

FINANCE COMMITTEE

Monday 9 November 2009

Session 3

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FINANCE COMMITTEE

25th Meeting 2009, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Malcolm Chisholm (Edinburgh North and Leith) (Lab)

Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

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

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)

Lewis Macdonald (Aberdeen Central) (Lab)

*Stewart Maxwell (West of Scotland) (SNP)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Bill Kidd (Glasgow) (SNP)

THE FOLLOWING GAVE EVIDENCE:

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Dr James Johnston

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

City Chambers, Glasgow

Scottish Parliament

Finance Committee

Monday 9 November 2009

[THE CONVENER *opened the meeting at 11:46*]

Interests

The Convener (Andrew Welsh): Good morning, and welcome to the 25th meeting of the Finance Committee in 2009. I ask everyone to turn off any mobile phones or pagers as, even on silent, they can interfere with the broadcasting system.

I thank all those who participated in the workshop sessions that have just concluded. The Finance Committee is delighted to be here in Glasgow, and I would like to thank the staff at the city chambers for all their hard work in organising this event for us. It is appreciated.

Before we move to the part of the meeting in which we will hear reports back from the workshops, the committee has some other business to attend to. As members will be aware, James Kelly and Jackie Baillie have now left the committee to go on to other roles. I take this opportunity to thank James and Jackie for their contribution to our committee—I especially thank Jackie, who was my deputy convener. Their input has added greatly to the work that we have done, and my thanks go to them.

I formally welcome Malcolm Chisholm and Tom McCabe to the committee and invite them to declare any relevant interests.

Tom McCabe (Hamilton South) (Lab): I have no relevant interests.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I probably ought to declare my membership of Unison and the Educational Institute of Scotland.

Deputy Convener

11:47

The Convener: As Jackie Baillie has left the committee, we must choose someone else to fill the role of deputy convener. Parliament has agreed that only members of the Labour Party are eligible to be deputy convener of the committee.

David Whitton (Strathkelvin and Bearsden) (Lab): I nominate Tom McCabe.

Tom McCabe was chosen as deputy convener.

The Convener: I congratulate Tom McCabe.

Draft Budget Scrutiny 2010-11

11:48

The Convener: Now that our committee housekeeping is out of the way, we can move to the main item of business for this morning, which is consideration of the reports back from this morning's workshops as part of our draft budget scrutiny.

The purpose of our visit today is to continue our examination of the Scottish Government's expenditure proposals for next year, which form the draft budget. As part of that, we feel that it is beneficial to gauge the impact of spending plans on local areas and to see how engaged different parts of the country are with the national process.

During this section of the meeting, members of the committee will report back on the issues that were raised in the workshops that were held this morning on economic development. Who will report back on the workshop that took place in the octagonal room?

David Whitton: I will, convener.

Our group got off to a very friendly start by going straight into the issue of the Glasgow airport rail link—in fairness, I should say that it was my colleague Joe FitzPatrick who raised it. You will not be surprised to learn that the representatives from Glasgow City Council, Strathclyde partnership for transport and the Scottish Trades Union Congress all expressed their disappointment at the decision that was taken by the Cabinet Secretary for Finance and Sustainable Growth in his draft budget, and all expressed a desire that the decision be reconsidered.

We moved on to the difficulties of decision making in a tight financial climate. There was general recognition that budgets would be tighter this time and that that would have an impact on the decision-making process of all the organisations represented, including third-sector and housing bodies, the health service and private companies. There was a clear desire among the group for a more co-ordinated approach between the private and public sectors and within the public sector. People wanted a greater attempt at joined-up thinking to be made, so that budgets could be co-ordinated much more effectively.

I was especially taken by the input of Scottish Power, which made the point that it is engaged in energy-efficiency programmes to a great extent and that much more could be done to increase the insulation of poorly insulated properties. It suggested that it is not for the company to do that on its own, that the Government has a role to play in bringing things together and that there could be

an economic benefit from combining our efforts, not just in the efficiency that is generated by insulating people's homes but in the jobs that that creates.

There was a clear desire for much more co-ordinated effort from the public sector, especially between housing and health. The need for health prevention, as opposed to just ensuring that people are treated well in hospital, was highlighted. There was a focus on the likely impact of issues such as swine flu on future budgets and on the importance of ensuring that the health budget is able to cope with such impacts.

