing what the public think about the services with which they are provided rather than asking them *ex ante* about what kind of services they might want, which I suspect would complicate matters and make the budget process almost impossible. We should ask them *ex post* to describe the outcomes of the efforts that public bodies have been making on their behalf.

The Convener: We have heard a wide range of views on the purpose of budget scrutiny, both from those who designed the process and from people with experience of how it operates in practice. Issues such as institutionalised hard choices and big chunks of expenditure that remain unchallenged have been raised and it has been suggested that there should be much more of a forward look.

I have the impression that the system is in the process of learning and improving. All of you have indicated that there is a desire to achieve impact and value for money and that challenge and transparency are improving from inside the system. Lessons have been learned. I hope that we can consider further what you have said today and identify what we can do to take matters forward.

We must now examine how the current process can be changed or restructured. We have already heard comments on stage 1. In the next part of the discussion, I would like to focus on how the current process should be reviewed or restructured. Various suggestions have been made in Professor Bell's discussion paper and in the submissions that we have received. Many of those suggestions focus on stage 1 of the process, but some relate to stage 2. Should the current process be reviewed or restructured and, if so, how? How do we move to the next stage? Alasdair Morgan would like to comment.

Alasdair Morgan: I am just waving my fingers around.

The Convener: With great effect.

Alasdair Morgan: Unless you want to go for something more radical, you should take advantage of what is already happening. The idea that stage 1 should take place as often as was originally envisaged does not stand up to scrutiny. Even if you were prepared to do that because of the United Kingdom arrangements, it would be difficult after only a year to evaluate longer-term spending proposals in a sensible way—with the

best will in the world, most of them would have had no time to achieve their objectives. Proposals could be evaluated over a whole session. As Elaine Murray said, there is time for that immediately after the election of a new Parliament, as committees are not as busy then as they are in the last three years of the session. We should make a virtue out of necessity in that respect.

The Convener: You have an open field—you may raise issues relating to stages 1 to 3; the role of committees and the Parliament; government and organisation; and decision making and accountability. How should the current process be reviewed or restructured? Is it basically sound, or does it need fundamental surgery?

Professor Bell: If we revise stage 1, we must think closely about how it articulates with stage 2. There is no point in having stage 1 if we ignore what it has found and reap no benefit from it at stage 2. I can think of three ways in which it might be possible to help the stage 2 process. First, the outcomes of Audit Committee activities could be fed into the process. Secondly, Scotland's Futures Forum activities could be fed into the process in a clear way. Thirdly, the perennial problem of cross-cutting issues, which have been a difficulty at stage 2 in the past few years, could be dealt with more easily in a broader stage 1 process, although there must be articulation with stage 2. I am not saying specifically what stage 2 should be, but it must be tied to stage 1.

The Convener: The problem centres on language such as "articulation", "passing on the torch" and "contributing". You mentioned Audit Committee outcomes. Audit Scotland does a brilliant job, but its role is to clean up, cure and send back casualties—the wreckage. It is also concerned with value for money, another issue that has been mentioned. Would anyone like to comment on the issues that Professor Bell has raised—the roles of Audit Scotland and Scotland's Futures Forum, and cross-cutting, which has always been a headache?

Alasdair Morgan: Can I say something about that?

The Convener: Please do.

Alasdair Morgan: It is an idea about what subject committees do at stage 1. I cannot remember which subject committee I was on, but we came to the conclusion very quickly that, in any given year, it was impossible to consider the totality of the budget. We therefore decided that we would consider certain areas in a particular department's budget, and look at another one in the following year, so that over four years the committee would have given a fair bit of scrutiny to the totality of a department's budget. I know that that does not necessarily fit with the original

intentions of the whole structure, but the budget process has to take into account the constraints on committees' time. Otherwise, going through the budget becomes a chore for committees that they get out of the way as soon as possible.

Eddie Frizzell: I think that I would have summed up Audit Scotland as going around bayoneting the wounded, because of the scars that I still have. *[Laughter.]*

One of the papers says that there is no formal process for factoring in an Audit Scotland finding. I would have thought that relevant pieces of Audit Scotland work should be drawn to the attention of subject committees that are going through the scrutiny process. There is a body of Audit Scotland work on which to draw and that is a fairly simple thing for the Scottish Parliament information centre, or whoever, to do, so that the committee can take it into account.

