

FINANCE COMMITTEE

Monday 10 November 2008

Session 3

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FINANCE COMMITTEE 26th Meeting 2008, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Jackie Baillie (Dumbarton) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Joe FitzPatrick (Dundee West) (SNP)
*James Kelly (Glasgow Rutherglen) (Lab)
*Alex Neil (Central Scotland) (SNP)
*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Roseanna Cunningham (Perth) (SNP)
Murdo Fraser (Mid Scotland and Fife) (Con)
Lewis Macdonald (Aberdeen Central) (Lab)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

John Scott (Ayr) (Con)

THE FOLLOWING GAVE EVIDENCE:

Billy Kirkwood (RDK Construction)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

County Buildings, Ayr

Scottish Parliament

Finance Committee

Monday 10 November 2008

[THE CONVENER *opened the meeting at 11:47*]

Budget Process 2009-10

The Convener (Andrew Welsh): Good morning and welcome to the first part of the Finance Committee's 26th meeting in 2008, in the third session of the Scottish Parliament. I remind everyone to switch off mobile phones, which interfere with the broadcasting equipment.

The Finance Committee is delighted to be here in Ayr. I thank Jackie Wilson and the rest of the staff at the County buildings in the town for all their hard work in helping us to organise the event. The purpose of our visit is to continue our examination of the Scottish Government's expenditure proposals for next year. We are at stage 2 of the budget process, in which we scrutinise the Government's draft budget. In doing so, it is beneficial for us to gauge the local impacts of spending plans and to find out how engaged different parts of the country are with the national process.

I thank all those who participated in the workshop sessions. Committee members will now report back on the issues that were raised in the workshops on infrastructure and investment, and on economic development. The deputy convener, Jackie Baillie, will report the views of pupils from Belmont academy, Queen Margaret academy and Kyle academy. Well done to all the youngsters who participated. This morning, I have heard some very strong contenders to become members of the Scottish Parliament—the future is in good hands.

I invite James Kelly to report on the infrastructure and investment workshop.

James Kelly (Glasgow Rutherglen) (Lab): I thank the various parties from throughout Ayrshire who participated in the workshop. We had a good spread of people and they made many excellent representations and informative contributions. I will attempt to reflect them. I also thank my colleagues Joe FitzPatrick, who ably chaired the session and ensured that everybody was involved, and Jeremy Purvis who, as ever, made pertinent contributions that aided the discussion.

The group raised a number of points. Concerns were expressed at the outset about the credit crunch that has affected us during recent times, and the impact that it might have on pension costs, and the consequences of that—in particular,

the potential impact on the Scottish budget of taking resources from other areas to fund pensions.

The big issue in much of the discussion was connectivity and transport, which is a major issue for the Ayrshire economy. It includes rail, road, the bus network and the airports. Rail is a major consideration, and the upgrade of the Glasgow airport rail link is felt to be important. The rail link between Glasgow central station and Paisley is in urgent need of the upgrade that is due to be completed by 2012-13. Any opportunity to bring that work forward would bring benefit to the Ayrshire economy, especially improvement to signalling at Glasgow central and increasing the number of lines. The consequence of that would be longer and more frequent trains using longer platforms, which would, it is hoped, increase the number of passengers making the journey down to Ayrshire.

It was noted that bus services to and from Ayrshire have improved as a result of the M77 upgrade. We should continue to promote bus services, which are good not only for the economy, but for the environment. Continued work on the road network is important; for example, the M77 upgrade is said to have been of benefit. Direct benefits include freight traffic being increased by about 25 per cent and a cut in the number of road deaths, although more work is needed. The group noted that we need to continue to promote work on smaller roads projects, for example the A737 and the Maybole bypass, which it is felt would be advantageous to the Ayrshire economy.

I will speak more about the airport when I come on to tourism, but it was suggested that we should make the airport a priority in order to boost the number of tourists and to bring more people into Scotland.

We were reminded not to forget the importance of the ports and the freight sector, particularly in relation to links to Ireland. That sector has grown considerably in recent years.

In respect of the budget process, the discussion focused on how the priorities and transparency of the budget connect to the public and to opinion formers in Ayrshire. It is felt that there is a need to take a much longer-term view to get things right for Scotland and Ayrshire and that it is important to tie up the planning process with what is going on with the budget and budget outcomes.

The group also discussed the road equivalent tariff, on which there are differing points of view. Some people feel that the changes are not beneficial and it was pointed out that the transition to the road equivalent tariff is currently a pilot scheme and that it will be reviewed. The scheme

needs to be considered further so that the benefits can be compared with the disadvantages to see whether it is good for the Ayrshire economy overall.

It was pointed out that it is important to have infrastructure investment in flood prevention, which is of particular importance in East Ayrshire and North Ayrshire, and that a longer-term view on flood prevention is required beyond the current spending review period, because the nature of flood prevention work means that it is not easy to suddenly turn it on when funding becomes available.

Finally, the group looked at tourism. It is felt that Ayrshire has many benefits to offer. The group meets in the home of Robert Burns—Robert Burns is a big selling point for Ayrshire. We also have two championship golf courses at Troon and Turnberry—I am doing a good job of making some selling points for the Ayrshire economy—and there are some great sailing venues, such as Largs in particular. More needs to be done to market those benefits, but the group feels that the priorities in Scotland are bigger projects such as the Commonwealth games and the Edinburgh trams project. Ayrshire wants to point out the benefits to the economy of its selling points and to get them across more strongly.

The air route development fund is no longer in place, so it is felt that more marketing funding should be used to market the airport and Ayrshire in general.

As you can see, we covered a wide range of topics in an excellent session. I close by thanking everyone who took part.

The Convener: Thank you. I ask Derek Brownlee to report on economic development.

Derek Brownlee (South of Scotland) (Con): Our group had quite a wide-ranging discussion among the broad range of representatives. I will cover some of the high-level issues, the first of which links well with the report from James Kelly's group: the impact of infrastructure on economic development and potential economic development. One of the key things to have come out of the discussion is the importance of getting the infrastructure right in order to allow regeneration. There seems to be a feeling that the ability to regenerate, particularly where unemployment is higher, is seriously inhibited by transport links. Many of the things that James Kelly mentioned, from the Maybole bypass to the A737, were also mentioned; there is a lot of common ground. We discussed prioritisation of transport, how that is done and where spending on transport might get greater emphasis than other areas of the budget.

We also talked quite a lot about tourism and employment. The contrast came out quite strongly

between Scotland's relatively high unemployment and, in the parts of the labour market where employment opportunities exist, the lack of employability and marketable skills. We heard about the potential of tourism in this area and the reality, and the advantages there would be for local people to form the greater proportion of the tourism workforce, which could be addressed by upskilling people earlier. There was also discussion about whether greater emphasis should be put on tourism vocational education earlier in the curriculum.

We also talked about the links between what the Scottish Government, local authorities and Ayrshire authorities are trying to do, and how they are trying to work collectively. Questions were asked about whether everyone is pulling in the same direction and about how we get a strategic perspective in which the plan is agreed up front and everyone contributes to it.