If our group had one message to give to the cabinet secretary when we see him this afternoon, it was that we should remember the people whom we represent, especially those who are more disadvantaged, and the impact that budgets will have on them. That message came most strongly from representatives of the third sector. Mr Taylor put it best when he said that, 20 years or so ago, this city, in particular, was badly hit by many cutbacks and recession, and that he did not want us to return to those days. We should not forget that much good work has been done in this city since then, especially in disadvantaged areas and among people such as the disabled, who are now getting back into work. The budgets that are in place to help that work are now coming under threat. It is vital that they are not affected, so that people are not cast aside again.

I am happy to take observations from other members of the group. However, the message that came through most strongly was that, in all our arguments about budgets and where to focus spending—on capital, revenue or whatever—we should remember the impact that our decisions have on the people.

The Convener: I will invite comments from committee members after we have heard the second report; that is the best way in which to proceed. I ask Malcolm Chisholm to report back from the mahogany room.

Malcolm Chisholm: I will try to distinguish between individual opinions and those that were more generally supported by the group.

It was noticeable that there was much agreement on the need for capital expenditure to be accelerated. There was general concern about the effect that cuts coming too early would have on the economy. People thought that cuts were coming but that it was important to take a more strategic view, instead of making incremental cuts across the board. It was felt that we should focus on the economic consequences of decisions and that there was not enough in the budget that was focused specifically on the current economic difficulties. The acceleration of capital expenditure

is part of that, but some of the decisions that have been made in the budget were questioned. More than one person felt that it was counterintuitive for there to be cuts in the Scottish Enterprise budget at such a time, and concern was expressed about the Glasgow airport rail link.

Other contributions focused on how money should be spent on the economy. The STUC said that money ought to be given to keep on and train workers in the private sector. It also said that money that is being spent on the small business bonus scheme could be more profitably spent on the Scottish investment bank. The view was also expressed that investment in renewables infrastructure is critical for the future of the Scottish economy.

There was a big focus on the need for investment in various parts of the economy. It was felt that not enough prominence has been given to that in the budget.

The voluntary sector representatives in our group were vocal. They welcomed the Scottish investment fund but had concerns about what is happening to the voluntary sector at a local level. Part of their concern was the increased freedom that local authorities now have. They felt that there should be more scrutiny of how the end of ring fencing is affecting the voluntary sector.

There was discussion about other ways of saving money. The issue of local authority services was raised and the number of local authorities was questioned. It was said that we need to have an increased drive towards shared services, although some doubts were expressed about that by a couple of people in the group.

The main theme coming through the discussion was very much the issues that are faced by the economy. Some of those, such as accelerated capital expenditure, are beyond the control of the Scottish Government, but some of the Scottish Government's priorities in the current economic circumstances were questioned.

The Convener: Thank you. I invite comments from committee members.

Joe FitzPatrick (Dundee West) (SNP): David Whitton summed up well our group's discussion, which was very constructive. I expected GARL to be an issue, but many other issues were raised and some constructive thoughts were expressed on how we can move forward as budgets continue to be squeezed in future years. We discussed how we can deliver front-line services more efficiently by working better together, which is something that the Finance Committee might want to consider in the future.

Tom McCabe: Malcolm Chisholm mentioned the concern that was expressed over GARL, but

there was a wider concern about infrastructure in general. The view was expressed that investments in infrastructure will prepare our economy for the recovery when it comes and that, if there is a gap in the provision of infrastructure, we will pay an exaggerated price. The Scottish Government is doing its best to get further accelerated capital, for which there is more and more cross-party support, but there is a concern that eventually there will be a gap—possibly at a time when capital budgets are being reduced anyway. Perhaps more thought needs to be given to how we will deal with that gap, which could cause substantial disruption to the Scottish economy if and when it comes.

Malcolm Chisholm: There are several points that I could have added to my report. On the issue that Tom McCabe identifies, one individual in our group made the point—and other people took it on board to some extent—that it is possible to transfer revenue into capital and that one way of dealing with the capital gap that would result from the further acceleration of capital expenditure would be to use revenue for capital, in future if not at present. That is an option that we often forget about in budget discussions, although self-evidently it would have repercussions for revenue budgets. Nonetheless, given the general emphasis that our group placed on the importance of capital expenditure, it was understandable why that was considered as an option.