Alex Neil: I agree with that, but a lot of work has been done outside Scotland that might be called on. The obvious example is the work of the Comptroller and Auditor General down south on the best way to deliver certain services. There are also international studies. We will come on to talk about resourcing parliamentary committees, but perhaps we should call more on the available research on international experience of better ways of achieving desired outcomes and not just on what we have done in Scotland.

Liam McArthur: I want to pick up on something that Alasdair Morgan said about the constraints that the lack of time places on subject committee to deal with the totality of their area of the budget. Something that came through loud and clear from almost all the subject committees—and I suspect that this is a problem that they have experienced during the past eight or nine years—is that it is all very well to focus on specific areas, but if that is taken to its logical conclusion, when a committee proposes alternative spending measures, the current process means that it is very difficult to test those measures robustly, take evidence on them and make alternative spending proposals with any degree of confidence that they will achieve what is intended.

Des McNulty: We need to be realistic about what the Finance Committee and the financial scrutiny process can do. Neither can replace the role of Government in leading the choices that are going to be made, and that is part of the democratic process. We let someone into government and they make choices.

The Finance Committee can investigate the consequences of those choices. It can also force the Government to demonstrate that those consequences are anticipated, that its expectations are realistic, and that it has taken

account of all the relevant factors. In some ways, the Finance Committee can hold the Government to account for illogicalities, inconsistency or weak thinking associated with its choices, and occasionally praise it if it gets it right. That is the Finance Committee's scrutiny role.

The Finance Committee did that best during my time when it was considering legislation. The Government was making a set-piece proposal and the committee could use the financial memorandum to anticipate exactly what the Government intended to do, and take evidence from witnesses about whether it was being done effectively. Had we been in a position to do that when free personal care was being discussed, for example, perhaps Professor Bell's comments at the time might have been taken a bit more seriously—if I can put it that way—by the legislators. I also recall a number of subsequent circumstances in which Governments were held to account for false premises or illogical thinking, or simply for forgetting things.

One of the ways in which the budget process can potentially be improved is through a more systematic application of that type of methodology. It would be driven not just by a new legislative proposal but by administrative decisions or by other significant shifts that the Government would bring forward, which the Finance Committee or other committees could examine more systematically than perhaps they do at present.

15:00

The Convener: That is wise advice. I assure you that we are on to financial memoranda—and not before time.

Professor Heald: On FIAG's suggestion of substitute proposals, it is important in a parliamentary system that the Government has control over the total budget size, but one way in which the Parliament can exercise its challenge function is to propose substitutions. The contextual reason why there has not been much pressure to do that is that we have had times of budget plenty—expenditure has grown at a remarkable rate during the 2000s; and substitute proposals are much more likely to be made when things are tight. The question is not only about the amount by which UK public spending and the formula consequentials will go up in future; people have also had a period of being able to rely on unwinding end-year flexibility that will not be available in future years, which is yet another factor that will make things very tight.

That takes me to my second point. Substitute proposals cannot work unless there is a system that makes available to committees and Opposition parties the capacity to cost such

proposals; otherwise, the Government—as at Westminster—has complete control, because it can just ridicule the costings that other people put forward.

The only people who can reliably cost are in the Scottish Government finance department. The Parliament must ask the Government to establish within the Scottish Government finance department the capability to cost serious proposals that are put forward by committees. In an area such as justice, for example, quite different sets of proposals might be put forward to achieve broadly agreed policy objectives. If the Government puts forward one set of proposals, members of the Justice Committee might want to put forward counter-proposals; but, without the capacity to get reasonably sound and reliable costings, they will not run.

To return to my first point, if somebody proposes cuts to a programme, the people who are affected will not necessarily like that. Therefore, people in the Parliament will have the incentive to produce substitute proposals only if they feel that their costings are reliable and not subject to ridicule, and when the budget is sufficiently tight that a real choice at the margin has to be made.

The Convener: You have hit on the major theme of sound and reliable costings. In anything to do with finance, we must be accurate. That is why we have had great concerns about financial memoranda that have been simply ludicrous and have sent them back for much more robust costing.