There is a feeling that a lot of good work is taking place. In some areas, discussions are working well, but in other areas, discussions are not happening to the extent that they are needed to ensure that the potential is realised. Key messages came out of the workshop about the need for investment in infrastructure, the need to push in the same direction and the need for reskilling to take advantage of tourism opportunities.

I have only scratched the surface of what we discussed. We will hear more from one of the participants on some of the issues that I have neglected, and perhaps on some of the solutions.

12:00

The Convener: Normally, only committee members participate in this part of the meeting. However, one participant from the economic development workshop has asked to be allowed to say something. Exceptionally, I invite Billy Kirkwood to come forward and put his points to the committee.

Billy Kirkwood (RDK Construction): Thank you, convener. We wanted the economic development workshop to finish on a high—not in the doldrums—so we asked everyone in the group to come up with ideas on how we could help the Ayrshire economy.

We need a clear renewables strategy. What are we going to focus on? Will we focus on exporting power or on domestic power use? There is concern that there seems to be a lack of direction on that.

It was also suggested that small towns and villages are pretty much falling apart in many ways, so we feel that something has to be done to

encourage them to expand and develop. Efforts should be made to get businesses into the small towns and villages, which would help with their regeneration.

On access to improved training and upskilling for people from all walks of life, we feel that there is a requirement to encourage more people not just to train, but to upskill to improve their chances of getting work.

On tourism and hospitality, we definitely need improved road and other infrastructure links to help to grow tourism in Ayrshire. We also need to improve the attitude towards tourism in schools, by getting kids into training and looking for job opportunities in the sector.

Personally, I think that budget transparency is important, so I would quite like to see what portion of the budget is being invested in Ayrshire.

Improved transport to job markets and improved communication skills in industry are also required. Industry, employers and the people in education must work more jointly, which will allow them to understand what is required. We also need improvements to our universities in Ayrshire to push and drive more collaborative working.

Affordable housing was mentioned. Ayrshire is quite a rural area, but we seem to have a surprising amount of farming land on which nothing much is being done. There are opportunities to set aside set-aside and return to farming, including forestry opportunities. Hydro power was also noted as an option in respect of renewable energy.

Ultimately, we need some form of strategic master plan that properly identifies medium to long-term objectives for Ayrshire—for the economy, for the infrastructure and for tourism. If we get that right, we can start to deliver effectively in the short term as well.

The Convener: Thank you for those important thoughts on the local situation.

Last, but certainly not least, Jackie Baillie will report on the schools workshop.

Jackie Baillie (Dumbarton) (Lab): I drew not the short straw, but the best workshop—it was superb. The debate heated up towards the end, but investment in education is doing very well in Ayrshire—as we saw from the articulacy of the young people who participated. I thank Angela McGarrigle, from the Parliament's education services team, and Mark Brough, from the committee's clerking team, who gave us an outline of what Parliament is all about and the budget process. We then received five-minute presentations on what each of the schools that were represented is doing and asked questions thereafter.

We started with pupils from Belmont academy, who used a Burns quotation to convince us of the need for a Scottish human rights commissioner, with the small price tag of £1 million. However, they could not say what they would cut to get the £1 million. That resembled the behaviour of certain politicians I know, so they were off to a flying start. We then had the Kyle academy pupils, who probably had the most expensive proposal, which was to provide free school meals for all schoolchildren. Their argument was based on reasons of health rather than poverty. Interestingly, they took a long-term approach, which is risky because there is not necessarily a huge evidence base to suggest that that would be the right thing to do. When the students were asked how they would pay for the measure, they lost a bit of sympathy because they proposed a reduction in the pay of teachers, some of whom were sitting in the room. The students from Kyle academy may be walking home.

The Queen Margaret academy students gave a presentation on antisocial behaviour. They suggested that there should be additional legislation and more powers for the police. They think that tagging and curfews might be useful tools in the toolbox, if I might quote a phrase. They had robust views on the consequences of antisocial behaviour for people and communities. As a constituency MSP, I find that that is probably the single biggest issue in my postbag. The Queen Margaret presentation was probably the most creative financially. The students said that we should not worry about the cost of £17 million, because we could take it from the contingency fund. However, they were cute enough to understand that we would need to build that into the baseline for future years. They certainly have a future in finance.

We did not have a vote at the end. However, although the Queen Margaret academy pupils took more of a punishment approach than I would be comfortable with, if we voted for them and then had a human rights commissioner just in case they went too far, that would be a reasonable compromise. The fascinating thing about the process was that we rehearsed arguments that have been made in Parliament—the arguments that the young people presented and the questions that they put to one another were no different from what has been said in Parliament, which suggests to me the value of the exercise.

I do not presume to speak for the students, who are articulate enough to speak for themselves. They clearly demonstrated an ability to make choices and to consider alternatives and what is of most value to them and their communities. They considered short-term budget issues, as we do, and long-term approaches that would cost more over the years. Like true politicians, they started

off being incredibly polite to one another but, by the end, the discussion got kind of heated—I witnessed behaviours that I have witnessed in Parliament. The most fascinating thing happened towards the end of the presentations, when we witnessed temporary coalitions between schools in an attempt to ensure that they got their points across. That is exactly what happens in the Finance Committee and Parliament.

The session was great and I hope that we do it more often.

The Convener: That is what today is all about—Parliament and people meeting and discussing issues of great concern to all of us. The morning has been refreshing—the participants have clearly cheered up the committee members. I thank everyone who participated for being part of the democratic process, which is part of the return of democratic decision making to Scotland. I hope that the process continues to grow as part of Scottish democracy reviving and revitalising itself. We have something in common—our Parliament is the servant of the people, which is the way it should be. I hope that the dialogue between us is developed and strengthened further in the years to come.

I am sure that committee members will want to raise some of the issues that were highlighted this morning during this afternoon's evidence session with the Cabinet Secretary for Finance and Sustainable Growth. The outcomes of the workshops will feature in the committee's report on the draft budget, which will be published in December and which will be publicly available on the website or direct from Parliament.

12:09

Meeting suspended.

13:59

On resuming—

Decision on Taking Business in Private

The Convener: Good afternoon. I reconvene the Finance Committee's 26th meeting in 2008. This morning, we held some useful informal workshop sessions with representatives of local organisations. Committee members are keen to use the issues that were raised in the workshops during this afternoon's session.

We are joined by John Scott, the local constituency MSP.

This afternoon, the committee will take evidence on the Scottish Government's draft budget. I welcome John Swinney, the Cabinet Secretary for Finance and Sustainable Growth, who is accompanied by two Scottish Government officials: Alyson Stafford, the director of finance, and John Williams, head of finance co-ordination. Welcome to you all.

First, do committee members agree to take in private item 4, which is consideration of the evidence that we shall hear from the cabinet secretary, in order that we can better inform the drafting of our report?

Members indicated agreement.

