

FINANCE COMMITTEE

Tuesday 19 May 2009

Session 3

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FINANCE COMMITTEE 13th Meeting 2009, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Jackie Baillie (Dumbarton) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Murdo Fraser (Mid Scotland and Fife) (Con)

Kenneth Gibson (Cunninghame North) (SNP)

Lewis Macdonald (Aberdeen Central) (Lab)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Stella Manzie (Scottish Government Director General Finance and Corporate Services)

Alyson Stafford (Scottish Government Finance Directorate)

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

James Johnston

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 19 May 2009

[THE CONVENER *opened the meeting at 13:30*]

Strategic Budget Scrutiny Inquiry

The Convener (Andrew Welsh): Good afternoon. Welcome to the 13th meeting of the Finance Committee in 2009, in the third session of the Scottish Parliament. Please turn off all mobile phones and pagers.

Agenda item 1 is continuation of the evidence programme for our strategic budget scrutiny inquiry, focusing on the effects of recession on the public sector budgets of Scotland and the immediate pressures on the 2010-11 budget, as well as likely future trends. Before we take evidence from the Cabinet Secretary for Finance and Sustainable Growth, we will have a further short evidence session with Scottish Government officials. I welcome to the committee Stella Manzie, the Scottish Government's director general finance and corporate services, and Alyson Stafford, the director of finance. I give notice to the committee that I intend to allow no more than 15 minutes for the session, to ensure that the cabinet secretary's evidence session can begin at 1.45. I invite questions from members.

Jackie Baillie (Dumbarton) (Lab): I thank Stella Manzie for returning to the committee. My aim is to ensure that we have clarity, rather than confusion; the *Official Report* of our meeting of 28 April indicates that there was a degree of confusion on the part of the committee, never mind others. I will ask you a series of short questions to clarify matters for me. Is it correct that, once the impact of capital acceleration is excluded, the baseline for 2010-11 will rise by 1.3 per cent from 2009-10? You will recognise the figure of 1.3 per cent, as I have taken it from your letter of 30 April.

Stella Manzie (Scottish Government Director General Finance and Corporate Services): The figure is correct, excluding end-year flexibility.

Jackie Baillie: That is helpful. Can you confirm that the decision to accelerate capital spending from 2010-11 to the previous two years was taken by the Scottish Government and that that action reduced the block grant allocation by the United Kingdom Government for 2010-11?

Stella Manzie: Part of the question is fairly political, but factually it is completely correct to say that the Scottish Government took the decision.

Jackie Baillie: I am not seeking to be political—I am seeking to gain clarity. I hope that that helps you to understand my intentions. Can you confirm that the expenditure that was accelerated was used to fund capital projects that were planned for 2010-11?

Stella Manzie: I cannot comment in detail on whether they had all been planned exactly for 2010-11, but they were planned capital projects.

Jackie Baillie: It is welcome that the projects were brought forward, but I understand that the bulk of them were planned. Would I be fair for me to conclude that, once the impact of capital acceleration is discounted, the baseline is still growing and the allocation from the UK Government does not require any reduction in 2009-10 baseline spending and current service levels?

Stella Manzie: There are a number of components to the question, so I will ask my colleague, Alyson Stafford, to respond.

Alyson Stafford (Scottish Government Finance Directorate): I am happy to do so. Could you repeat the question, as there was quite a lot in it?

Jackie Baillie: From my first three questions, it is clear to me that my understanding is shared. Building on those questions, would I be fair to conclude that, given that the baseline is still growing, once the impact of capital acceleration has been discounted, the allocation from the UK Government does not require any reduction in 2009-10 baseline spending and current service levels? You have agreed that we can discount the impact of capital acceleration. Referring to my first question, you have agreed that the baseline has grown by 1.3 per cent. What I am driving at is that there does not require to be any reduction in 2009-10 baseline spending or in current service levels. I am speaking about 2009-10, not the future.

Stella Manzie: If Alyson Stafford answers on some of the detail, I will make a general comment. Any response to the question has to be placed in the context of the continuing efficiencies that are being sought every year. In Scotland, they are very much defined as true efficiencies, if you know what I mean, rather than service cuts. Whatever is going on with budget profiles, the way in which the money is spent is continuously improving.

I do not want to get into the question of service cuts. As you will have seen, some organisations, including certain councils, are saying that they are having to consider service cuts. Clearly, some public bodies are struggling with setting their budgets this year.

Jackie Baillie: In response to the first three questions you said to me that there is 1.3 per cent

growth, once the capital acceleration for next year is stripped out.

Stella Manzie: Yes.

Jackie Baillie: I am trying to establish that the impact this year is not as a consequence of United Kingdom budget decisions. The reasons may lie elsewhere. Perhaps I could put this more clearly—I am ending up confusing myself. It is an easy thing to do, I can assure you.

I am suggesting that the cut that is described by the Scottish Government is a cut to planned expenditure, rather than to budget baselines. In effect, it is what we hoped and expected to receive, as opposed to the actuality of the baseline, which, by your evidence—and excluding capital acceleration—has grown.

Stella Manzie: Depending on what my colleague says, we would have to examine the components of that. That is quite a difficult question to answer at speed, without looking at the figures.

Jackie Baillie: Okay. Let me try to simplify it even further. I expected our household budget for the Scottish Parliament to be X, with an increase of a certain order of magnitude. It is not as high as an order of magnitude, but we are still getting an increase. Is that accurate?

Stella Manzie: There has certainly been growth in the budget for 2009-10. That is substantiated by figures from elsewhere—from the Centre for Public Policy for Regions and so on.

The Convener: We understand that the issues are complex, and that you wish to be as accurate as possible. If you wish to respond further in writing, please do so.

Stella Manzie: You may find yourself in receipt of a further follow-up letter. We will see how the committee progresses.

Jackie Baillie: On the subject of correspondence, I found your letter fascinating in the sense that it seemed to have several different styles to it. I wonder whether it was entirely and wholly written by you, or whether there were contributions from colleagues.

Stella Manzie: Inevitably, the kinds of letters that generally have my signature on them have contributions from a number of people. When Alistair Brown and I left the committee three weeks ago, we agreed that we would need to follow up with a letter to clarify a number of points. At that stage, we did not realise that we had made an error in the use of the gross domestic product deflator—that came to light only the following morning. That confirmed what we had already agreed—that we would need to follow up with the letter. A number of technical finance colleagues

had input into it. Before the letter was sent, we cleared it with Mr Swinney's office.

Jackie Baillie: It was cleared politically.

Stella Manzie: Yes.

Jackie Baillie: So it was not just from financial and technical people. That is helpful to know, thank you.

The Convener: I point out that our timing is tight. James Kelly is next, to be followed by Jeremy Purvis.

James Kelly (Glasgow Rutherglen) (Lab): In your letter, you refer to the Treasury red book and say that total current spending will grow by 0.7 per cent in 2013-14. However, you go on to say that during that period, departmental expenditure limit expenditure will face a real-terms decrease. Bearing in mind that that is in a future spending review period and that the Treasury has not yet published any baselines for that period, how are you able to assert that DEL will face a real-terms decrease in that period?

Stella Manzie: Although we have not finalised any figures in relation to that, it is clear from the projections—particularly when we consider capital expenditure—that there will be a significant impact and that things will be on a downward trajectory.

Although we in the Scottish Government have not finalised our interpretation of those figures and how they impact on the Scottish budget, it is clear that they are moving downwards. That is certainly the conclusion that the CPPR and the Institute for Fiscal Studies have come to in their analyses, and the conclusion that people are coming to in general.