Subject committees care about the subject, so they want to talk about the politics and financial issues can often just be bolted on as an afterthought. Can that be a problem? Should there be advisers, or a structure for giving advice, to give committees sound and reliable costings? How can we arm our committees so that they can make recommendations based on evidence? The primary focus of a local government committee will be local government, and the primary focus of a health committee will be health. How can we raise the profile of finance and give committees the tools to link financial considerations to their specialist knowledge of their own subjects?

Alex Neil: I have been in the Parliament for nine years and have convened a committee for eight of them, and I am absolutely convinced of the need for something along the lines of a Parliament budget office—a dedicated centre of excellence, with expertise in finance and in monitoring performance—to advise the committees. It need not be overly expensive. Without such a resource, much of what we have been discussing simply will not happen. Existing resources within the Scottish Parliament information centre could be used to staff such a centre of excellence.

We need a centre of excellence that, year on year, in successive parliamentary sessions, builds up an intellectual resource, an information resource and an experience resource, to provide the scrutineers—us, for example—with information of the quality that is available to Government. If we do not have a Parliament budget office, the match between Government and Parliament will be very uneven as we try to scrutinise the Government and hold it to account.

The Convener: But our objective is not to set up an alternative Government in each committee.

Alex Neil: Absolutely.

Jan Polley: I will come back to that point in a moment, but first I would like to pick up on something that Des McNulty said. He said that the Finance Committee's scrutiny of legislation was particularly effective, and that sparked off a thought in my mind about how cross-cutting and strategic issues can be reviewed.

It is artificial to view budget scrutiny as something that takes place in a period of a couple of months, either once a year or once every four years even. Policy scrutiny and budget scrutiny are two sides of the same coin; in fact, policy scrutiny without budget scrutiny is quite weak, because it is very much an exchange of opinions and nothing else. Really, both need to be combined, and I was thinking about how best to do that.

A point was raised about cross-cutting issues, and we must remember that we now have strategic outcomes. It is difficult for an individual committee to review the delivery of strategic outcomes. By their nature, most strategic outcomes are fairly cross cutting—not all of them, but many of them. However, if a finance committee chose to consider some strategic outcomes and to ask the Government to explain what the funding streams were and how it was measuring their effectiveness, that would add value to what is available at the moment.

To pick up on Alex Neil's point, everyone here is asking how we can measure effectiveness, but requiring a Government to demonstrate its effectiveness is quite a challenge in itself. If Parliament chooses to put together some financial or budget resource of its own, I would suggest that it does not try to duplicate what the Government is doing. If it does, it will end up in a paper chase. However, it might be worth pursuing some things that are different from what the Government is doing—for example, examining costings in other countries, or the efficiency measures used elsewhere. The Government might not be examining such things, so such work could add value to the process.

The Convener: In considering effectiveness and how to add value, is timing important? We are

talking about a moving target, so is there an optimum time for considering such issues, or should the work be done project by project?

Jan Polley: The questions differ depending on the stage at which the scrutiny takes place. At the beginning, they are all about how one will know that the Government has been successful—that is, how one will measure success. There are questions such as whether the Government is prepared and organised and whether it knows what it is doing or is throwing money at an issue and hoping that something happens—I spend quite a lot of time doing that. [*Laughter.*] However, if the scrutiny takes place at a later stage in a policy's development, it is more about how it was monitored, how the Government chose to switch resources and what tests it used. There are different questions at different stages of a policy's life.

The Convener: It is about challenging and questioning but not domineering.

Jan Polley: Questioning is a powerful way of influencing.

Alf Young: Alex Neil talked about a dedicated budget resource for committees and David Heald talked about an element of the Government's own financial machinery being dedicated to the budget process. Historically, the problem has been that the financial memoranda to bills have been a bit like the price tag that was the subject of the old FIAG discussions. That transmogrified into financial memoranda, and the fact that so many of them are pretty poor suggests to me that the fundamental financial resource within the Government is poor.