12:00

David Whitton: The point about whether revenue could be moved to capital came up in our group, too. However, on the issue of the acceleration of capital budgets from next year into this year, it was pointed out—in fact, I think that I pointed it out—that a lot of the money that was accelerated into last year's budget was spent on land acquisition. I specifically asked the representative from the Glasgow Housing Association how that had impacted on the association. He made the valid point that it is good to buy land when it is cheap in order to build affordable housing in the future. I then asked what he would do with the money if he brought forward accelerated capital from next year into this year. Would he spend it on house building rather than on land acquisition? You get a bigger bang for your buck in economic benefit from the former because you can employ construction workers and so on. He said that a number of schemes are waiting to go, but there is a lack of capital to help them to do so. That point was clearly taken on board by our group as something that we should feed back to the cabinet secretary.

Derek Brownlee (South of Scotland) (Con): It is striking that the themes that we discussed are similar to those that the other group discussed.

Although, strictly speaking, we are considering a one-year budget, most of our time was spent talking about issues that are broader than just next year's budget and concern the medium to long term. Most of the points that we discussed were about a longer-term impact. Perhaps we need to focus on this year's budget in the context of the medium to long term. We will probably have a better feel for how effective this year's budget is if we can view it in the context of a medium-term approach to budgeting by the Government. That point might be useful in guiding questions this afternoon.

The Convener: Thank you for those early observations. Having attended both workshops, I found the range and depth of contributions to be impressive. They have given us valuable raw material and food for thought, on which the committee will ruminate.

Now that each workshop has reported back, I again express my thanks to everyone who contributed today. Your wide-ranging expertise and experience will be helpful to the committee in our deliberations. I am sure that committee members will want to raise the issues that have been highlighted in the evidence session this afternoon with the cabinet secretary. The workshop outcomes will also feature in the committee's report on the draft budget, which will be published in December.

12:03

Meeting suspended.

13:59

On resuming—

Decision on Taking Business in Private

The Convener: Good afternoon. This morning, we held some useful and informative workshops with representatives of local organisations. I know that members of the committee are keen to use the issues that were raised in the workshops during the afternoon session.

On a housekeeping issue, Stewart Maxwell is attending the meeting as a Scottish National Party substitute for Linda Fabiani, who has sent her apologies. I invite him to declare any relevant interests.

Stewart Maxwell (West of Scotland) (SNP): I do not believe that I have any relevant declarable interests. However, I point members to my entry in the register of interests on the Scottish Parliament website.

The Convener: Thank you.

On Friday, Derek Brownlee and I were involved in an interesting education event with pupils from Hyndland secondary school, Hillhead high school, Notre Dame high school, Glasgow Gaelic secondary school and Clevedon secondary school. I welcome pupils from those schools to the meeting and hope that they have all enjoyed their day. From what I heard, they quickly developed a lively and intelligent understanding of the issues that were raised, so I say well done to them.

Do committee members agree to take item 6, which is consideration of the evidence that we will hear from the Cabinet Secretary for Finance and Sustainable Growth in order to inform the drafting of our report, in private at the end of the meeting, and to consider our draft report in private at future meetings?

Members indicated agreement.

Draft Budget Scrutiny 2010-11

14:01

The Convener: Under item 5, the committee will take evidence on the Scottish Government's draft budget for 2010-11. I welcome the Cabinet Secretary for Finance and Sustainable Growth, John Swinney, and the two Scottish Government officials who are accompanying him: Alyson Stafford, who is director of finance; and John Williams, who is head of finance co-ordination.

I invite John Swinney to make an opening statement.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Thank you, convener. It is a pleasure to be with the committee to discuss the draft budget for 2010-11, which was published on 17 September. We also published for the first time a carbon assessment of the draft budget. The committee will have seen our accompanying equalities statement.

The draft 2010-11 budget document sets out our spending plans for the third and final year of the current spending review period, details of which I announced on 14 November 2007. As we all know, there have been significant changes since then. Those changes have a major bearing on our spending plans for next year and are in the context of what was already the tightest spending review settlement since devolution. It may be helpful in my opening remarks to focus on some of those changes.

The impact of the global recession has, of course, been felt throughout Scotland. The Government has responded fully to ensure that Scottish individuals, households, communities and businesses are supported during these difficult times. We have established an economic recovery plan to help to focus and co-ordinate our efforts on that challenging agenda. I was pleased to publish an update to the plan on 29 October.