James Kelly: As the CPPR representative told us, forecasts are only forecasts, and there is an element of estimation about them. Just to be clear, no Treasury baselines have yet been produced, and your assertion that DEL will decrease in real terms is based on your assessment of commentators' forecasts.

Stella Manzie: No. It is based on an assessment of what is in the red book and consideration of how those financial projections move forward and the different elements of that. We do not necessarily know how public expenditure will unfold. We must consider precisely the impact on the Scottish Government budget. However, there is a consensus that things do not look positive, and that the general trajectory will be downwards. The particular issue is capital expenditure. It is capital that is taking a big hit.

James Kelly: Time is tight, so I will move on.

You state in your letter that public sector net investment will move from 3.1 per cent of GDP in 2009-10 to 1.25 per cent of GDP in 2013-14. In his

statement, the Chancellor of the Exchequer said that public investment would continue to run at high levels until 2012, which is backed up by the fact that the significant investment in the Olympics will occur until 2012-13. Do you agree with my assertion that the level of investment as a proportion of GDP will continue at a high level until 2012-13, before moving to around 1.25 per cent in the final year, 2013-14?

Stella Manzie: I will ask my colleague Alyson Stafford to comment in detail on that in a moment, because she has the figures more at her fingertips than I do.

Undoubtedly, there will be a significant level of public expenditure investment—capital investment—but all areas of the public sector, not just in Scotland, are finding that capital expenditure is beginning to be constrained. Inevitably, there will still be a great deal of public investment—there is no doubt about that—but it is becoming increasingly constrained. My colleague will comment on the figures.

Alyson Stafford: The trend that was referred to in the letter, showing the net investment that is changing over the period, is taken straight from the chancellor's statement—it is on page 226 of the red book.

You commented on how there are shapes in that trail, with particular reference to the Olympics. The Olympics is a large expense for the UK as a whole. Although that is in the global figures, I am sure that you will recall that the consequentials arising from the regeneration element of the Olympics are not being shared throughout the UK. In the context of Mr Kelly's observations, if we are considering the impact on Scotland, it is clear that we are not seeing the benefit of the regeneration element of the Olympics. Other schemes, such as crossrail, are bringing and will continue to bring benefits, but some of the more lumpy areas, in which there are peaks in the UK-wide investment programme, will not necessarily automatically translate into benefits to us.

13:45

The Convener: We have run out of time, but I want to ensure balance in the committee, so I bring in Jeremy Purvis, to be followed by Joe FitzPatrick.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Ms Manzie, when your letter came back from the minister's office, had changes been made to it or were you asked to make changes?

Stella Manzie: I think that my colleague Mr Brown dealt with that, so I am not aware of the detail.

Jeremy Purvis: You are the signatory to the letter.

Stella Manzie: I am, indeed.

Jeremy Purvis: And you drafted the letter.

Stella Manzie: Yes, I had a hand in drafting it and I checked the final version when it came to me.

Jeremy Purvis: Therefore, you would have known whether there was a difference between the draft and the final version that you signed.

Stella Manzie: Except that, as the answer in response to Ms Baillie implied, a number of financial technical officers had a role in the process. Quite often when letters come back to me they have been changed by a range of people.

Jeremy Purvis: Can you come back to the committee on the specific point of whether changes were made at the minister's office?

Stella Manzie: I can certainly check.

Jeremy Purvis: I would be grateful for that.

Is guidance provided to officials on the presentation of budget documentation and correspondence—or suggestions for ministers' statements?

Stella Manzie: No—

Jeremy Purvis: Therefore it is for ministers to decide how to present budget information in letters such as we received or in statements.

Stella Manzie: I am slightly confused about whether you are talking about letters or information in general. We in the finance area, in collaboration with economics colleagues, produce a range of budget information in different configurations. It is inevitable that ministers ask for different presentations of different figures—that is true of any set of ministers and it would be odd if ministers did not make such requests.

Jeremy Purvis: I am just wondering what you consider to be best practice. In your letter to the committee you said:

"We believe that the most appropriate comparison to be made of spending between years is to look at successive Scottish Government budgets as agreed by Treasury."

However, in 2007, for example, the Scottish Government provided information that showed three-year capital allocations, smoothed over for indicative purposes, to show a trend. What is best practice in the presentation of information?

Stella Manzie: In the current budget round we have tried to stick closely to the Treasury red book. We have tried to ensure that information that we present, whether for internal or external consumption, is aligned with the information in the

red book. We have stuck to that. We considered different configurations—people who are closely involved in the process do that, just as commentators do. We tried to examine the information from all angles. We certainly tried to ensure that the information that we presented was the information that was transparently available in the public domain.

The Convener: Joe FitzPatrick will ask the final questions. I am sure that David Whitton will be able to catch my eye during the next part of the meeting.

Joe FitzPatrick (Dundee West) (SNP): Let us get back to basics and the real world, instead of hypothetical questions about whether or not we took decisions to bring forward money to save jobs. What is the impact of the chancellor's announcement, in terms of cuts in the Scottish Government's budget?

Stella Manzie: I feel a little bit as though I am going over old ground, but I will do so.

When we exclude EYF and include the capital acceleration—that is, as events have transpired—we are talking about a real-terms reduction in 2010-11 of about 1 per cent. It is clear—this brings us back to Mr Kelly's questions—that the longer-term issues for public expenditure in Scotland are extremely significant and will put a great deal of pressure on all budgets across all areas of the public sector.

We need to consider now how we will manage that. As officials, we are looking at how we advise ministers to help to achieve that in an orderly and effective way. We are also considering how to ensure that any steps that we take do not go against the economic purpose that the Government has set out. A delicate balance must be struck to ensure that we can reduce public expenditure without damaging the policy direction that the Government has chosen.

The Convener: I ask Joe FitzPatrick to be quick.

Joe FitzPatrick: One thing that people sometimes do not understand is why the same amount of money is not enough as a Government's budget rolls forward from one year to the next. Will you describe some of the pressures on the Scottish budget, such as increasing private finance initiative payments? The Government is legally bound to make such payments—no other decision can be made.

Stella Manzie: I understand the time pressures on the committee, so I will ask my colleague, Alyson Stafford, to say a little about the international financial reporting standards in general. It is clear that a range of issues is involved, from pay to the inflation rate—even

though it is much smaller than it was—and inflation on contracts. Policy directions from a range of sources, such as the growing number of the elderly, mean increasing expenditure. That takes us into the territory of whether real-terms growth or a real-terms reduction is being experienced. Even if an amount of money looks the same or more, it still might not be enough to compensate. It is clear from the financial projections that we have looked at that serious challenges lie ahead for all parts of the public sector.

Alyson Stafford will comment briefly on the IFRS and issues about construction.

Alyson Stafford: Stella Manzie mentioned underlying trends and cost drivers. On 1 April, we made the conversion to the IFRS. However, we still need to work through with the Treasury exactly how that will impact on our budget. Draft guidance has been issued and we need to follow up parts of it. It is clear that it is in everyone's best interests for the situation to be resolved as soon as possible. I hope that, throughout the UK, the budgetary position will be resolved by early June or during June. However, that depends on the number of queries to the Treasury about what it has produced.

The Convener: I regret that I must draw the evidence to a close, as we are already over time. I thank both witnesses for their detailed and informative responses.

We will pause for a moment to allow the cabinet secretary to join us.

13:53

Meeting suspended.

13:54

On resuming—

The Convener: For the concluding evidence in our inquiry, I welcome John Swinney MSP, the Cabinet Secretary for Finance and Sustainable Growth. He is accompanied by Alyson Stafford and by Gary Gillespie, who is head of office for the director general finance and corporate services.

You are all welcome. Cabinet secretary, do you wish to make an opening statement?

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Yes.