Peter Collings was once chief financial officer in the Scottish Office. I do not want to denigrate that job, but it was not the one that everyone was looking for. People wanted to run big departments, but they did not want to be chief financial officer because the financial function was underdeveloped, as I suspect it still is. There is a fundamental connection between the choices that a Government makes about what it does in a society, how those are paid for and whether the costings are anywhere near credible. Free personal care is a famous example, which we could debate for the rest of the afternoon.

Whether a bit of the existing function should be hived off or a completely new element should be developed is not the right question to start with; the right question is whether we have the capacity in Government at the moment. Alex Neil used the words "outcomes" and "impact"; to use a private sector analogy, we are talking about where Government adds value rather than where it produces outcomes or makes an impact. Can it quantify where it adds value and does it have the

function within its operations to quantify that value?

The Convener: You strike at the heart of something important. Financial memoranda must relate to the reality of the policy that is proposed. If the estimates in them are too high, the policy is not value for money but, if they are too low, the Government has to rob every other budget. In fact, the question for the Government is whether to skew other budgets.

Alf Young: Yes, whether to skew them to pay for the policy eventually. That is an issue for people who are on the edge of public policy implementation. In my spare time, I chair one of the pathfinder urban regeneration companies in Inverclyde. Its job is to regenerate a waterfront that has lain derelict for 25 years, which is not a one or three-year challenge but a 10-year challenge at least. However, as a volunteer board, we have to make choices and decisions about relationships with development partners against a backdrop of funding from local government, Scottish Enterprise and the Scottish Government in Edinburgh that leaves us not really knowing whether we will have any money at all to commit beyond three years at the outside. Long-term choices have been mentioned, but making choices in such a context is not easy and gets harder the further away we go from the heartbeat of Holyrood out into the sticks, where people are trying to get some money and do useful things with it.

15:15

The Convener: Is it fair to ask whether the capacity to get such accuracy exists within Government?

Dr Collings: Can I come round to that after picking up on some of the other stuff? [*Laughter.*]

The Convener: That is a politician's answer, not an official's.

Dr Collings: To be honest, stage 1 was not our finest hour; it was not a great success. I recollect that the years when we tried to run stage 1 were typified by lots of phone calls from clerks who were near to panic about what they were to get their committees to do. It just did not fit with the way in which committees operated. Attempts to revive it along the lines that FIAG suggested would not work. Our experience is that it does not work, so we should give up on it.

We must find a way to bring to bear in the public expenditure process the evidence that committees collect and the reports that they produce. I am not sure how best to do that. We tried to do it when we invented stage 1. That did not work, but we need to ensure that committees' work is not wasted when it comes to taking decisions about the budget.

I am much more sceptical than David Bell about whether substitute proposals will come forward and whether the Finance Committee or a subject committee will ever make firm proposals for reductions in one area of expenditure in order to increase others. It is unlikely that that difficult choice will be made. We have not had any experience of that in the Scottish Parliament and it is unlikely to happen.

The key point is that costing is not the hard bit. We need some accountants who are good at costing, but having hordes of them is not what it is about. The difficult part is filling in sufficient details about a policy that there is something firm to cost. That is where things go wrong. For decades—I am not sure how many—the civil service has costed manifesto proposals. It is common to read the words in a manifesto and say, "If we interpret it in that way, the proposal will not cost anything. If we interpret it this way, it will cost £500 million. Which do you mean?" Those conversations happen after elections.

When there are issues with the costing of legislation, the problem is not the costing but the fine detail. If an organisation is to be set up, how many people will it employ and how much will they be paid? That information needs to be in place. When we have it, we can do the costings. If proposals come from committees, again there will be difficulties with filling in the detail so that the required resources can be costed.

The Convener: That was a plea for more realistic information. Committees want to be properly advised. An expert can examine a costed proposal and say that the figures are about right or are too high or too low. Committees need that expertise. They need to be pointed towards where the rocks and the shoals happen to be. If committees were armed with that advice, surely they would be better able to promote substitution.

Alex Neil: If the Parliament was better armed, that would force the Government to produce the high-quality analysis that Alf Young mentioned.

The Convener: I am conjuring with the idea of panicking clerks asking officials what committees should do. There is a script in that. Someone could make money from it.