As part of our approach, we have, with Parliament's support, accelerated some £350 million of capital spending from 2010-11 into 2008-09 and 2009-10. That money has delivered real benefits, but it means, of course, that our budget for 2010-11 has been reduced accordingly. Furthermore, as part of the United Kingdom budget announcement in April, the Chancellor of the Exchequer decided to reduce the planned Scottish budget by around £500 million. Therefore, in total, we have seen a real-terms reduction of 0.9 per cent in the 2010-11 budget compared with that of the previous year, which is the first real-terms reduction since devolution. The draft budget has also been prepared in the context of forecasts of sharp reductions in public spending in all parts of

the United Kingdom in the years beyond 2010-11. We therefore face a significant challenge in setting the budget for next year. The Government has addressed its attention to that challenge.

Our overarching approach has been to protect spending on our most important front-line public services and our economic recovery plan. We have protected expenditure on Scotland's health service—national health service boards will receive an average increase of 2.7 per cent—and on schools, extra policing and other front-line local authority services, while retaining the council-tax freeze. We are investing £2 billion in skills and the higher and further education sectors, and £1.3 billion in our transport and roads network. We are spending £300 million on funding the enterprise organisations and are maintaining the small business bonus. In 2010-11, we will meet our commitment to our three-year £1.65 billion spending programme on housing and regeneration, and we have made the case to the chancellor for increased flexibility to accelerate capital expenditure into 2010-11 in order to build on what has been achieved to date. We will invest more than £1.5 billion in Scotland's rural areas, through the Scottish rural development programme, and some £150 million over three years in the zero waste programme.

We have, however, also had to make difficult choices about where to reduce planned spending. There has been particular focus on our decision to cancel the Glasgow airport rail link in order to help to ensure that the capital budget is sustainable in the years to come. We took that decision very reluctantly, but we did so because we believe that it is the responsible thing to do. It is important to recall that the Government has made provision to enhance significantly the rail corridor between Paisley and Glasgow Central station as part of the improvement programme. Last week, I gave detailed evidence to the Transport, Infrastructure and Climate Change Committee on the issue, although I will—of course—be happy to respond to questions from members today.

We have decided to make substantial cuts to the Scottish Government's operations: we have cut £14 million from our administration budget and reduced by half the amount that we spend on communications and marketing. We have asked local government to bear a proportionate share of the reduction in the chancellor's planned budget, while agreeing with the Convention of Scottish Local Authorities that the shared priorities that we are delivering through the concordat and single outcome agreements should remain at the heart of our delivery programme. I hope that the information that I have given to the committee today, and in the publication, will assist in scrutiny of the draft budget. My colleagues have been

involved in scrutiny with individual committees. I look forward to our discussions this afternoon.

The Convener: Thank you, cabinet secretary. We are all aware of the present troubled financial times and the problems that you have to address. Your statement is appreciated.

Tom McCabe: I would like clarification on a couple of issues to do with end-year flexibility, and then I will ask a brief question on non-domestic rates. Your spending plans have exceeded your budget in each of the three years of the comprehensive spending review. I think that the figure for last year and the present one was £100 million. For 2010-11, the figure was originally £24 million, but you have revised that up to £100 million. Implicit in that is that you must expect underspends in other areas of the budget, because you are not allowed to spend over your budget. Will you give an insight into where you expect those underspends to be?

Secondly on EYF, it is fair to say that you have in the past been a pretty fierce critic of the end-year flexibility that was held at Her Majesty's Treasury. However, it has been a fairly good friend to your Government: you have spent quite a bit of it in the past few years and it is likely that you will spend it all during 2010-11. If that is the case, by 2011-12, your baseline would, in effect, be about £300 million down at a time when we already expect substantial cuts. Will you give us your thinking on that?

Finally, you will accept that the methodology for predicting income from non-domestic rates is notoriously unreliable. You forecast a £54 million increase in non-domestic rates in 2010-11, but that will be in the teeth of a very bad recession. Will you give us the rationale for believing that there will be a £54 million increase in NDR while we are in the midst of a recession?

John Swinney: Mr McCabe is absolutely correct that we have included in our financial plans since 2008-09 an element of overallocation, which in essence was driven by two factors. The first was that, when I came to office, I inherited a level of overallocation in the budget that, if my memory serves me right, was in excess of £200 million, so I set a course to reduce that.