I welcome the opportunity to respond to the committee's questions on the Scottish Government's spending plans for 2010-11. As the committee knows, the plans were first published in November 2007, following the United Kingdom spending review. The plans are founded on the

Government's overarching purpose, which is to increase sustainable economic growth in Scotland. In the current economic context, that purpose assumes even greater importance.

The present economic conditions are the most challenging in recent memory and the Government is determined to use every lever at our disposal to respond to the downturn. Those levers include: supporting communities through increased and better investment, by taking full advantage of the opportunities to accelerate capital spending; supporting businesses on the issues that matter most to them by expanding our small business bonus scheme; and, in co-operation with others in Parliament, introducing an apprenticeship guarantee to help youngsters who are affected by redundancies to complete their training. We are also, in these difficult times, and at a time when bills are still rising in England and Wales, helping individuals who face uncertainty and redundancy by providing funding to freeze the council tax for a further year.

We are taking sensible, positive and significant measures that have gained the support and approval of Parliament. Collectively, they are supporting thousands of Scottish jobs and are fully reflected in our spending plans for 2010-11.

However, there is a great danger that much of that good work will be undermined in 2010-11 and beyond by the cuts in public spending that the Chancellor of the Exchequer recently announced, which will lead to a 0.5 per cent real-terms reduction in our budget for 2010-11. The UK budget has set out a reduction in the Scottish Government's budget of £392 million next year, and it will be reduced by a further £129 million as a result of changes to the Department of Health's capital baseline. Taken together, the cuts that were announced in the budget, offset by a small increase of £25 million in consequential, mean that our departmental expenditure limit budget will in 2010-11 be reduced by £496 million. That is the reality that we must deal with in achieving a balanced budget in 2010-11.

As difficult as those figures might be, they are merely a prelude to the pressures that we are likely to face in the future. The Institute for Fiscal Studies estimates that between 2011-12 and 2013-14, total UK departmental expenditure will fall by 2.3 per cent a year in real terms, which would mean that, in 2013-14, public spending in Scotland would in real terms be between £2 billion and £3 billion lower than spending in this year.

The Government is addressing those challenges by producing a balanced budget for 2010-11—which will gain parliamentary approval in February 2010—and by identifying how we can adapt to living within reduced budgets in the medium and longer terms. We wish to respond to those

challenges in co-operation with Parliament and the other parties. Therefore, effective scrutiny of the Scottish budget in the next eight months will be more vital than ever. Together, we must strive to build consensus on how we can provide the best and most effective public services for the people of Scotland, within the budget constraints that we face.

I am happy to answer questions.

The Convener: At a time of credit squeeze and recession, it looks as though your 2010-11 budget will be the tightest that any Scottish Government has faced, and that future ones will be similar. What real scope or flexibility exists to make decisions and transfer resources in order to meet identifiable needs and challenges?

John Swinney: Obviously, the further we are from the start of a financial year, the greater the flexibility that we have. As we get closer to the start of a financial year, decisions are taken that firm up the degree of expectation and control that exists around particular budgets. Many factors must be borne in mind in answering that question. We have to take account of a variety of factors, including demand for services, the pressures that changing demography places on public finances and public services, and the recurring and growing cost of the private finance initiative contracts with which we must wrestle. Certainly for 2010-11, it would not be practical to identify a figure for what we might call free resources—resources that have not been allocated to particular provision.

The committee will be familiar with the fact that, in 2007, we set out to utilise the clarity that we had been given by the United Kingdom Government of a three-year spending envelope. In essence, we gave a picture of the investment that would be available for public services for that period. Of course, the Government and many other organisations have made assumptions based on that availability of resource. Less money will be available to deploy in the financial year 2010-11, so we must take decisions accordingly.

14:00

The other factor that makes it difficult to answer with precision is that spending pressures will emerge during the year. When we set out our plans for 2009-10, for example, we made an assumption for preparatory work to deal with flu-related issues and the potential flu pandemic. Some of that work was at what I might call a routine level of preparation for the normal winter flu vaccine, and there was a higher level of activity around the suggestion that there might be a pandemic. However, as the Deputy First Minister and Cabinet Secretary for Health and Wellbeing confirmed to Parliament last week, we are now

facing a much more significant cost, which was not envisaged at the start of the financial year. Such challenges come to Government from time to time.

Derek Brownlee (South of Scotland) (Con):

We accept, looking ahead to the longer term—by that I mean 2013-14, as has been discussed—that the potential squeeze on spending will be significant. I assume that we all hope that the larger figures do not materialise, but let us assume that they will. If the Government is still in office at that time, is your preference that the reduction in real terms of between £2 billion and £3 billion—or £3.8 billion, if you accept the CPPR's figures—be achieved through spending constraint, or through exercising whatever fiscal measures the Government has available to it? Obviously, there is the Government's influence over council tax, its ability to set business rates and the so-far unused power over the Scottish variable rate. Does the Government think that all the pressure would fall on the spending side of the equation?

John Swinney: We are getting into the realms of decisions that lie several years ahead. The Government would have to look at all aspects of revenue, expenditure and revenue raising, whether in relation to business rates or council tax. The Government has expressed a firm view that we do not support use of the Scottish variable rate and I cannot foresee circumstances that would encourage the Government to do that, particularly in a year such as 2013-14 when we will still be recovering from the consequences of the economic downturn. A tax rise of that nature therefore seems unwise. The Government would have to look at the range of our spending areas. We have been involved for several years in developing an approach to efficient government—the previous Government started the process and we have continued with it to a greater degree—which will have to continue significantly in the period ahead.

Derek Brownlee: I appreciate that you cannot take specific decisions for as far ahead as 2013-14 and I do not think that anybody would expect you to do so. However, I presume that to achieve the scale of the change in spending that is forecast in a way that minimises the pain—"painless" would be the wrong word, because there will be pain—requires a lot of long-term planning and probably requires decisions to be taken now that will have an impact three or four years down the line. What initial thought has the Government given to taking decisions that might not have an initial payback, but which could reduce public spending in the medium to long term?

John Swinney: As I said in my previous answer, we have already embarked on a sustained programme to deliver efficiencies in that

period. Obviously, those efficiency savings are designed to continue delivery over a longer period.

We have to examine—the Government is currently doing so—how we can further improve efficiency in delivery of public services by encouraging a great deal more integration and collaboration. After all, members of the public are not particularly concerned about which badge a public servant happens to be wearing when they provide a service, as long as they provide the service in the fashion that the member of the public requires. A significant opportunity for undertaking public service development at local level still exists in Scotland. However, even if we perform well in that, serious challenges will remain in delivery of public services. We will have to address them, particularly because of the medium-term profile for pressure on the departmental expenditure limit, which is absolutely clear from the budget 2009 document.

Derek Brownlee: If I am picking you up correctly, you are saying that, irrespective of whether the reduction is £2 billion or £3.8 billion, it is not going to be something that efficiency schemes alone can deliver. Another way of putting it is that more straightforward spending cuts will be required, or that projects that would otherwise go ahead will not go ahead.

I have one final question. We have heard that there will be pressure at UK level on capital expenditure, which is traditionally an area of spending that is squeezed during a downturn. Is the Government's position that capital spending will be squeezed and that efforts will be made to protect revenue spending, or is that still to be decided?

John Swinney: First, with the greatest respect to Mr Brownlee, he translated my remarks into his words, which did not particularly reflect the point that I was making. The point that I made in my earlier answer was that there are genuine opportunities to develop public services, particularly at local level, and to develop the way in which we get organisations to work together. That is a theme that the Government started during its first moments in office. We are two years into the process of trying to bring that about and there have been a number of encouraging developments in that respect. There are opportunities to manage some of the financial pressures that we will face. That is where the Government will concentrate its efforts.