Derek Brownlee: On the point about alternative proposals, it seems to me that there is potential for a significant conflict of interest. If I am an ambitious civil servant in the first year of a four-year Government and an awkward Opposition party gives me a policy to be costed, I know what I will do with it. There is also an issue about the Opposition party having confidence that the advice that it receives is accurate rather than simply the politically easy answer. Given that there is a range of possible answers for most policies, I think that there is a difficulty.

Any such costing opportunity should have a locus outwith the Government. I agree that we should not reinvent the wheel. However, if a parliamentary body, of whatever form, could take source data from the Government and then apply publicly available assumptions to those data, that would provide an opportunity for political debate. It would be fine for people to say that the assumptions were wrong, but they would not say that the source data were wrong, because they would be governmental.

If we want a system to work so that Opposition parties—not just during the budget but at all times—can make properly costed proposals, they need to have confidence that they are starting on firm ground. About the only thing that we can expect from the Government is factual information. The minute that we ask the Government or civil servants to apply a degree of judgment to a proposal we will be making it difficult for Opposition parties to have confidence in the result.

Undoubtedly, there is an issue about whether the Government does such work well for governmental purposes. However, Alex Neil is right that, if Opposition parties are better able to produce their own proposals and clarify the assumptions that they are based on, they will be better able to challenge the Government's proposals and there will be more of a robust challenge from within the Parliament.

A lot of people talk about how much resource such a system might consume, but we need to consider how much it might save. We have been very good at spending money and setting up new institutions, but the core budgetary function of Parliament must be to scrutinise effectiveness and value for money. Spending a little more on that might prove to be a wise investment.

The Convener: We must also be careful about civil service objectivity and about not dragging it into areas where it does not want to and should not go.

Liam McArthur: I echo almost all of Derek Brownlee's points. I disagree slightly about the base data because, as we found in the budget process this year, they are not always agreed on. That was part of the problem from the outset.

We had a broader base of advisers this year compared with in previous years, and some headway has been made on the budgetary scrutiny function through that. However, that has served to highlight the extent to which there is still an imbalance between the resources on which the Parliament and the Government can draw.

While I have the floor, I will also point out one frustration that I felt this year. When the Government responded to the Finance Committee's report—and the Government's tone

was unnecessarily abrupt at times—it demonstrated a shortcoming in the current process in that ministers did not reappear before the Finance Committee to justify their position on the points in the report. I do not know whether there is scope in the process for such an extra layer of interrogation, although not necessarily in the main chamber as the debates in the chamber and those in the Finance Committee are very different.

Elaine Murray: To be fair to the Government, which I rarely am, some of the difficulties this year were caused by the truncated timescale, which did not provide the time for the Government response to be debated as would normally happen. Therefore, I would not be too unkind about that.

There are differences between what committees, the Parliament and Opposition parties would do. I am attracted to the idea of a resource being made available, but we must bear in mind the distinction between such a resource being drawn on to investigate proposals by Opposition parties or back-bench members and it being drawn on by committees following cross-party agreement that something needs to be done.

One problem is that we tend to see the budget as a single process. In September, everyone returns from recess and we all say, "Here comes the budget," and most of the subject committees say, "Oh no!" In fact, as has been said, budget scrutiny should be going on all the time and we should have a way of recording issues that come up.

Dr Collings talked about the discovery that a group was being funded annually and Jan Polley referred to other similar issues. Such points come up through committee inquiries, which are not done with the budget hat on, but as part of committees' other work. I wonder how those issues are formalised and how they feed into the budget process. Obviously, they may be raised with the minister at the time, but we need a way of feeding them back into the budget process so that there is an opportunity to ask whether the issues have been addressed and if not, why not. At that point, particularly if the issue emerged from a subject committee inquiry, the committee involved would have the opportunity to propose a change to the budget—it might be a smallish change, but it would be a meaningful one that was based on evidence. How can we formalise that process, so that we know who does what and how issues are followed up, rather than just see the budget as a tramline process that committees go through without looking to the greater experience that they have had in the rest of the year?