Budget Process 2009-10

14:00

The Convener: I invite John Swinney to make an opening statement, should he wish to do so.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): It is a pleasure to be here in Ayr. The motto above me, "Ne'er forget the people", is rather apposite for a cabinet secretary appearing in front of the Finance Committee.

The draft budget was published in September. As the committee will be aware, I have given evidence to a number of subject committees, as have my colleagues. I look forward to today's discussion. The committee will also be aware that the draft budget is the first opportunity to scrutinise the Scottish Government's proposed budget for 2009-10, which is the second year of the current spending review period, details of which I announced a year ago.

Members might find it helpful if I begin by highlighting the main changes that are included in this year's draft budget. In line with our policy of continuously improving our budget documents, this year's document provides, for the first time, tables showing the spending plans of the national health service and special health boards, a breakdown of local government's expenditure plans by service during 2008-09, and a capital/resource split by level 2 information. Those are provided in an effort to aid the scrutiny process by committees.

The total increase from 2008-09 is just over £1.4 billion, but that must be set within the context of the tightest spending review settlement since devolution. The settlement from HM Treasury means that there is a real-terms increase of only 1.6 per cent this financial year. We have increased the resources that are available to us by securing an unprecedented agreement with the United Kingdom Government to use £400 million of end-year flexibility balances in 2009-10 and by prudently overallocating £100 million in our spending plans.

We have updated the budget to reflect key decisions that the Government has made since the spending review, so any decisions that have been made since the plans were published on 16 September will be reflected in the budget bill. The draft budget includes our decision to expand by £40 million the funding of free personal care for next year, in line with the Sutherland recommendations. It also reflects an extra £4.3 million for the climate challenge fund and £13 million in 2009-10 for additional police officers as part of the Government's commitment to deliver an

additional 1,000 police officers by the end of this session of Parliament, which was announced during stage 3 of last year's budget bill.

The acceleration of £100 million of spending through the affordable housing investment programme, as announced by the First Minister on 19 August, which was designed to reflect the Government's early action to tackle the deterioration in the housing market and to try to support construction activity in the housing market by accelerated investment, is also captured in the draft budget. Further measures will be taken in relation to the economic situation over the coming months, and the Parliament will have an opportunity to further debate the issues later this week. In responding to the economic challenges, the committee and Parliament will need to be mindful of our budgetary position and to ensure that what we decide to do does not hamper our flexibility to achieve sound public expenditure management goals for this and future years.

The draft budget document contains information on the relationship between the Government and local authorities, as evidenced by the concordat and the advances that it has delivered in simplifying bureaucracy and improving the nature of co-operation between national and local government.

The draft spending plans that are before the committee will enable us to deliver on our ambitious agenda to increase economic growth by completing the process of reducing the business rates of small companies in Scotland, which we set out to achieve in the 2008-09 budget; to continue our work on improving public sector efficiency; to intensify our planning system reforms; to support economic development in Scotland; and to ensure that the Government progresses a range of priorities across the budget that will allow us to reach our solidarity target in addressing poverty and disadvantage in our society. The budget contains a range of other provisions in the fields of health and education that are designed to impact on our objective of creating a healthier society and to ensure that we make a long-term impact on our productivity and participation objectives, which were set out in the spending review.

The Government's determination to achieve progress on tackling the sustainability agenda works through all the budget information. That determination will feature in the on-going attention that must be paid to ensuring that we are successful in laying the foundations to reduce emissions by 80 per cent by 2050, which is the target that will be encapsulated in the climate change bill that is to be introduced shortly.

I hope that the information that I have given will assist the committee in its scrutiny of the draft

budget. I am sure that committee members will want to cover a range of issues, and I will endeavour to give as detailed answers to questions as I can. However, if there are questions that we are unable to answer today, I will, of course, respond to them timeously in writing.

The Convener: I thank the cabinet secretary.

I will start with a general question. The draft budget for 2009-10 was published prior to the full impact of the current economic crisis being felt—before banks stopped lending to one another and the problems in the financial markets started to impact on the real economy. In light of the new circumstances, are you minded to make any significant changes to the existing spending plans in order to offset the impacts of the deteriorating economic conditions on Scotland?

John Swinney: First, it is clear that we are all dealing with an emerging, fast-moving situation. At an event this morning, I reflected on the sharpness with which the economic decline has come about. If we had this discussion six months ago, we would not be dealing with anything like as dramatic a situation as we are now. We must recognise at the outset that economic conditions have swiftly deteriorated.

As the Scottish Government saw the difficulties emerging over the summer, we formulated a series of interventions that were designed to assist key elements of the economy. Our action on affordable housing is the largest example of how we have reshaped our capital programme to support economic recovery. The Government has made various other policy interventions to assist in that process. It has intervened to simplify and make more effective the planning system, to accelerate the delivery of structural funds and to ensure that individuals and businesses have access to reliable, quality advice in times of great difficulty. I am happy to go through those interventions with the committee.

The Government will keep all the issues under constant review. The Cabinet specifically discusses the economic climate every week. Membership of the Cabinet has been extended to include the Minister for Communities and Sport, the Minister for Enterprise, Energy and Tourism and the Minister for Transport, Infrastructure and Climate Change for the purposes of those discussions, to ensure that they, as well as the cabinet secretaries, can take part in them. The Government is willing at all times to engage in discussions about the economic situation—indeed, we will discuss it in Parliament on Wednesday—and to reflect the common thinking in Scotland in our plans.

As I have said, we operate within a fixed budget and I have no means of expanding it, so if we

change our priorities we must move resources from one policy area to another to support activity.

The Convener: Thank you for your comprehensive answer.

Alex Neil (Central Scotland) (SNP): My questions, too, are on the general theme of the economic and financial tsunami that has hit us recently. First, in delivering services, what additional cost pressures have there been on the Scottish Government as a result of the rate of inflation being 5 per cent rather than the 2 per cent that was forecast? Secondly, there is much speculation that in his pre-budget report the Chancellor of the Exchequer will announce substantial additional investment in infrastructure and other types of investment, to help to address the possibility of a recession in the UK. Has the UK Treasury consulted you on such a package? I presume that if there is such a package there will be Barnett consequentials. Does the Scottish Government have a view on the priority for spend in that regard?

John Swinney: The issue is the impact not just of inflation but of other cost increases, in particular the rise in fuel costs. For example, the expected increase in the fuel costs of ferry operators such as Caledonian MacBrayne is a financial pressure that we must wrestle with during this 2008-09 financial year. The increase in fuel costs and the higher level of inflation will have an effect on wider areas of activity across a range of national and local government activity. We are trying to counter some of the effects of energy costs by moving towards a national electricity procurement contract, which will bring economies of scale that offer public sector Scotland a competitive proposition in the current climate of dramatically increasing costs. We will work with elements of Government to ensure that we contain costs as much as we can.