Mr Brownlee is correct to say that the 2009 budget document suggests that there will be a significant reduction in capital investment as part of the chancellor's predictions. It will be a real-terms reduction of 9.3 per cent between 2011-12 and 2013-14. Obviously that will percolate through into the allocations that the Scottish Government

receives and, if we so choose, we can transfer resources from revenue to capital, if we want to offset any of that reduction, which I presume will reach Scotland through the Barnett consequential.

Derek Brownlee: I certainly was not trying to put words into the cabinet secretary's mouth. I was simply looking for his view on whether, if we assume that the £2 billion figure—the lower figure that is mentioned by the IFS and the CPPR—is the figure for real-terms reduction in the departmental expenditure limit by 2013-14, that reduction could be managed through public service reform or efficiency savings.

John Swinney: We will use both those techniques to manage the challenge that reductions of such magnitude will bring. However, I do not want to leave the committee with any sense other than that I do not see any pain-free option in the years ahead. There will be difficult decisions to be made, and the profile of public expenditure will make that situation acute for any Government that is in office in Scotland. We will move from a sustained period of above-inflation increases in public expenditure to a different pattern in the period ahead. The assumptions of the IFS, which have been mentioned, and the range of figures from the CPPR seem to me a pretty accurate interpretation of what is in the budget document in 2009.

We will pursue public service reform and efficiency savings, but I cannot imagine that there is a pain-free option for tackling the budget changes that we will have to face.

David Whitton (Strathkelvin and Bearsden) (Lab): The cabinet secretary was not with us when Ms Manzie gave evidence earlier, so he did not hear her tell us, helpfully, that when the impact of capital acceleration is excluded, the baseline will continue to grow in 2010-11, by 1.3 per cent. Further, she confirmed that the decision to accelerate capital spending from 2010-11 was indeed taken by the Government, and probably by Mr Swinney himself.

I ask Mr Swinney the same question that we asked Ms Manzie, which is probably a political question. Is it fair to conclude that, when the impact of capital acceleration is discounted, and given that the baseline is still rising, the allocation from the UK Government does not require a reduction from the 2009-10 baseline spending or current service levels?

John Swinney: First, I am entirely familiar with all the details that Stella Manzie communicated to the committee, which were of course contained in her letter to the committee.

I am afraid that I do not understand the point about 2009-10, because I have made no remark

other than that there will be a real-terms increase in the budget in 2009-10 compared with 2008-09. I readily concede that there will be a real-terms increase between 2008-09 and 2009-10. The point that I have been making is about 2010-11 compared with 2009-10.

David Whitton: We were told in the letter from Stella Manzie that the increase in 2010-11 over 2009-10 is 1.3 per cent.

John Swinney: With respect, unless I misinterpreted or misunderstood the question that Jackie Baillie asked Stella Manzie earlier, and the similar question that David Whitton has just asked me, the Government has never made an issue about the 2009-10 budget, which is as I have said it is. The point that we have been making is that, in 2010-11, compared with 2009-10, we will have a real-terms reduction of 1 per cent in the funds that will be at our disposal.

David Whitton: The points you have been making—

The Convener: That reduction is in the letter that we have before us.

John Swinney: The reduction is in Stella Manzie's letter, into the bargain.

David Whitton: I am sure that we could dance around 1 per cent, 1.3 per cent or whatever all day. Your Government has made a lot of points about £500 million cuts. On what basis do you claim that the Scottish budget is being cut by £500 million?

John Swinney: As I said in my opening remarks, the Government first set out its approach to public expenditure for 2010-11 in the spending review document that was published in November 2007. Against the plans that we had in that budget, which was given to us by the Chancellor of the Exchequer in October 2007, there is a reduction of £500 million in our budget for 2010-11. The reduction is made up of two components—a £392 million reduction in our global departmental expenditure limit, which is essentially the Barnett consequential of the £5 billion additional so-called efficiency savings that the chancellor has required, plus a £129 million reduction that is due to the Barnett consequential of a reduction in the Department of Health's capital baseline. Added together, those reductions total £521 million, but we received £25 million of new consequential, or new resources, in the budget, which gives us a net figure of £496 million.

David Whitton: That is excellent. I am glad that we have got that straight.

I turn again to the letter from Miss Manzie. In talking of the CPPR forecast, she says:

"This represents a real terms reduction of between 7% and 13% over 4 years. The CPPR calculations ... are not out of kilter with our own."

I assume that she means Government forecasts. I assume also that you are happy to make available to the committee those departmental calculations. Do you agree that long-term forecasts of that nature are a pretty poor basis for financial decision making, as they are little more than guesswork?

14:15

John Swinney: No, I do not agree with that assessment. The analysis that the Institute for Fiscal Studies and the CPPR have undertaken—

Joe FitzPatrick: On a point of order, convener, a member of the public is passing a note to a committee member. It also happened last week. Mr Midwinter is sitting in the public gallery—he is not a committee member.

The Convener: No such notes should be passed.

David Whitton: I am sorry, convener, but—

The Convener: No such notes should be passed, no matter to whom they are addressed.

David Whitton: What is the point of order about, convener? I have received no such note.

The Convener: There is no such point of order. I am merely stating that this has happened before. I do not approve of notes being passed. I assume that they will no longer be passed. Minister—

David Whitton: This is the second time this point has been raised. I am at a loss to understand to what note Mr FitzPatrick is referring. I ask him to kindly withdraw the remark. Then, I will be happy. I have received no note from Mr Midwinter.

Joe FitzPatrick: I am referring to the note that Mr Midwinter passed to the security guard at the door, asking for it to be passed to you.

The Convener: I will draw this to a conclusion. I have made my view clear: I expect no notes to be passed to anybody during this meeting. Do you wish to continue, Mr Whitton?

David Whitton: Yes. I will try to carry on with my own questions, but I am happy to let Mr Swinney answer the last one.

John Swinney: I am delighted to do that.

I am happy to share with the committee the assessments that the Government has made of the longer-term picture of public finances. Essentially, all of it is driven by the budget document that the chancellor issued a few weeks ago. Before I continue, I concede one point to Mr Whitton: estimates are, of course, estimates—they are what they say on the tin. That said, any

objective analysis of the current state of the public finances of the United Kingdom suggests that the chancellor's predictions on the pattern of public expenditure in the next few years do not appear to be anything other than on the optimistic side; certainly, they are not on the pessimistic side. It is more likely that they are on the realistic side of what lies ahead.

One calculation that is clear from the budget document is that the figure for total managed expenditure in the United Kingdom over the period 2011-12 to 2013-14 looks likely to be a real-terms reduction of about 0.1 per cent. The figure is not shown in the budget document, but we have made the calculation by assembling different parts of the equation. The budget document demonstrates that annually managed expenditure is rising sharply. If annually managed expenditure is rising sharply and total managed expenditure is falling marginally—by 0.1 per cent—it is beyond dispute that the departmental expenditure limit, which is the limit that drives the UK budget document and the Government's budget in Scotland, will undoubtedly be under pressure in the years to come. The IFS and the CPPR analyses are in the right space in terms of the degree of pressure that is to come.

As I said, I am happy to share the Government's analysis with the committee. It says nothing that is particularly different to what the IFS and the CPPR have said.

David Whitton: You said to us—I took a note of it—that you thought that the projections were pretty accurate. As far as I am aware, however, no Government in post-war, welfare-state Britain has ever made cuts as large as those that the CPPR is projecting. Are you agreeing with the CPPR and going on the record as saying that you expect the Scottish budget to fall by between 7 and 13 per cent by 2013-14?