Des McNulty: We have had debates for some time about the most appropriate support mechanism in relation to information. The idea of

an office of the budget for the Parliament was floated four or five years ago, I think. There has also been a suggestion, perhaps from Audit Scotland, that it could have more of a role in the budgetary process. The Finance Committee has had a permanent adviser, unlike other committees, which tend to have ad hoc advisers for specific inquiries. The budgetary adviser system has worked reasonably well, largely because we have attracted high-calibre people to the role. However, that system depends on a constructive relationship between the committee, the adviser and the Scottish Government. The adviser is in a much better position to advise the committee if he gets information from the Government and the Government co-operates with him. There is an issue about ensuring that the protocols are right between the committee and the adviser and that there are channels of communication with the Government.

I am a bit agnostic about the idea of a budget office, largely because we would have to put a lot of resource into it to get the calibre of individual that we have had as budget advisers. To a degree, setting up a separate budget office could detract from the Finance Committee's role.

Alex Neil: Part of it could be a panel of advisers.

Des McNulty: It could be. Perhaps a compromise could be reached so that there was a budget adviser and two, three or four other budget advisers, perhaps with specialist expertise, who added to the process. There is an issue about continuity when a budget adviser leaves. They have a lot of expertise, and there is no proper recording or updating of that. SPICe and the clerks need to think about how we can promote continuity.

One of the best evidence sessions that we ever had while I was involved in the Finance Committee was with the head of the Prime Minister's delivery unit, who at that time was Michael Barber. The unit focuses on longer-term issues and tries to find solutions and make progress with them. I am not aware that there is equivalent capacity in the Scottish Government, but perhaps there should be. If the Scottish Government set up a similar unit that could be interrogated directly by parliamentary committees, that might be a way of squaring the circle that David Heald mentioned about the bulk of the expertise being in the Government.

If there were a defined strategy unit of the same calibre as the Prime Minister's delivery unit at Westminster, and committees could call the people involved in it to appear before them instead of having to hear ministers' interpretation, that might be a way in which committees—especially the Finance Committee—could explore the long-term thinking and how things are being taken forward within the Government.

15:30

Professor Bell: I think that we have jumped on to resources. May I take a step back? I agree with Peter Collings about the nature of costing and the difficulty that is associated with it. It may well not be to do with the costing per se but with the way in which, for example, proposals—including those that change the budget—have been drawn up.

For instance, the free personal care policy was drawn up in great haste. Estimates of the cost were drawn up in great haste, ignoring the golden rule that, if anything is offered free, there is always an excess in demand beyond what was first envisaged. The precise wording of the guidance then became a long-running issue—especially the guidance on food preparation. It was a long and fairly horrific story. Part of the major problem with the policy was the fact that the guidance was not entirely clear. It seems to me that there is almost an argument for having not only a financial memorandum, but an evaluation or monitoring memorandum associated with each new piece of legislation. Although there was discussion of evaluation at the time that free personal care was introduced, the costing aspect of it has been considered only in the past six months, which is a long time after the introduction of the policy.

I will return to the issue of resources, if I get the chance to do so. Is that what we are moving on to?

The Convener: There is a danger that we can talk finance qua finance; the trouble is that political imperatives step in. Nevertheless, it should always be the duty of the Finance Committee to draw the accuracy of costings to the attention of the policy makers whenever possible.

Professor Bell: I guess what I am saying is that it is not about just costings; there must be a strategy for evaluation. If a policy is going wrong, there must be a mechanism to flag up the fact that there is a problem that we must do something about.

Alf Young: Unintended consequences inevitably crop up. For example, let us consider the Government's free bus travel policy for the over-60s. I have a car but I do not use it very often. I occasionally take a bus to the football.

The Convener: Consider your interest declared.

Alf Young: The other day, at one of our editorial conferences, it was noted that FirstGroup had announced a rise in bus fares in Glasgow. It was only when I asked what that meant for the costing of the free bus travel policy that somebody went off to ask the question. The issue was there, but it was in the background until I asked the question. I suspect that no one who did the original costings for the policy of free bus travel would have

factored in the fact that, in an increasingly deregulated bus market, if the fares started to go up, the cost to the Government would go up as well.

The Convener: There is a danger that we, too, rush to decisions in looking for solutions and in how we get our advice. There are dangers in off-the-peg solutions such as a bureau of the budget, and any decisions should be based on actual needs, or on actual ability to deliver the goods. That is part and parcel of the same problem.