The Government awaits the pre-budget report with great interest. I, too, heard the chancellor's comments about possible rises in public expenditure, in particular in infrastructure investment. The Prime Minister's comments this morning suggest that the UK Government might be considering reductions in taxation or perhaps a concentration of resources on increased tax credits. We have not been formally consulted by the Treasury about the pre-budget report, but during the summer we made suggestions to the chancellor and ministers in the UK Government about the priorities that we think should be addressed. We concentrated our arguments on the need to ensure that measures are in place to provide a fiscal stimulus to the economy, particularly in relation to capital expenditure. Of course, if we receive Barnett consequentials, for example arising from one-off capital expenditure,

we will use the money as effectively as we can to accelerate capital investment programmes. Our decision on affordable housing is evidence that the Government recognises the economic benefit that can be gained from bringing forward capital investment of that type.

We do not know the timing of the pre-budget report, but we expect it to be published before the end of the month.

Jackie Baillie: I welcome the series of interventions that the Government has laid out. I recall that there are six points to the plan. Beyond the £100 million for affordable housing, which has been well trailed, which resources were shifted in the budget to meet the Government's six-point plan?

14:15

John Swinney: Investment in affordable housing is one example of us reshaping our capital programme to accelerate expenditure, bringing it forward from 2010-11 to 2008-09 and 2009-10. We are, as I said, taking steps to accelerate the distribution of European structural funds. We have already allocated about £180 million from those funds as part of the 2007 to 2013 programme, and we intend to bring forward a large share of the remaining £385 million to ensure that we can properly support our capital plans.

We have been examining the issues not just within central Government but by working with our agencies to support their activities. For example, Scottish Enterprise is reshaping some of its activity to ensure that it doubles the size of the Scottish manufacturing advisory service to provide the type of assistance that companies in the manufacturing sector will appreciate in the current economic climate. Such examples illustrate the ways in which we will shift resources forward.

Jackie Baillie: It would be helpful, particularly as the global crisis continues, for the committee to be provided with the full breakdown of the shift in resource that matches the six-point plan, although that may in due course be influenced by Barnett formula consequentials. You described an acceleration of existing capital spending, but the net effect of accelerating and reprofiling capital is that things remain the same, and the adverse impact is simply delayed.

I would like to know whether you have considered two things. First, are you seeking to shift revenue into capital and, if so, in which areas? Secondly, have you considered EYF? You rightly noted that £400 million has been negotiated with the Treasury for the coming year—the amount for the following year is £174 million. Has that been allocated? Is there an opportunity to

reprofile some of that to help us through these difficult times?

John Swinney: First, I will comment on Jackie Baillie's point that reshaping and accelerating capital expenditure could leave a gap later on in the financial programme. The Government hopes and believes that by accelerating affordable housing investment, for example, we can try to stem some of the losses in the construction sector. By 2010-11, there may be some recovery in private sector activity that allows construction activity to fill some of those gaps in the programme.

We are, in a sense, trying to utilise public sector capital expenditure as a means of compensating for the drying up of the private market, which—as we all recognise—has happened very quickly. I hope the market will loosen up just as quickly, although I suspect that that is an optimistic assumption. If we do what we can to accelerate public sector spending, it may support activities within the construction sector—that is the Government's objective.

I will respond to the two specific points that Jackie Baillie raised. First, with regard to transferring revenue into capital, she will appreciate from her long experience as a minister that there is no shortage of demands for money—that goes without saying. The profile of our current budget is very different from the budget profile over the past eight years, when there were significant and above-inflation increases in public expenditure. However, the above-inflation increase is now much lower than it was. Without the contributions from increasing budgets from the United Kingdom Government, revenue pressures on budgets are now a great deal more intense. If opportunities arise to convert revenue into capital, the Government will certainly take them, but there are not many obvious candidates. However, as I said in answer to the convener's first question, the Government is always considering such issues. In our discussions in Parliament—either with all MSPs during Wednesday's debate on the economy, or with the Finance Committee and other committees when we hear their views of the budget process—we will consider seriously all propositions on making transitions.

In our spending review, we have fully factored in the £874 million of end-year flexibility resources that we were able to draw down as part of the review. In my discussions with the then Chief Secretary to the Treasury last November, an arrangement quite without precedent was agreed. Because of the changing profile of public expenditure, and because the rises were not to be as much above inflation as we had all become accustomed to, the chief secretary agreed to allow us a three-year agreement to draw down

resources, in a sense to compensate for the lower increase. All of that was factored into the spending review assumptions that I set out to Parliament last November.

There is also end-year flexibility that we have not drawn down. For example, we had an underspend in 2007-08 of £42 million. I have made representations to the Treasury to ask that we be given access to that resource, so that we can have a new and additional resource to allow us to deal with the current economic circumstances. The Treasury has not agreed to that, but we will continue to make the argument.

James Kelly: The spending review plans included £1.6 billion that would be released from efficiency savings. How much of that £1.6 billion is included in the draft budget? Which particular budget lines are affected by the efficiency savings?

John Swinney: The budget is presented net of the efficiency savings to be delivered. I assume at the outset that the relevant budgets will reach the targets for efficiency savings that the Government has set. All the budgets are shown net of the efficiency savings that they are expected to make. I have published for the Parliament the plan to realise the efficiency savings, which shows where the savings are expected to come from.

James Kelly: As was said earlier, concerns have been raised about the assumption in the budget that inflation would be 2.7 per cent, because inflation is now running at around 5 per cent. Councils and health boards are concerned that front-line services will have to be cut in order to meet targets for efficiency savings. One report that I read stated that Greater Glasgow and Clyde NHS Board had to find £42 million of efficiency savings. Given the pressure of inflation, is there any flexibility in the requirement for efficiency savings to allow councils and health boards to avoid cutting front-line services?

John Swinney: On the classification of efficiency savings, there are defined criteria for what is acceptable as an efficiency saving and what is not. The traditional cuts in public spending to which we have all become accustomed do not qualify. The definitions are clearly set out in the technical notes on the efficient government programme. We have established the standards that must be applied when judgments are made about efficiency savings. Recently, I published the outturn report on the efficiency programme, which gives information on what was delivered and the nature of the proposals that were brought forward. As I said, there are constraints on what can be classified as an efficiency saving.

Mr Kelly raises a significant issue in relation to inflation. The gross domestic product deflator is

assumed to be 2.7 per cent in the spending review and our entire budget for three years is predicated on that assumption. Today, we have inflation of more than 5 per cent, but I am certain that we will not be dealing with inflation of anything like 5 per cent by next summer. We must take due account of the current short-term inflationary pressure, but we must not lock in any financial pressures that arise from the current rate of inflation. By the middle of next year, inflation will be a great deal lower than 5 per cent. It will be a great deal lower, I think, than the 2.7 per cent GDP deflator. During the spending review period, there may be periods when we have higher inflation and periods when we have lower inflation, and we have to work through the financial consequences of that.

I should probably point out that the GDP deflator is set by the UK Government and we operate our proposals in that context.

James Kelly: A target for efficiency savings of £10 million was set for the First Minister's department, but only £2 million of savings have been identified, so there is a shortfall of £8 million. What are the implications of that for the draft budget?