John Swinney: The CPPR's estimates are different from those of the IFS. The IFS estimates—

David Whitton: The CPPR told us that its estimates were based on the IFS estimates of the Treasury estimates.

John Swinney: The CPPR provided a range of figures, which is different from what the IFS provided. The IFS provided a definitive figure that is driven by the data that are provided in the red book, which show, for example, that net debt interest will rise by 8.4 per cent during the period 2011-12 to 2013-14; social security benefits and tax credits will rise by 1.7 per cent; and other annually managed expenditure will rise by 1.9 per cent.

None of those things has anything to do with the departmental expenditure limit, so if they are all

rising by those factors, and total managed expenditure is falling by 0.1 per cent, it means that there is some real pressure on the departmental expenditure limit.

The IFS estimate suggests that the total departmental expenditure limit will fall by 2.3 per cent per annum during that period. That appears to be a realistic assessment of what we will face, which is why I made my comment about the context within which we consider the questions. We cannot ignore the state of the public finances in making a judgment about whether public spending is likely to grow in the areas that are under this Parliament's control. That needs to be considered in the context of the wider composition of the public finances, which are in significant difficulty at present.

Jeremy Purvis: I will come back to the 2010-11 budget—which we are focusing our minds on this afternoon—examine the DEL and the plans as a result of this year's budget, and break that down into the revenue and capital components. Will you tell the committee—if you have the information—what the plans are for the revenue component for 2010-11 compared with 2009-10, and whether that represents growth or decline?

John Swinney: I do not think that I have the figures for the split between revenue and capital in front of me, but I am happy to provide the committee with that information.

Jeremy Purvis: I refer you to page 241 of the red book, which the First Minister, during First Minister's question time, asked us to look at. If I am correct, it has the figures for the resource DEL and the capital DEL. Is it the case, as the figures suggest, that resource DEL will rise from £25.4 billion to £26.1 billion?

John Swinney: My apologies; I forgot that I had that document on me. I do have that number, and what you say is absolutely correct.

Jeremy Purvis: And that represents real-terms growth in the resource DEL for the Scottish budget?

John Swinney: It will do, yes.

Jeremy Purvis: Does the Government have a percentage for that real-terms growth in the resource DEL for the Scottish budget for next year?

John Swinney: Yes, of course—I am happy to provide that to the committee.

Jeremy Purvis: Therefore, we all agree that, as far as the revenue—the resource DEL—is concerned, there is a real-terms increase in next year's budget.

The capital element, which is going from £3.7 billion to £3.2 billion, is the accelerated capital. Is it

correct that that accelerated capital is in planned budgets—that it is planned expenditure?

John Swinney: Well—

Jeremy Purvis: The Scottish Government—or its agencies—accelerated the capital for 2009-10. It could not have been used for anything else in 2010-11 because it was accelerated from planned and committed budgets.

John Swinney: We set out our plans as regards the scale of capital spending, but capital programmes can deviate from our plans. All sorts of factors can affect capital expenditure. We might plan to undertake a road development and find that it gets referred to a public local inquiry, with the result that we cannot do it and have to change the plan.

Jeremy Purvis: The accelerated capital is for the acceleration of existing, planned projects, whether in housing, universities or colleges.

John Swinney: That is correct.

Jeremy Purvis: The funding for those projects has simply been accelerated into this year. We have already agreed that, as far as revenue is concerned, there is real-terms growth in the Scottish budget. As far as capital is concerned, the accelerated money is for projects that had already been planned. You mentioned the example of a road. You would not build that road twice. We are talking about the bringing forward of planned budget, the effect of which is neutral as far as investment in public services is concerned.

John Swinney: But that analysis ignores a rather fundamental point, which is that, in comparison with the plans that were set out in the 2007 spending review, we are £500 million light.

Jeremy Purvis: In capital?

John Swinney: No—in total.

Jeremy Purvis: But I was asking about capital.

John Swinney: I am simply putting all the available information into the discussion so that it can be assessed. For the sake of completeness, Mr Purvis's analysis must acknowledge that, in relation to its present plans, the Government is £500 million light in comparison with what was in the 2007 spending review.

Jeremy Purvis: According to what you have said about total expenditure, the planned growth is less fast. There is still growth, but it is slower because of the reductions in the planned growth in revenue. However, we are agreed that in real terms the overall revenue budget is growing.

John Swinney: If we add together the revenue and the capital expenditure in 2009-10 and compare that figure with the equivalent figure for

2010-11, we find that there will be a 1 per cent real-terms reduction in the resources that are available to the Scottish Government. That information is contained in the table to which Mr Purvis has referred me.

Jeremy Purvis: Why did not you smooth the accelerated capital over the period from which it is being accelerated? Would it not have been clearer, for illustrative purposes, to have smoothed it out, so that an impression could be gained of the overall situation?

John Swinney: It would have been an option to smooth it out for illustrative purposes—I think that that has been done before.

Jeremy Purvis: Yes—so why did not you do it this time?

John Swinney: Only because I thought that it would be helpful to have an analysis that is based on the table that the Treasury has published, which we have in front of us, in which the position is set out in a crystal-clear fashion.

The Convener: We have dwelt on the detail of the figures, so I appeal to the committee to broaden out their questions. I would like us to address other aspects, such as pay, service delivery, efficiency savings and challenge function. We have tended to stick to the detail of the figures. I ask members to broaden their questioning.

Jeremy Purvis: I am grateful for that advice, convener. In advance of committee members doing that, I would like to ask one more specific question.

Cabinet secretary, you said that the Government has smoothed out information for a presentation on the use of capital expenditure on a previous occasion. Will you undertake to do what you did in 2007 with the capital expenditure for universities and colleges, when you smoothed out that information over the spending period? Could you do the same with the use that is made of accelerated capital in this year's budget?

John Swinney: I can certainly give your suggestion some consideration, but I would not want to introduce too many more numbers into the debate, because to do so would perhaps confuse it even further. I am reminded of the comment that Mr Finnie made when he gave his closing speech in the recent parliamentary debate on the budget. As I said in the chamber, Mr Finnie made a thoughtful contribution about the fact that, although we can show numbers in a variety of different fashions, the inescapable reality is that the profile of public spending in the years to come will be dramatically different from what it has been in recent years.

14:30

Jeremy Purvis: I am sure that our committee advisor and the Scottish Parliament information centre will be able to assist us with the numbers that you provide. When it comes to the consideration of budget documentation, you should not be fearful of presenting too many numbers to the Parliament's Finance Committee. If you could present that information, as you did in 2007 with regard to the use of university and college capital, it would be helpful.

John Swinney: I will consider whether it adds anything to the analysis that the director general for finance and corporate services has given to the committee.

The Convener: The committee should be considering the effects of the numbers on the wider targets that they are aimed at and the services and so on that are involved. In the limited time we have, I would like us to extend the range of the questions.

Jeremy Purvis: I wonder whether it is the committee, rather than the cabinet secretary, that should decide whether that information would be helpful.

John Swinney: If the committee requests information from me, I will endeavour to provide it. I do so faithfully on a regular basis.

Jackie Baillie: I risk the convener's wrath by focusing for a tiny second on some of the numbers. I promise that I will range far and wide after that.

I agree with the cabinet secretary that growth in 2009-10 is not an issue. That is accepted, but the devil in the detail is what happens in 2010-11. I think that I heard you say that the reductions in budgets apply to plans rather than to the base budget. According to a number of commentators, the base budget line is growing. I do not want to put words in your mouth, but did you say that it is a reduction in plans rather than in the baseline budget?