Are there any other comments?

Members: No.

The Convener: The phrase that comes to mind with the rush to these policies is *festina lente*. Political imperatives will not go away—they are part and parcel of the political system—but we can encourage people to produce better costings and to think things through. That is where the problem lies. Some of the policies are excellent in themselves but do not seem to have been completely thought through. Is the problem systemic or is it imposed on the system? Perhaps that is not a very fair question to ask.

Dr Collings: It is not a very fair question to ask.

There is a mix of a political system in which elected politicians take decisions and the technical work that we have talked about. At times, one takes precedence over the other. There have been many occasions in the history of government when policies have been costed after they have been announced. That is not uncommon; it is a feature of political systems. When that happens, as it sometimes does, it is inevitable that the technical work is not done in advance, when it should be, and the quality of work is not necessarily as high as we would like it to be. Depending on the circumstances, there is immense variation in the length of the planning horizon that exists between a proposal being thought of and a commitment to it being made. The issue is whether it is possible to do the technical work in that gap.

Alex Neil: The discussion has taken place in the context of the Parliament's existing powers, but given that we are engaged in a long-term review of the budget process, it seems to me that whatever solution we come up with must be sufficiently robust to take account of further change. I will not get into an argument about what that further change might be, but it is a distinct possibility that in the foreseeable future, the Parliament will have some responsibility for raising taxes and/or for borrowing as well as for spending money.

Given that we are looking a decade or so, rather than a year or two, ahead, we should not ignore the implications of the Parliament having revenue-raising and borrowing powers. Scrutiny of those

aspects will be just as important as scrutiny of expenditure. We have not discussed that issue at all.

The Convener: Anything to do with finance is within our province.

Alasdair Morgan: I have a thought on the budget office idea. If it were to be a formal organisation rather than simply a collection of existing advisers, Alex Neil's remark that it would not cost very much should be put alongside the claims of dodgy financial memoranda.

I am not necessarily against such an organisation but, regardless of the cost, one would have to think long and hard about what would happen to it. Like most organisations, it would develop a life of its own and would want to justify its existence. It would grow and might begin to drive the process rather than be driven by it. Comments have been made about Audit Scotland. If we were to set up a budget office, who knows what it would be like in 20 years' time?

The Convener: Those are wise words of caution. The importance of a constructive relationship has been mentioned, but that works only if the parties concerned have a common philosophy, common goals on financial efficiency and a common purpose as regards the need for financial scrutiny.

The committee is already edging forward. We have a team of advisers and are making improvements in financial memoranda, as the Finance Committee in the first and second sessions of Parliament recommended. We are well aware that we face complex problems to which we must find sustainable and viable solutions, if we can. We will certainly attempt to do so. Whatever proposals we produce must be clearly defined and well thought through, and we must provide clear definitions of people's roles and their place within the system.

Someone mentioned the holy grail of finance, which is difficult to find. I remember the good old days of the planning, programming and budgeting system, which was supposed to take the politics out of budgeting, but it went the way of all flesh. I do not think that anyone here underestimates the task that the Finance Committee and, indeed, all our committees face in finding what I hope will be a better solution that leads to improvement.

In rolling the issue of resources into the discussion, we have covered a great deal of ground. Does anyone have a further point to make? Are there any last thoughts?

Professor Heald: The Finance Committee should think about the implications for Scotland of the UK Government moving its accounting practice from UK GAAP, the generally accepted

accounting practice, or private sector method, which it adopted in 2001-02, to the IFRS, the international financial reporting standards that the European Union has adopted.

I am a member of the Treasury Financial Reporting Advisory Board that has been developing the adaptations and modifications to the IFRS for the Government sector. At the moment, the timetable is for central Government—including in Scotland—to move to the IFRS in 2009-10, with local government lagging a year behind. Generally speaking, the differences between UK GAAP and the IFRS are not that massive.

One area of accounting practice that will change significantly is that for the private finance initiative. That has less to do with differences between UK GAAP and the IFRS than it has with the fact that the accounting under the modified UK GAAP was never done properly in the first place.