John Swinney: There are no implications in the sense that I make judgments during the financial year—in this case we are talking about 2007-08—and the information that I bring to the Parliament about the autumn or spring budget revisions takes account of relative financial performance in various areas. The decisions that I advance in that respect take account of those issues. The efficient government programme significantly outperformed in relation to the expected cash-releasing savings during the year, so it did not present any difficulty to us.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I return to the acceleration of the budget for affordable housing and housing investment. You mentioned the budgets of Scottish Enterprise and other agencies. What work has been done with regard to Scottish Enterprise and the economic benefit of accelerating house building work in Scotland?

14:30

John Swinney: We did not commission Scottish Enterprise to undertake any work in that respect, if that is your question.

Jeremy Purvis: That is part of the answer. I ask because, last week, Jack Perry, the chief executive of Scottish Enterprise, told the Economy, Energy and Tourism Committee that Scottish Enterprise had

"not had specific discussions about house building."—
[*Official Report, Economy, Energy and Tourism Committee*,
5 November 2008; c 1189.]

What is the evidence for a net benefit from accelerating this part of the capital budget and stalling other elements of the capital budget to pay for it?

John Swinney: First, I have had a number of discussions with Scottish Enterprise's leadership about specific contributions that it can make towards the Government's economic recovery plan. I have received a range of helpful suggestions from Scottish Enterprise about measures that can be implemented. I cite its enthusiasm to bring forward additional activity in the Scottish manufacturing advisory service as only one example. In my opinion, that has been a particularly successful part of Scottish Enterprise's work, so I am glad that it is reinforcing it. From what I hear from the companies that I speak to around the country, that work is warmly appreciated.

We are fully engaged with Scottish Enterprise in identifying the issues and areas where it can assist the Government's agenda of tackling the economic challenges that we face.

On affordable housing, the construction sector and the house building sector were experiencing the most acute difficulties at the first stages of the economic problem. The Government took the view over the summer that we could deploy resources in a fashion that could retain skills and capacity in the construction sector much more speedily than was possible in other areas of activity, largely because a number of affordable housing investment projects were pretty close to market. We judged that we had the opportunity to support construction activity in affordable housing more readily than we could in other areas. The opportunities to support that activity presented themselves and we took them.

Jeremy Purvis: Last week, the Minister for Enterprise, Energy and Tourism was asked by the Economy, Energy and Tourism Committee when the Government expects to see the results of the displacement in the capital budget. He said:

"I am loth to give you a specific time."—[*Official Report, Economy, Energy and Tourism Committee*, 5 November 2008; c 1227.]

When do you expect to see results? Schemes should be delivered within this financial year and the next. There is a concern that if they are not delivered in that timeframe, they will not have access to this resource because the budget for the following financial year falls back dramatically. Is that correct?

John Swinney: The roll-out of the affordable housing budget changes is already taking place. Some announcements have been made already and commitments have been given. More announcements will be made shortly about further

projects that will come forward. I expect to see the results pretty imminently in decisions being taken. There is little point in accelerating the expenditure without deploying it, so that will happen shortly. Some announcements have been made already and more will come within the balance of funding that we have set out. The best way to illustrate the answer is to say that those decisions have been taken and will continue to be taken.

Jeremy Purvis: Part of the investment to fund the acceleration in affordable housing is £20 million that has been taken away from further education colleges. What assessment of their capital plans was carried out? Earlier this year, all the colleges were given their indicative capital budgets, which now have to be revised down. First, will the colleges receive a second assessment of their new capital budgets? The budgets will be lower than the colleges budgeted and planned for. Secondly, what assessment has been made of the impact that that reduction may have on both maintenance and construction in that sector?

John Swinney: One advantage is that much of the dialogue is conducted by the Scottish Further and Higher Education Funding Council, which is immersed in detailed discussions with colleges and universities about their capital and revenue programmes. The funding council is close to the issues and, as a consequence of its discussions with the relevant institutions, an element of capital has been identified that can be reallocated to projects that can get off the ground more quickly than other planned projects. In essence, we are just reshaping, reprofiling and retimetabling some of the projects that are under way through a dialogue between the funding council and the universities and colleges.

The other relevant factor is that the colleges and universities operate within a different financial control cycle. They operate on an academic year financial cycle, while the Government's public finances operate on an April-to-March financial year. The mismatch in that timetable gives us some flexibility to accelerate resources that are not fully committed, and we have taken advantage of that.

Jeremy Purvis: I want to follow on from that but also refer to local government and the resource that has been taken from its planned capital expenditure to accelerate the investment in affordable housing. Some local authorities may use their capital budgets for affordable housing, but £20 million is being taken away this year and £20 million will be taken away in 2009-10. Are you certain that none of that money had been allocated to anything associated with affordable housing? Are you also confident that that money had not been budgeted for capital works?

Are you confident that the £20 million that is being taken from colleges had not been budgeted? You seemed to say that the funding council had volunteered the money to you, so will you provide the committee with more information about that? I know that, certainly in my area, the money in colleges' capital budgets is in their operating and capital plans. The issue is especially critical for colleges that are in the middle of construction work.

John Swinney: On the first point, the local authority contribution to the affordable housing investment programme that we are discussing largely comes from local authorities' non-utilised capacity to borrow. We are talking not about a capital allocation that local authorities had and that is being redeployed but about a borrowing capacity that local authorities did not propose to use. We have encouraged local authorities to use that capacity so that it can be deployed for affordable housing investment.

Jeremy Purvis: So you are asking those authorities to utilise that capacity. Parliament has been given the impression that money has been allocated for affordable housing, but are you now saying that you are asking local authorities to borrow and use the consents in this and the next financial year? Or is the consent no longer available to them?

John Swinney: We are probably talking about the same thing. The consent is available and will now be utilised; it was not previously going to be utilised. That is where the local authorities' contribution will come from.

Jeremy Purvis: And the money is for affordable housing only.

John Swinney: Yes.

Jeremy Purvis: But what about areas where there is no local authority housing? For example, in the Borders, housing is funded by housing associations, which receive housing association grant. Are you saying that there will be no capacity in that respect?

John Swinney: I am sorry—I might not have explained this properly. This money will go into the affordable housing investment programme. I might not have all the details about the programme in front of me, but I understand that it will be delivered predominantly by registered social landlords. It might contain some local authority provision. I cannot give a definitive answer to the committee about that now, but I am certainly happy to confirm it in writing. In any case, there is no reason why any local authority area that relies on a channel of funding from RSLs should be in any way disadvantaged by the Government's proposal. I hope that that clears up the matter.

The Convener: That information would be appreciated. I have a queue of members waiting to ask questions.

John Swinney: Before we move on, convener, I still have to answer Mr Purvis's question on the affordable housing money that will be made available through the Scottish funding council budget for further education colleges. The Government discussed potential sources for funding, and the money was offered as a resource that could be delivered by the Scottish funding council without detriment to colleges' capital programmes. I assure the committee that there would be no sense in taking money away from sites already under construction to put it into something else.

Jackie Baillie: Given that there are only four months to the end of the financial year, how much of the additional £30 million for affordable housing has been spent so far?