John Swinney: I fear that Jackie Baillie is giving us a new definition of a baseline budget. Perhaps I should explain this to the committee. We have a budget in 2009-10, which is approved by Parliament. A comparison will be given against that budget in 2010-11, and the pattern demonstrates a 1 per cent real-terms reduction in the budget for 2010-11.

Jackie Baillie: Let me put this more simply—

John Swinney: That was quite simple.

Jackie Baillie: Well, no, because I think that you are wriggling away from the point that you made, which is the difference between plans and baseline budgets. If my daughter expected £10

pocket money at the end of the week but because of a tightening financial settlement I decided to give her only £2, it would nevertheless be a growth in the baseline budget that she would get in pocket money, albeit not quite as much as she expected or hoped for. Is that a fair comparison?

John Swinney: I am not quite sure. I shall try to tiptoe my way through this without causing chaos in the Baillie household. We have published, in good faith, a three-year spending settlement, according to the estimates that the chancellor gave us in 2007. Essentially, that allows us to fund the policy programme on the public service delivery that we want to fund as a Government. Organisations plan on that basis, and then along comes the chancellor and says, "Well, actually, you're going to get less money than I said you were going to get." When you compare the 2009-10 budget with the 2010-11 expectation, there is a 1 per cent real-terms reduction.

I accept that the resources that have been removed by the chancellor have been removed from plans, but they are part and parcel of the financial settlement within which we operate. That is the reality for 2010-11. We then have to look at what lies in the period ahead of that; Mr Finnie thoughtfully remarked in the chamber that it is clear that there will be a period of sustained pressure on public finances. In my opinion, that leads to the inescapable conclusion that there will be a sustained, real-terms reduction in the departmental expenditure limit in the period beyond 2010-11.

Jackie Baillie: That is helpful, because I focused my comments on 2010-11. According to Stella Manzie, Professor Bell and, indeed, SPICe, if we exclude capital reprofiling, there is growth in the baseline budget. I am happy to concede the point about the period beyond 2010-11. I think that there will be challenging issues for that period, and I wonder whether I can come on to some of them.

John Swinney: If the convener will indulge me again, I return to the table in the red book that Mr Purvis cited, which demonstrates clearly the point that I have been making about a 1 per cent real-terms reduction. However, I would be delighted to move on to other subjects.

Jackie Baillie: But you did have to get the last word—that was fun.

I am interested in finding out when you are likely to come to a conclusion on the Barnett consequential, not least because the Government's stated objective is, rightly, economic recovery. Colleges, for example, must take decisions in August, so it would be helpful to know the cabinet secretary's thoughts on the allocation and when people will be told about it. Time is pressing.

John Swinney: I appreciate that. We are dealing with £79 million-worth of consequential in 2009-10 and £25 million in 2010-11. The Cabinet is actively looking at the issues, and I would expect to be able to make announcements well in advance of the summer recess so that there is clarity for organisations. I accept the point that organisations require clarity about how that resource will be used.

Jackie Baillie: That is helpful. I am sure that those organisations will look forward to that.

The cabinet secretary and I have discussed the alignment of spending with targets on previous occasions. A number of monitoring frameworks are in place for that, which will become even more important in the context of a tight financial settlement in the future. What plans do you have to align targets and monitoring frameworks much more with the money that the Government puts into the system?

John Swinney: We have been round these houses before. As I have said to Jackie Baillie and the committee before, we could look at the budget in a multiplicity of different ways. For example, we could consider how it focuses on particular sectors of the economy or on particular big policy themes, such as the battle against poverty, the achievement of economic growth, the delivery of equalities and the work on climate change. We could consider the budget in a variety of ways.

What we have endeavoured to do with the national performance framework, which was set out in the spending review, is drive the purpose targets that are implicit in the Government's economic strategy and the achievement of national outcomes and indicators—those are all set out on the Scotland performs website. All of that is designed to give us a focus on how we use public money to make a difference on outcomes.

I would be the first to say that the territory will undoubtedly need to be reviewed and revised once we see how it operates. It is designed to focus us on looking more at the effectiveness of our spend and what outcomes have been achieved than at how we distribute spending in terms of inputs, which has been a common characteristic of how public finances have been approached.

I am happy to engage further with the committee on whether our approach is successful, because ultimately we have to answer the hard question: what is the benefit of the public expenditure that we deploy? That is a question that we all want to answer satisfactorily.

Jackie Baillie: Much has been said about efficiencies. We might disagree about the level of efficiencies, but the issue must be considered. Are

you minded to apply a percentage target across the board or to target savings in one or two areas?

John Swinney: I acknowledge that one option that we could consider is to increase the annual efficiency savings target from 2 per cent. No decision has been made on that. The Cabinet is considering all options for managing public expenditure. As part of the budget process, in response to the Liberal Democrats' suggestion, we established the joint strategic review of public spending in Scotland. The next meeting of the review group will take place in a week or so. Dialogue on how we proceed will of course continue with the other parties.

The Convener: One problem is how we relieve pressure on public finance in the current circumstances. The committee heard that efficiency savings might need to be increased as budgets become tighter. Is a target across the board an effective and efficient approach? We hear that we must make efficiency savings, but how will we do so? As budgets become tighter, how can we deliver further savings across the board?

John Swinney: You will be aware that we have a clear and tough test of what constitutes an efficiency saving, which is applied to all suggestions for efficiencies in the Government's programme. The test must be passed before something can be counted as an efficiency saving. We report on performance in the delivery of efficiency savings and will continue to do so. We are going through a sustained period of efficiency savings, which has been going on since 2004-05. The common assumption is that there is a range of easy options to pursue, but the more pressure there is to deliver efficiency savings the more reduced the range of options becomes.

The Convener: Scottish Water gave evidence on its efficiency savings. Is its performance the exception or the rule? Could the model be replicated and applied throughout the public sector?

John Swinney: Scottish Water's efficiency regime has performed well. The organisation has dramatically improved its performance without increasing household charges in an unsustainable fashion. Scottish Water has had good leadership and enormous participation and co-operation from employees in taking forward initiatives. That is a model from which lessons can be learned.

The Convener: How much scope is there for further efficiencies via central e-procurement and a central utilities contract?

John Swinney: We can pursue a variety of issues. I think that I have told the committee that I chair the public procurement reform board, which draws together a range of participants from central

Government, agencies and local authorities, to co-operate on joint public sector procurement initiatives.

On 30 April, I announced that we had secured a single contract for the supply of electricity to the public sector in Scotland. That relates to a public sector spend of approximately £200 million each year on electricity. That contract, which we let to Scottish Power and to Scottish and Southern Energy, will result in a saving to the taxpayer of £10 million a year. If my calculations do not let me down, that is a 5 per cent saving to the public purse.

14:45

There are obviously other opportunities to make savings. We are currently considering software licensing arrangements. If the whole public sector procures those services instead of each individual component organisation getting software licences, efficiencies will be made. We can also take into account other utilities supplies.

I am pleased that we have been able to take forward the work on the procurement agenda that the previous Administration started. I am strongly supported in that by John McClelland, whom the previous Administration identified to lead on it. He recently commented that the approach that has been taken demonstrates that Scotland is a trailblazer on procurement within the United Kingdom. We should acknowledge that we have achieved a great deal, but I certainly want to ensure that we take further steps in that respect.

Linda Fabiani (Central Scotland) (SNP): I will ask you about Barnett consequentials, cabinet secretary. I was interested to hear from Alyson Stafford that there are some issues with the Barnett consequentials from the Olympics regeneration fund, which strikes me as strange, because it is clear that funding has been withdrawn from many Scottish organisations because of the Olympics. Is the Government currently discussing with Westminster the best interests of Scotland in relation to any other funds and consequentials that Westminster has withheld?