The consequence is that most off-balance-sheet PFI assets will go on balance sheet. That will affect the resource account of the Scottish Government and will have budgetary implications. The Scottish Government will have to pay depreciation and possibly capital charges on assets that were previously not on balance sheet. Obviously, the matter is UK-wide, but there is a particular issue for the devolved Administrations, whose funding depends on moneys that come through the Barnett formula consequentials. The Finance Committee may wish to work with the Scottish Government on that issue of common interest in order to understand the implications in advance.

My presumption—it is solely a presumption—is that some kind of adjustment will have to be made to the baseline for 2009-10 to accommodate the fact that charges will be made to the Scotland budget that do not apply at the moment. The Finance Committee would be well advised to be prepared for that issue. I assume that the spending review 2009 will be done on an IFRS basis.

The Convener: Thank you for throwing a bomb into our fish pond.

Alex Neil: David Heald raises an important point. In our inquiry into the funding of capital investment projects in Scotland, we are mindful of the implications of the change in rules as it affects PFI, the public-private partnership and the Scottish futures trust—that family of funding.

Liam McArthur: At last!

Alex Neil: It is a widespread family; each member has a different name.

David Heald's point is that the rule changes may have other substantial implications for the rest of

public expenditure in Scotland and for how we measure it and so on. The Finance Committee should look at the issue.

We are right in trying to reconcile the changing British and international positions. One substantial difference between the accounting practice of the British Government and that of our continental neighbours is the definition of what I will call the public sector borrowing requirement. I think that I am right in saying that our continental neighbours do not include nationalised industry or local government debt in their calculations of debt. Do the new rules touch on that aspect?

Professor Heald: The PSBR went some time ago as a target; the new target is public sector net borrowing. There is a significant international difference. The countries that have moved to accrual accounting in government include Australia, New Zealand, some Nordic countries and the UK. Continental Europe is moving substantially behind those countries in terms of the timescale, although there are signs that several important countries are moving in that direction.

The Convener: There being no further points, I thank all our experts for making finance interesting—indeed, almost fun. We will reflect on what we have heard and take further evidence over the next couple of weeks. Your presence at committee today and the expertise that you have shared are much appreciated. The session has greatly assisted the committee in its work.

15:46

Meeting suspended.

15:51

On resuming—

The Convener: Under the next item, I seek members' agreement to delegate to me the responsibility of arranging to pay any witness expenses in connection with this inquiry, in line with rule 12.4.3 of standing orders. Are members content?

Members indicated agreement.

Local Authority Single Status Agreement

15:51

The Convener: Item 4 is consideration of a paper on the local authority single status agreement. As members know, the previous Finance Committee concluded its inquiry into this issue in 2006.

At the beginning of September, we agreed as part of our work programme to write to the Convention of Scottish Local Authorities for an update. We have received COSLA's response, which has been circulated to members along with a report back from the meeting that the deputy convener and I had with COSLA. We have also received a letter from the Scottish women's budget group outlining its concerns with regard to the issue.

Do members wish to do anything further on the matter? If not, are we quite content?

Members indicated agreement.

Disabled Persons' Parking Places (Scotland) Bill: Financial Memorandum

15:52

The Convener: Item 5 is consideration of our approach to the financial memorandum of the Disabled Persons' Parking Places (Scotland) Bill, which is a member's bill. The clerks' paper suggests that the bill should receive level 2 scrutiny, which would involve seeking written evidence from COSLA, the Scottish Government and the Association of Chief Police Officers in Scotland and taking oral evidence from the member in charge of the bill. Are members agreed?

Members indicated agreement.

Liam McArthur: I know that we will seek written evidence from COSLA, but I wonder whether we should also seek specific information from Glasgow City Council or one of the other authorities that have already introduced a disabled parking places scheme and from which the costings in the clerks' paper appear to have been drawn.

The Convener: An authority with practical experience, you mean?

Liam McArthur: Absolutely.

The Convener: Do members agree to that suggestion?

Members indicated agreement.

The Convener: I think that that will certainly help us.

As agreed, we now move into private session to consider how to proceed with our inquiry into methods of funding capital investment projects.

15:53

Meeting continued in private until 16:10.

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