The second factor is that one objective of overallocation is to minimise underspend and ensure that the approach to public expenditure delivers the budget as close to expected performance as possible. Overallocation fulfils that objective, so I can understand the previous Administration's rationale for undertaking it. As I said, I have been managing that down from the level that I inherited. My judgment in relation to 2010-11 was that to bring down the overallocation to £24 million as I had predicted would have been

too abrupt a reduction at the present time, bearing in mind the many pressures in maximising the effectiveness of our spend.

In 2007-08 and 2008-09, we have demonstrated that we can manage out the overallocation, and an active process of management is under way across all Government portfolios to ensure that it happens. I am confident that we will be able to do the same in 2009-10.

Mr McCabe is correct to say that we inherited a substantial amount of end-year flexibility that has been utilised during this spending review period to adjust the spending pattern of the period since 1999, in which there was a significant, regular and sustained above-inflation increase in public expenditure in Scotland, to the position of the spending review period from 2007, in which increases above inflation have been moderate by comparison. Essentially, the end-year flexibility resource has been utilised to manage that transition in the profile of public expenditure.

I will have active discussions with Her Majesty's Treasury about the definition of the baseline, which will be an issue. When calculating the baseline, we must wrestle with the fact that the Scottish Government is, regrettably, in no way a decision maker in that—the baseline is defined by the Treasury. In discussions over the past 12 months, the Treasury has restated the baseline of the Department of Health in the rest of the United Kingdom for the spending review, which has negative Barnett consequentials for the Scottish Government. The baseline will be the subject of discussion with Her Majesty's Treasury during discussions about the spending review, which have not yet commenced, and will not commence in earnest until after the United Kingdom general election in the spring of next year.

Finally, Mr McCabe asked about non-domestic rates. The prediction that I have made is between what we expect to receive in 2009-10 and the reduction of just short of £100 million that we expect in 2010-11, which is a five per cent reduction. The figures for non-domestic rates are based on assumed revenues. We try to fine-tune the estimates as effectively as we can. The assumption that we have made for the profile of non-domestic rates income strikes me as being reasonable in the current economic circumstances.

Joe FitzPatrick: When producing your budget, you applied the Treasury deflator of 1.5 per cent, which is lower than the 2.75 per cent deflator that was predicted in the 2007 spending review. First, why did you decide to use the 1.5 per cent deflator? Some people have suggested that you should have used a lower figure. Secondly, what impact has the change had on your spending power? Thirdly, what impact have private finance

initiative payments had on your headroom in the budget this year, and what impact do you think they will have in the years to come?

14:15

John Swinney: In the red book that was published in spring this year, the Treasury set the gross domestic product deflator for 2010-11 at 1.5 per cent. I judged that we, too, should, for the sake of appropriate consistency, adopt that GDP deflator. Of course, if I had applied the GDP deflator of 2.75 per cent to the calculations, the overall shape of the budget would have been very different and would have shown a greater real-terms reduction than the one that the Government has shown in the draft budget document. I thought it entirely appropriate to take the assumed GDP deflator from the United Kingdom budget document.

Obviously, various measures of inflation and other factors impact on the Government's spending power. For example, although I might state in the document that we have a GDP deflator of 1.5 per cent, salary agreements that are in place might be at a higher level so that the spending power of a budget is more driven by the salary deal than by my assumption about the GDP deflator. As all colleagues will be aware from different times in the past few years, there will also be a different profile of inflation on construction projects, compared with general levels of inflation in the economy. Construction inflation operates at a much higher level than the GDP deflator would suggest, which has an effect on spending power. Although there are a number of variants to consider, I thought it appropriate to state the GDP deflator in that fashion.

On PFI payments, we show on the table on page 145 the effect of payments under public-private contracts during each of the years of the spending review. What that shows is that, between 2009-10 and 2010-11, there is an increase of just short of £100 million in annual repayments in PPP contracts. That increase has the first call on resources because we are obliged to make those payments in all circumstances and without question. New resources are required to be found to meet those payments before we undertake any other policy priorities or developments. Those payments are significant calls on our resources.