John Swinney: There are regular discussions on consequentials with the United Kingdom Government. Unfortunately, some of them reach a conclusion of no progress. I will give two examples.

The first example is the Olympics. The Scottish Government and our colleagues in the Welsh Assembly Government and the Northern Ireland Executive have all taken the view that there should be consequentials from the regeneration elements of the Olympics project in London. We have no issue with the funding for bringing the Olympics to

the United Kingdom but, if the regeneration work that is going on in the east end of London was happening as an ordinary regeneration project, we would get Barnett consequentials from it. We have pursued that issue with the UK Government and with two successive Chief Secretaries to the Treasury—Mr Burnham and, currently, Yvette Cooper—but have reached no agreement.

The other example concerns the Carter review of prisons. Subsequent to the announcement of the comprehensive spending review in November 2007, the Secretary of State for Justice Jack Straw announced that, with the publication of the Carter review, he was being allocated £1.2 billion from the contingency fund to tackle prison overcrowding in England and Wales. When funding is allocated from the contingency fund, there are no Barnett consequentials unless we have a similar problem. I made a case to the Treasury that we had a similar problem. After all, the Government is investing significantly in the prison estate with the construction of new prison accommodation—and the naming of new prisons in a fashion acceptable to the local community. However, no consequentials came to us from the Carter review because the UK Government judged that we had made adequate provision for those issues within our CSR allocations. We had a frustrating discussion about that.

We have also had some discussion—again leading to an unsatisfactory conclusion—on the issue of the new commutation factors for pensions for police and fire officers. The funding was provided to the Treasury to solve the issue in England and Wales, but we are providing that resource in Scotland from within our own budgets.

There are a number of areas in which we have concerns about the consequentials that we receive. However, on the current issues, we will address the questions on consequentials that Jackie Baillie raised.

Linda Fabiani: I wonder whether the committee could write to Westminster to express concern about those examples.

The Convener: We can discuss that afterwards. I take that point on board.

James Kelly: I will heed your warning, convener, and drift on to other areas, much as it is tempting to discuss with Mr Swinney Stella Manzie's assertion that, in 2010-11, the budget will grow by 1.3 per cent once capital acceleration is taken into account.

It is important to go back to the evidence that we heard in previous weeks. Last week, we heard from the voluntary sector. I know that the cabinet secretary has been an enthusiastic supporter of the voluntary sector in the past, and I am sure that he continues to be so. We heard about the

difficulties that the voluntary sector has had with funding levels—the lack of an inflationary uplift was one of the issues that was highlighted to us. There is some frustration that the single outcome agreements do not properly reflect the needs of the voluntary sector, so will the cabinet secretary consider renegotiating the concordat in order to give stronger support to the voluntary sector?

John Swinney: Mr Kelly talks about financial pressure in the voluntary sector. We are entering a tighter financial climate, and there will be significant pressure on budgets, which will impact on our ability to satisfy all the demands that are placed on us. Nevertheless, the Government set out in its spending review document an increase of 37 per cent in its support for the third sector over the three years. That is an indication of the Government's commitment to the sector and provides welcome assistance.

Only the other day, I got feedback from some of the organisations that have been successful in bidding for the new funds that are available. They are now able to develop social enterprises in particular on a more sustainable basis. I made some comments about that in response to questions from Marlyn Glen in Parliament last Thursday. I appreciate that there will be financial pressure in the third sector, but there will be financial pressure across all sectors. We have allocated resources to help the expansion of the third sector.

I make three points regarding the concordat and the relationship between the third sector and local government. First, the Government has set up a regular discussion between our officials, the voluntary sector and local authorities to act as a gathering point for information about financial pressures in the sector. Those regular discussions give us valuable information about the pattern of local authority support for voluntary sector organisations.

Secondly, the Convention of Scottish Local Authorities and local authorities have made a considerable effort to establish a better relationship and understanding with third sector organisations to give them greater reassurance about the role that they can play in public service delivery. I have been party to a number of those discussions, and have found them to be conducted in good spirit, with the third sector being encouraged to get involved at a local level.

Thirdly, these issues do not need to drive a renegotiation of the concordat. Regular discussion between the Government, local authorities and the third sector is required to ensure that we are all focusing on shared objectives and priorities. I know that that is very much the local authority view. During the Easter recess, Mr Mather and I had extensive discussions with local authorities

and the third sector to take stock of where we were in answering these questions. The Government will continue to engage in that dialogue.

James Kelly: We have heard evidence on the importance of skills and investment in skills, particularly when we are facing recession. That area must be prioritised if we are to protect the economy in these difficult times and to stimulate growth when the economy picks up again. During one of our evidence sessions, there was surprise and concern at the level of the cut in Skills Development Scotland's budget in 2010-11. Will the cabinet secretary give that area further consideration?

John Swinney: I will certainly look at all the evidence that the committee has taken on that area.

In relation to the wider skills issue, Mr Kelly will be familiar with the fact that we have made a number of decisions to enhance the focus of European social and structural fund programmes to support skills development in Scotland. That is the driving priority behind the funding decisions that we take. That focus was very much to the fore in our most recent announcements. Obviously, additional resources have been allocated to skills development as a response to the agreement on funding for apprenticeships that I reached with the Labour Party in connection with the budget; those resources will be part of the financial arrangements that Skills Development Scotland will have at its disposal. However, I am certainly happy to reconsider the issue.

Jeremy Purvis: Last week, we received evidence from a number of panels, including Scottish Water. What you said about the efficiency with which Scottish Water has delivered its programme was interesting. I asked the chief executive whether Scottish Water is still going ahead with its public-private partnership Scottish Water Solutions model for investing in its capital programme, or whether the Government has said to Scottish Water that it would prefer the organisation not to use that financial model. The chief executive said that the Scottish Government has not asked Scottish Water to do anything differently. What is the position with regard to Scottish Water Solutions and the tender for delivery of half the entire capital programme? Why is Scottish Water continuing with a public-private partnership for profits on equity, which I did not think was the Government's preferred option?

John Swinney: Essentially, a lot of what is achieved in Scottish Water Solutions is a result of collaborative procurement, which is exactly the point that I was making about the electricity contract, where we group together a number of different projects and deliver them on a

competitive basis. That model is clearly delivering some efficiency, which the Government welcomes.

We are in discussions with Scottish Water about the nature of the capital programme from 2010 onwards, and we will address these issues in those discussions.

15:00

Jeremy Purvis: Is it true that you have not asked Scottish Water not to use a PPP route for Scottish Water Solutions?

John Swinney: We are involved in discussions with Scottish Water and the Water Industry Commission for Scotland about the composition of the capital programmes. The issue is still under discussion.

Jeremy Purvis: The chief executive said that Scottish Water is part of the way through a competitive tendering process. It sounds as if you have made a decision that PPP will be used.

John Swinney: As I said, we are involved in discussions with Scottish Water about the approach to the capital programme, and those discussions continue.

Jeremy Purvis: I have a question on your recent comments about public sector pay. As you know, the committee has taken evidence on the matter. We received evidence that, as of April, eight Government agencies had not put forward pay requests for their chief executives, which they were supposed to do by December. As far as you know, have all Government agencies now submitted pay requests for their chief executives for the coming financial year? If so, will any of the uplifts be more than 1.5 per cent?

John Swinney: Which financial year do you mean?

Jeremy Purvis: I mean in 2009-10, and then in 2010-11.

John Swinney: The 2009-10 chief executives pay policy has been agreed but it has not yet been published. It will go to non-departmental public bodies shortly. Obviously, organisations need to receive that before they can submit their proposals for the financial year 2009-10.

Jeremy Purvis: Will any chief executive's pay be approved if it is more than 1.5 per cent higher than it was in the previous year? Also, will you approve any bonus regimes?