John Swinney: I understand that £9 million of the £30 million has been allocated, and I expect further allocations to be made very shortly.

The Convener: David Whitton has been very patient.

David Whitton (Strathkelvin and Bearsden) (Lab): The Scottish Government is not the only elected body that is under financial pressure. Do you still think that the zero per cent increase in council tax that you announced at your party conference is a realistic proposal?

John Swinney: Yes, I do.

David Whitton: I wonder whether you can explain your position a bit more. As James Kelly mentioned earlier, the efficiency savings that local government has had to make have led to cuts in front-line services. Will continuing the zero per cent council tax increase not lead to further cuts in such services?

John Swinney: We have got to be very careful about the language that we use here. For example, the language that Mr Whitton has used to describe the current position does not stand up to a great deal of probing. Local authorities are taking forward an agenda that is designed to ensure that their services meet the needs of their localities and communities. They now have much more flexibility to do that than they had in the past. They are also assisted enormously in managing the issues that we now face by having the ability to retain the efficiency savings that they make, which is an innovation that was introduced by this Administration.

Moreover, as part of the 2009-10 local government finance settlement, the Government will make £70 million available to local authorities essentially to freeze the council tax and to

compensate for any loss of income to individual local authorities. That was what we did last year, and it worked very successfully.

David Whitton: How will that be affected by inflation? I presume that the £70 million was made available on the assumption that inflation would be 2.4 or whatever per cent.

14:45

John Swinney: The inflation assumption throughout the spending review period is 2.7 per cent per annum. Had I applied 2.7 per cent to the level of council tax income realised in 2007-08, I would have allocated £58 million to local authorities. I did not allocate that amount; I allocated £70 million. We could speculate an awful lot about why it was £70 million, but that is what it was. More money was allocated last year than was theoretically necessary. Inflation is now 5 per cent, but I do not think that it will be 5 per cent when local authorities settle their costs for 2009-10.

Obviously, I have made a commitment to local government that it will have £70 million of new money in each year of the spending review period so that it can afford the council tax freeze. If inflation goes down to 1 per cent, I will not renegotiate that £70 million; it is a given. That is part of being clear about long-term financial planning over the spending review period and giving local authorities the clarity of knowing what they are dealing with over that period.

David Whitton: I am sure that the local authorities are grateful to you for your largesse in that regard. You have listed several new spending commitments in the local government charter; have they been costed? Could you give us a realistic estimate of the cost over the spending review period of extending provision of free school meals, of reducing class sizes to 18 in primary 1 to primary 3 and of expanding nursery provision?

John Swinney: The approach that we took to the concordat with local government was to identify three components. One was a sum of money that would be available to give financial certainty to local authorities. The second was a way of working that involved reducing bureaucracy; reducing inspection, as I set out to Parliament last Thursday; removing a great deal of ring fencing of budgets, which was generally considered to be inefficient in financial management; allowing local authorities to retain their efficiency savings; and creating a framework within—

David Whitton: I do not mean to interrupt—well, I am interrupting, so I apologise for that.

John Swinney: Old habits die hard, Mr Whitton.

David Whitton: Yes. You say that you are removing ring fencing, but then you say to local authorities that they have to spend the money that they have been given on providing free school meals. Surely that is ring fencing.

John Swinney: It is a blast from the past to be interrupted in mid-flow by a presenter. I will come to the third component, which contains the answer to your question. The way of working is about giving greater flexibility by allowing efficiency savings to be retained and removing ring fencing. The third component is about the Government and local authorities working together to deliver certain priorities, which is where free school meals, class sizes and nursery provision come in. It is about recognising that we are working together to deliver on those policy priorities within the financial envelope and our way of working. That is essentially how the concordat is constructed.

David Whitton: I think that I am right in saying that 20 out of 32 local authorities say that they cannot afford the free school meals policy.

John Swinney: I simply point Mr Whitton to the statements that have been made by the Convention of Scottish Local Authorities, which negotiated the concordat with the Government. The president and other representatives of COSLA have made it clear that the finances are provided for adequately in the concordat to allow councils to afford the free school meals proposition that Mr Whitton talked about.

John Scott (Ayr) (Con): I welcome the committee and the cabinet secretary to Ayr. The £40 million extra in the free personal care budget will be particularly welcome in South Ayrshire.

Given the current favourable exchange rate, will the cabinet secretary assure us that where payments to the Scottish Government rural affairs budget have been made in euros, any exchange rate benefit will remain in that budget?

The cabinet secretary will be aware that moneys that were originally held centrally by Scottish Enterprise for local regeneration activity and urban regeneration companies—I think that there were two tranches of £12.5 million—will be reallocated to local authorities for local regeneration and community planning partnerships over the next three to five years. Will the cabinet secretary comment on the likely mechanisms for allocating those funds? Will they ensure that smaller authorities, such as East Ayrshire Council, North Ayrshire Council and South Ayrshire Council, are not marginalised by the perceived regeneration challenges of larger authority areas?

John Swinney: It is a pleasure to be in Mr Scott's constituency. I seem to remember spending a large amount of my time here when he was trying to get elected. I have spent a large

amount of time in other parts of the country in recent weeks, but perhaps enough said about that. At least I got my remarks in first, convener.

Mr Scott makes a fair point about changes in the value of currency. There is a substantive issue involved, about which we have to make a careful judgment. Currency fluctuations can go in both directions. We are already considering the practical implications of the currency changes, because there will be areas where we find ourselves in a stronger position at one point in the financial cycle and a weaker position at a later point in the cycle. The areas where that will be most acute are the rural affairs budget and the European structural and social funds budget. I cannot give Mr Scott a definitive answer to his question, because I have to manage the risk across the whole Administration. However, I will be as accommodating as I can to the legitimate interests in the rural affairs community.

Mr Scott also asked about the regeneration resources that have been deployed to local authority control, although a large part of the resources have been deployed through the URCs, one of which is in Ayrshire—it is in North Ayrshire rather than in Mr Scott's constituency. There will be discussions about the mechanism for the distribution of that resource, as would be common practice for any such channel of funding. There will be consultation with COSLA. I know from the representations that I have received from South Ayrshire Council that it will express its view and advance arguments on a number of issues strongly and with great courtesy. I will certainly listen to its point of view.

David Whitton: There are something like 3,500 indicators in the single outcome agreements that you have negotiated with local authorities. We are in a completely new environment with those agreements. How flexible are you going to be in reaching an agreement about the outcomes? Your Government makes big play about investment for outcomes. How are you going to test that?

John Swinney: The process of arriving at single outcome agreements has been embraced positively by a number of public sector organisations. We are midway between stage 1 and stage 2 of the single outcome agreements. Stage 1 involved each local authority producing a single outcome agreement and stage 2 involves all community planning partnerships producing a single outcome agreement. About half the local authorities in Scotland produced a single outcome agreement at stage 1 that represented the interests of community planning partners.

From my observation of what is happening around the country, the process is a thoroughly beneficial one. It has obliged or required—call it what you may—different public sector partners to

get round the table to try to identify and eradicate duplication and overlap. That process has been a particularly positive and constructive one.