That opens up a debate to which I am giving consideration—how will that information be best shown in budget documents in the future? In several areas across public sector accounts we are repaying resources over longer periods, based on investments that have been made in given years. That will happen in relation to PPP contracts and to repayments under the Network Rail regulated asset base, which will be shown.

The payments are now at such a level that we have to be mindful of the scale of repayment that is being undertaken particularly because of my expectation that there will be real-terms reductions in revenue budgets in the years to come. The repayment charges will be significant factors in addressing the consequences of repaying those sums within a budget that is reducing in revenue real terms in the years to come.

Malcolm Chisholm: I have three questions about local government. I start with the general revenue grant, which it is said will increase on this year's figure by £522.5 million next year. In relation to the headline increases in percentages, local government revenue appears to be faring quite well compared with other areas. However, the question is about whether some of that increase is more apparent than real. I am particularly interested in the transfers from the rolling-up of funds. The biggest example is probably the £213 million fairer Scotland fund, which has been rolled into the local government settlement. Another example is the business gateway—referred to on page 49 of the draft budget document—which has also been transferred to local government. Is the increase to which you referred therefore more apparent than real? Is quite a lot of the increase accounted for by the kind of transfers that I have described?

John Swinney: The local government budget is stated on a like-for-like basis on page 135 of the draft budget document in note 4. Table 9.01 in the budget document does not capture all the local authority expenditure. Other budgets also support that activity through the health and justice budgets. Essentially, however, the local government budget shows an increase in the budget that allows local authorities to invest in their services. It also demonstrates an opportunity to maximise efficiency in use of some of the funding streams.

Mr Chisholm mentioned specifically the fairer Scotland fund. Obviously, there is an opportunity for local government to ensure that management of fairer Scotland fund resources can be aligned closely to many of the other interventions that local government can make in policy areas that are associated with the fairer Scotland fund, in order to maximise the effectiveness and the impact of that resource.

Essentially, therefore, the steps that we are taking are designed to ensure that local government is in a position to maximise the effectiveness of the resources that it has at its disposal. Of course, I am determined to ensure that we work effectively with local government to ensure that Government and local authority spending are similarly aligned in that fashion.

Malcolm Chisholm: I take your point. However, for the sake of clarity and without putting a figure on it, is my understanding correct that the real increase is less than the apparent £522 million, given that some of that is accounted for by transfers?

John Swinney: Some transfers will go into the local government pot, but there is a core increase in the local government budget. We must be careful that we do not try to account for every change in the local government budget. Part of our approach to local government finance is to maximise flexibility in its overall funding envelope in order to ensure that it can deliver as much as possible from that budget.

Malcolm Chisholm: The apparent increase in revenue is, I think, 3.1 per cent in real terms, although it may be qualified for the reasons that I have described. That contrasts with a decrease in capital of 18.1 per cent in real terms. What are your views on the rationale for favouring revenue over capital to such an extent?

John Swinney: The decline in the capital budget for local government is essentially driven by two factors. The first is the repayment of accelerated capital expenditures, some of which went to local government by agreement. Secondly, there is the contribution that local government is making to the sum of money to deal with reductions in planned spending, which I set out in my opening statement.

On the arrangements that are in place, I hear Mr Chisholm's point about favouring revenue over capital. Local authorities would certainly recognise that services that are supported by revenue expenditure are areas in which there will be significant pressure, particularly in the current economic context, so there is justification for ensuring that the revenue settlement is buoyant.

There is nothing to stop local government from transferring from revenue to capital, if it is a council's choice to do so. That flexibility is available to me, and to local government into the bargain. Local authorities are free to take that step if they judge it to be appropriate for their circumstances. Individual local authorities are in dramatically different situations: some are in a position where that might be a tangible and credible proposition, but it applies less to others.

Malcolm Chisholm: You have already touched on the reduction in local government funding, which, on page 138 of the draft budget document, is given as £174 million. The document adds that the figure is made up of £131 million of revenue funding and £43 million in capital funding. My question is a wider one: What was your approach to apportioning the reductions? Have they just

been applied pro rata? If so, was that a sensible approach?

John Swinney: If we take it, for the sake of brevity, that there is a difference of £500 million in planned spending, a proportion of that was allocated across government pro rata, simply because taking out that sum of money from a particular area without acknowledging that the funding envelope had become smaller would have been an impossible task. Only a proportion of the expenditure was dealt with in that way.