John Swinney: Convener, I am in danger of giving the committee information that I have agreed but not yet published, and of making an announcement that I do not intend to make. If I answer Mr Purvis's question, I might announce something that I have not yet made public.

The Convener: I take your point.

Jeremy Purvis: If you tell us, we will not tell anyone.

John Swinney: I am sure that no one is paying the slightest attention to anything I am saying this afternoon, but—

The Convener: We take your point. The information is to be announced, and we await the announcement with interest.

John Swinney: I hope that that is acceptable to you. I do not want to be in any way—

The Convener: The matter should not be pursued further.

Jeremy Purvis: I am interested to know the source of the stories that have appeared in the press. Has there been a briefing from the Government on the intended percentage uplifts for public sector pay?

John Swinney: Yes, because I have published the staff pay policy, which includes a maximum basic award of 1.5 per cent and a total financial envelope of 3 per cent to take into account the basic award and progression. What I have not published so far is the approach to the pay of NDPB chief executives, although I have taken the decisions. It will be published shortly.

David Whitton: I assure the cabinet secretary that we are very interested in what he has to say to us at all times, including this afternoon.

Last week, we took evidence from Mr Edwards of Aberdeen City Council. In an exchange with Mr Purvis, Mr Edwards, who is an official and not an elected representative of the council, said:

“we must revisit the concordat.”—[*Official Report, Finance Committee*, 12 May 2009; c 1235.]

We also heard in evidence from various witnesses that you will have to make some difficult decisions in the coming weeks and months. Would you care to offer a view on whether the concordat will be revisited?

John Swinney: If the convener will indulge me, I point out that Mr Whitton has not listened to everything that I have said this afternoon. I cracked a joke about the naming of a prison in his constituency, which he did not pick up on. He can read the *Official Report* to find out what I said.

Jeremy Purvis: The Swinney house of correction.

John Swinney: I say good luck to Mr Edwards. If he says that the concordat should be renegotiated, that is his opinion. When I have discussions with the leadership of Scotland's local authorities through COSLA and the leaders of the main political groups, we have constructive

discussions about the concordat carrying on. My intention and that of the elected leadership of Scotland's local authorities is that it should do so.

David Whitton: I am glad that you mention the elected leadership of Scotland's local authorities, because Bailie Matheson also gave evidence last week. I cannot find the quotation in the *Official Report* of the meeting, but I think that he said that it would cost £47 million to implement the class size reduction policy. He also said that Glasgow City Council would much prefer to spend that money on other services, so it will not go ahead with reducing class sizes. That seems to indicate that, although there is a concordat that contains agreements, councils simply cannot reduce class sizes.

John Swinney: The concordat states:

“Local government will be expected to show year on year progress toward delivery of the class size reduction policy.”

Of course, the information that we have shows that there have been reductions in class sizes and improvements in pupil to teacher ratios. Those things are under way.

I do not have in front of me the *Official Report* of the meeting to which you refer. If Councillor Matheson said that Glasgow City Council had decided not to go ahead with reducing class sizes, that council must explain why it has taken that decision. Other authorities are clearly making progress on class sizes; I encourage Glasgow City Council to play its part in that.

David Whitton: In your answers to earlier questions, you briefly touched on efficiency savings. Ms Manzie was asked about efficiency savings during her first appearance before the committee. She said that the Government was being an exemplar in how it was achieving 2 per cent efficiency savings. Indeed, it has been such an exemplar that it could probably achieve savings of an even greater magnitude—perhaps up to 5 per cent. Is that your view?

John Swinney: Achieving 5 per cent efficiency savings would be a significant challenge. Some people complain about some of the efficiency targets that we already have.

David Whitton: They are all in local government.

John Swinney: I think that one or two of them are in this room, Mr Whitton—I put it as politely as that.

The key issue for me is that, whatever approach we take to the efficient government programme, what can be achieved within it must be planned and tangible. We have deployed that characteristic. I have shared with members some of the measures that we are taking to try to

achieve those efficiencies. The work on procurement is one example; work on energy efficiency and various other matters is also under way. There is a good range of work streams. I am sure that we can do more, but the more one goes into an efficient government programme, the more challenging it becomes, because there is a greater requirement to reconfigure the way in which public services are delivered. In my experience, there is no simple, cost-free approach to be taken at that stage.

David Whitton: I am glad that you recognise that, because I am sure that the same applies in local government. For the record, I saw a look of horror on Ms Manzie's face when I mentioned 5 per cent efficiency savings. She did not say that such savings are achievable. I suggested to her that 5 per cent efficiency savings are perhaps achievable, but I think that she said that ministers would have to make a decision about that. I am now looking at the man who might have to make that decision.

John Swinney: I am glad that Mr Whitton's honour has come to his rescue and that he quoted my officials correctly.

David Whitton: I always try to do that.

The Convener: In evidence, we have received various views on the idea of a challenge function. Can we have your thoughts on what that would be like and how it would be implemented?

John Swinney: Pardon me, convener, but there does not seem to be an absence of challenge around these days. A strong argument has been deployed in the Howat review and, unless I misquote him, it was also deployed by my predecessor, Mr McCabe, who said that he felt that the arrangements would be stronger if a challenge function were put in place. That rather misses the point that we have many challenge functions in the Scottish Government—those that assess the approach to efficient government, for example. The efficient government team is working its way around different parts of Government, testing the way in which public spending is deployed to guarantee that we are getting optimal efficiency out of that resource. Into the bargain, the team is testing the programmes that are being developed.

The finance function in the Scottish Government is habitually involved in challenging public expenditure. Your question rather suggests that we do not have such arrangements in place. The question might come down to whether we need a separate minister to carry out the function: should we have a minister who has absolutely no departmental responsibilities so that we can have a finance minister who is devoid of any wider considerations in his or her remit? If you spoke to

some of the officials who work for me in areas that are within my portfolio responsibilities, although not connected with finance, you would find that they feel no less challenged about financial issues than anybody else in any other part of the Government.

I look to the challenge function to ensure that we have the proper arrangements in place to guarantee that we scrutinise effectively the public expenditure that we undertake. I look to the finance officials to lead on that—it is one of Alyson Stafford's routine responsibilities as director of finance—but obviously I retain oversight of all aspects of public expenditure to guarantee that the Government's purpose has been fulfilled and that we are delivering on our agenda for efficiency and value for money across the board.

The Convener: Jackie Baillie has asked to put one specific final question—she is now on trial.

Jackie Baillie: It is a tiny question on the back of your question, convener. I recall ministerial bilaterals, and I assume that they continue, particularly in relation to finance. I am clear that you challenge your officials, but who do you meet to challenge yourself?

John Swinney: I have a very strange conversation with myself about relative priorities. As Jackie Baillie will appreciate, many of my non-finance responsibilities are led by Stewart Stevenson, on transport, infrastructure and climate change, and by Jim Mather, on enterprise, energy and tourism. Discussions take place so that I can be satisfied that public expenditure has been undertaken effectively.

I did not have the privilege of seeing inside the Cabinet room under the previous Administration, but the Cabinet now operates as a collective. Issues to do with financial priorities at the highest level are settled by the Cabinet on my advice, as they should be. When such proposals reach the Cabinet, that approach gives a strong sense that they have been tested rigorously before they are scrutinised by the Cabinet.

The Convener: I thank Jackie Baillie for the very model of a short question. We have had a wide-ranging session about important and complex matters. I thank the cabinet secretary, Alyson Stafford and Gary Gillespie for attending today and wish them well in their endeavours in somewhat straitened times.

15:14

Meeting continued in private until 16:14.

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