Mr Whitton's point is a fair one. As a Government, we are shifting the emphasis away from inputs to outcomes, and we are doing that deliberately. Members of the public ask what difference all this makes to their lives and they are entitled to an answer. We have to be able to demonstrate to people what is being delivered as a consequence of public expenditure and co-operation between public bodies. There will therefore be reporting at local level on the impact and implementation of the single outcome agreements. I will take a close interest in that as part of the on-going relationship between national Government and local government. Certainly, we have had a great amount of co-operation between the different bodies in that respect.

The measurement of whether we are delivering successful outcomes will begin to come through the Scotland performs mechanism, which we discussed some weeks ago in the committee. The Government has identified 15 national outcomes and a number of indicators of progress towards achieving them. Within a reasonable length of time, we will begin to see whether we are making an impact on those outcomes through our combined efforts. Obviously, the Government will be subject to scrutiny on that in due course.

David Whitton: No doubt it will. When do you plan to report to the Parliament on any progress? What sanctions will you place on any local authority that is not achieving its targets?

John Swinney: I have not formulated a view on when we will report back to Parliament. Obviously, if there is an appetite in Parliament for further scrutiny on these questions, the Government will listen carefully to that expression and do as much as we can to respond to it.

With the greatest of respect, your question on sanctions reflects a very negative way of looking at things.

David Whitton: Are you accusing me of negativity again?

John Swinney: Far be it for me to accuse Mr Whitton of being negative in any way about anything. If he were, it would be a break from a lifetime of positive input.

That said, when I was at the Local Government and Communities Committee last week, I said that talking about sanctions almost assumes that there is no willingness to perform and deliver. Part of what has impressed me about the period that we are going through with public sector Scotland is the willingness to break down barriers and to work together to provide more integrated solutions to

the challenges that our communities face. By concentrating on that side of the activity and ensuring that we work together, we have a better chance of delivering outcomes than if I were to dust down the book of sanctions that might be deployed on the local authorities.

David Whitton: So, if one of the 32 local authorities decides to increase its council tax rate against your policy of a zero council tax rise, no sanction will be imposed on it.

John Swinney: It would not get the money that I have put on the table.

David Whitton: Is that not a sanction?

John Swinney: It is completely different; it is about not paying an authority for something that it is not prepared to do. In our arrangements with local government, it has been expressly recognised that we will put up the money in a separate funding channel to deliver the council tax freeze.

The Convener: I will bring in Jeremy Purvis, if his question is brief.

Jeremy Purvis: Last year, if a local authority did not freeze the council tax, it could not retain its efficiency savings. Surely that is a sanction. Will that be lifted for the coming year?

John Swinney: The Government is proposing to allow local authorities to retain their efficiency savings. That was our position last year. Our position has not changed.

Jeremy Purvis: That is not true.

15:00

Alex Neil: On the relationship between the Scottish Government and local government, in the equivalent session that we had with you last year, you said that you were thinking of the possibility of there being a bit more flexibility around business rates. I think that you specifically said that the Government was examining the possibility of allowing local authorities to vary the rates downwards if that were at all possible. Have you been able to make any progress on that?

John Swinney: That work is under way. We are also examining a concept called TIF—

Alex Neil: Do you mean that local government and the Scottish Government are having a tiff?

John Swinney: No—that is the relationship between Mr Whitton and me.

Essentially, TIF incentivises local authorities with regard to the generation of wealth and income in their localities. The Government is exploring the issues and practicalities within that.

Alex Neil: Can you tell us what TIF stands for?

John Swinney: The director of finance has just told me that it stands for tax incremental funding.

Jackie Baillie: You paint a rosy picture of single outcome agreements. I do not want to get into the issue of sanctions or start to use negative language, but I think that there are gaps in the system and challenges that we need to meet.

Scrutiny is important, whether it is done by communities or Parliament. A minority of single outcome agreements mention learning disability, for example, although the majority are silent on it. Some people report that, in their areas, the focus on that service has been lost, and I wonder whether we are still capturing baseline data and monitoring framework data. I see from your letter to the Local Government and Communities Committee that you will not report to it until August. How can people's minimum expectations of the single outcome agreements be met while such infrastructure is missing?

John Swinney: We have to be careful to differentiate between the contents of a single outcome agreement and what gets delivered in communities. There is a difference, because not everything that will be delivered in a community will have been in a single outcome agreement.

I understand the concern about the issue that you cite. Nobody wants there to be a loss of focus on support for individuals with learning difficulties. Equally, nobody wants there to be a loss of focus on support for the victims of domestic violence. I have seen Scottish Women's Aid material that raises some issues in that regard, and I am considering those issues carefully.

There is a distinction between what is delivered on the ground and what is captured in a single outcome agreement in order to give the public some assurance that there will be correct amount of focus on various issues. I am not going to sit here and say that every single outcome agreement is going to be perfectly constructed from day 1. There will be a process of development. That is best undertaken through engagement between communities and their local authorities, because the single outcome agreements are going to be led by local authorities. They are in the driving seat and are the institutions that are entitled to lead with regard to those issues.

We will learn general lessons and apply general practice through the concordat monitoring groups that consider the preparation of single outcome agreements, so that we can make sure that lessons that have been learned in one part of the country can be shared with other parts of the country to ensure that single outcome agreements have a consistent and high standard and that they are comprehensive. The issues that you raise can

be discussed within the groups that consider the composition of single outcome agreements, which are joint ventures between the Scottish Government and local authorities.

Jackie Baillie: I would like to probe the issue a little further. I heard you talk about local priority setting, but I would have thought that single outcome agreements were equally a measure of national priority setting. Which is more important? Which holds the greater weight? Can a local area set a local priority that runs against what you want nationally?

John Swinney: That is a matter of local democracy, to be honest. Individual localities are able to decide what is right for their area. In a sense, that is the argument for moving away from ring fencing, which rather assumed that there should be a one-size-fits-all approach to all aspects of public services. We are interested in ensuring that people in local communities gain access to the services that they require. If someone with learning difficulties requires access to services to support them, but the support services in their area are bad, the question whether such services are good elsewhere is academic. That is the challenge for individual local authorities: they must be able to respond positively to the people who elect them.

The Convener: James Kelly will ask about linking budgets to outcomes.

James Kelly: As a preface to this section, it is worth noting that we had some useful workshops this morning with participants from across the public and private sectors in Ayrshire. The workshop that I was involved in was on investment in infrastructure, and the participants felt strongly that it is important that planning links firmly into budgets and that those budgets link firmly into outcomes. From their point of view, they did not think that there was a great deal of transparency around those issues. Can you illustrate, in practical terms, how the Scotland performs strategy can be developed in a way that would link the budget to desired outcomes?

John Swinney: The focus of our Administration has been to govern with a clear purpose in mind, which is to focus the Government and public services on creating opportunities for everyone in Scotland to flourish through increased sustainable economic growth. That is our starting point, and is the aim that drives us in our work. We bring that to life through our five strategic objectives, which are linked to national outcomes. Essentially, we are creating a policy framework in which the Government's driving objective can percolate through all the policy choices that we make. Ultimately, the success of that approach will be measured by our progress on the delivery of outcomes.

If we find that, as Scotland performs takes its course over the years, we are making next to no impact on certain areas of outcomes, that will raise issues about our budget choices and policy choices, and we would have to reflect on that. In a sense, the performance framework that Scotland performs represents identifies a model journey that we should be undertaking. If we do not manage to make that journey successfully, we need to look again at what we are doing.

I should also say that trying empirically to link all public expenditure is a pretty sophisticated and complex task. However, that does not mean that we should not endeavour to get as close to achieving that as we possibly can, which is what our structure of Government is designed to try to achieve.

James Kelly: I accept that the task is complex. The issue has exercised the Finance Committee not only in this session but in previous sessions. What work is the Government doing to monitor the effectiveness of Scotland performs, to ensure that the tool is giving you useful information that enables you to determine whether you are achieving outcomes?

John Swinney: We have established Scotland performs as a working tool and have promoted it widely, as it is relevant to all areas of the Government's activities. We will continue to pursue that approach. There will come a time when we will need to judge whether the selection of indicators is absolutely correct. The Government has made the judgment that there are a range of indicators in Scotland performs that allow the public to determine whether we are making progress. Over time, we must look at whether our judgment is absolutely correct. The committee has already had one session on the issue; I would be happy to look at it periodically and to consider whether there are ways in which we can enhance the impact and effectiveness of that means of presentation.

The Convener: Joe Fitzgerald has a question on this subject.

Joe FitzPatrick (Dundee West) (SNP): I am Joe FitzPatrick. One area that we looked at last year was the environmental impact of the budget, especially the carbon costs of the decisions that we take. What progress has been made on introducing some form of carbon accounting?

John Swinney: Mr FitzPatrick will remember that during the budget debates I made it clear that the Government will move towards the formulation of a carbon assessment tool. To say that that is innovative is to understate the novelty of what we are trying to do. That work is already under way. Later this month, an international workshop will seek to bring together some of the most advanced

thinking on the question. The Government will have the benefit of the workshop's output, which I will share with Parliament.

We are in a position to make judgments about the carbon impact of particular projects. The higher we gravitate in our budget of £30 billion, the more difficult it is to establish a robust and reliable picture of the issue, but that does not mean that we should not try to get as close as possible to that objective. That is the focus of the work that we have undertaken in the area.

The Convener: I apologise to Joe FitzPatrick. Even Homer nods, although probably not as much as I do this late in the day. We move to the issue of international financial reporting standards.

Derek Brownlee: We have decided to save the best for last—as did the Government, for the issue is most relevant to the information at the very end of the budget documents. Tables 5 and 6 on page 121 of the draft budget give estimated payments of unitary charges under public-private partnerships and an estimate of capital spending in the spending review period, so we have a flavour of the scale of the private finance initiative/PPP, whatever its future may be. Future accounting for PPP has been an issue for the committee in its inquiry into capital investment. Is the Government able to shed any light on when a final decision will be made on how PPP projects will be accounted for? I realise that that is not a decision for the Scottish Government.

John Swinney: As things stand just now, I am operating under the assumption that we will be required to comply with the IFRS rules from 1 April 2009, with the only exception being local authorities, which I expect will be required to comply by 1 April 2010. That is my working assumption. However, I am still awaiting information from the UK Treasury before I can judge the details and clarity that are needed to understand the full implications of that. I hope that we will have that clarification in the pre-budget report.

15:15

Derek Brownlee: I presume that the Government has done some scenario planning on what the implications might be. If it is decided that all existing PFI/PPP contracts should be moved on to the balance sheet, what implications will that have for the Scottish budget?

John Swinney: The position will depend entirely on the basis on which such a move is undertaken. For example, if the projects come on balance sheet but the implications are made cost neutral through assumptions made by the UK Treasury, the impact on the Scottish budget will be neutral. Any other outcome will involve significant

implications for the Scottish budget that will need to be wrestled with.

Derek Brownlee: Let us focus on that latter scenario, in which PFI/PPP projects come on balance sheet without cost neutrality from the UK Government perspective. Have you quantified the implications of that for the Scottish Government?

John Swinney: Again, the position will depend entirely on the scale, so the impact could be neutral or it could be significant. Essentially, it would be helpful to have that clarity to allow us to engage in financial planning as early as possible. As I said, I hope that we get that clarity in the pre-budget report.

Derek Brownlee: If clarity is not provided in the pre-budget report, I presume that the Scottish Parliament will still be asked to vote on the budget. The Scottish Government's assumption might be that complying with IFRS will be cost neutral, but it might well not be cost neutral. Does that not put the Parliament in a difficult position in assessing whether the budget that the Government presents is realistic and reasonable for the year in question?

John Swinney: The budget will allow Parliament to come to a judgment, given that Parliament must formulate a budget if it wishes to support public services. Parliament can make that judgment only on the basis of the best information that is currently available. If we passed a budget for 2009-10 that required to be amended, we could do so in the course of the financial year, through an autumn budget revision. I think that that would be undesirable. It would be much better to have clarity at the outset to allow us to come to a conclusion on what will be involved.

Derek Brownlee: On the related but separate issue of the Scottish Government's preferred model of the Scottish Futures Trust, you confirmed a few weeks ago that the SFT is being established within the consolidation boundary. Will capital funding for SFT projects be on balance sheet without exception?

John Swinney: I cannot confirm that until I know entirely the implications of the IFRS rules.

Derek Brownlee: Once we have the UK Government's final decision on IFRS, will you be in a position to give definitive guidance on the SFT?

John Swinney: I would hope to be in a position to do that. That would be my objective.

The Convener: I will allow a very quick question from Jeremy Purvis.

Jeremy Purvis: My question is on a separate issue. In the six-point plan that we discussed earlier, one point deals with tourism and

homecoming 2009. What is the rationale for cutting the tourism budget, as shown in table 2.16?

John Swinney: If my memory serves me right, the tourism budget that the Government put in place for 2008-09 was inflated to cope with particular events. However, I will write to Mr Purvis with full details.

The Convener: That would be appreciated.

Our questions are now exhausted, as is, I am sure, the cabinet secretary. As there are no further last-minute comments, I thank the cabinet secretary, Alyson Stafford and John Williams for their attendance, which is greatly appreciated by the committee.

John Swinney: Thank you, convener.

The Convener: This market day is indeed wearing late. We have investigated some deep and complex issues that are at the heart of good financial management. I thank everyone who came along today, including those who participated in the workshops and those who came to witness our evidence session. Committee members have been informed by their visit and have thoroughly enjoyed themselves in

“Auld Ayr, w ham ne’er a tow n surpasses”—

apart from my bias towards the burghs of Angus. We thank Ayr for its hospitality today.

As previously agreed, the committee will now move into private session to consider the evidence that we have heard. I will give the public a moment or two to leave.

15:21

Meeting continued in private until 15:43.

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