I sought with our partners in local government agreement that we could take that approach. I would not say that there was enthusiasm for the step that I took, but there was an acceptance that local government had to play a part in assisting the Government in resolving the issue. I appreciate the way in which local government responded to that challenge.

Malcolm Chisholm: There is a related question about the different figures that have been used for the reduction—£500 million is the most commonly used one, but other figures appear. On page 138 of the budget document, which I have just referred to, it appears as £521 million. As health is covered, albeit for just one year, it might be argued that the number for next year should be a bit lower than the figure of £370 million or so. If we consider next year's budget, taking into account that health is covered by EYF for one year, it could be argued that the local government share, at £174 million, is a rather large proportion of the reduction. That is a point that some people might make.

John Swinney: I understand the point. My decision on our approach to local government spending was driven by the fact that local government does not contribute to end-year flexibility, but is free to retain appropriate reserves within its own activities and accounts. All other areas of government, on the other hand, contribute to end-year flexibility. Although there is a short-term end-year flexibility benefit for 2010-11, I felt that it was appropriate to deal with that outwith the local government settlement, essentially. It was on that basis that I secured an agreement with local government.

Derek Brownlee: Cabinet secretary, you said earlier that the Government was turning its mind towards the likely reductions in spending in future years. I have a few questions about the extent to which this year's budget prepares the ground for dealing with them.

The UK Government has forecast a substantial fall-off in the level of capital expenditure over the next few years. Is it the expectation of the Scottish Government that the same fall-off will be applied in Scotland?

14:30

John Swinney: Unless the architecture and operation of the Barnett formula are changed, I would expect any reduction in UK capital expenditure—as envisaged not only in some of the thinking in the Treasury red book but in some projections of capital expenditure that the Treasury has considered internally and which have since come into the public domain—to result in a Barnett consequential of a real-terms reduction in capital expenditure.

Derek Brownlee: So you would be unlikely to use the flexibility that you mentioned earlier of switching revenue to capital to sustain spending in the years to come.

John Swinney: The power to shift resources from revenue to capital is available to ministers at any stage. For understandable and absolutely correct reasons, we do not have the flexibility to shift resources the other way, but we retain the ability to switch from revenue to capital to deal with some of the capital challenges that we will face in the years to come.

Derek Brownlee: You alluded to some of those challenges in your opening statement and, in response to Joe FitzPatrick, you mentioned other spending areas. Is there within Government—not, I appreciate, in the draft budget document—an indicative medium-term schedule or forward look of spending on capital projects that is of sufficient depth to allow you to determine what is affordable and to work out the pipeline of the projects that have been mentioned? After all, there will always be a lot more capital projects floating around than there will be cash to provide for them.

John Swinney: That schedule is certainly available in Government. The process of identifying such projects is refined spending review by spending review, which allows us to put together a picture of the capital resources that will be available to us over three years and to plan in greater detail the likely capital expenditure profile over that period. Of course, we have a profile of other capital projects, including the Forth replacement crossing and the Southern general hospital here in the city of Glasgow, that will predominate in our capital expenditure programme and run for longer than the spending review period.

A significant proportion of our capital budget is taken up by local government expenditure. Obviously we have an indicative level of local authority capital expenditure for the future, but it is up to individual authorities to decide the individual projects on which to use that money.

Derek Brownlee: Given the likely profile of the total grant available to the Scottish Government in years to come, do you expect that the approach

taken this year of passing on a share of the reduction to local government will be followed in future years?

John Swinney: Your question takes me into the longer-term financial issues that we will face, but I am quite happy to go there. For the 2010-11 budget, I have had to reopen a number of areas that I had closed down in the spending review and in light of agreements that we had reached on the three-year shape of expenditure. By the way, I feel that that is by far the most desirable approach to take to these matters but, as I say, because circumstances are different from those that we had envisaged I have had to reopen certain matters and put in place arrangements to ensure that we balance our 2010-11 budget.

Obviously, a significant amount of dialogue, discussion and consideration will be required right across the Scottish public sector, including central Government, Government agencies, local authorities and the Parliament itself, about some of the choices and challenges we face in the medium term with regard to public expenditure. After all, we are entering a period in which public expenditure will be fundamentally out of kilter with the expenditure that has been available for the best part of 20 years—indeed, for more than 20 years.

Even then, the challenges will be more acute than some of those that were faced in the early 1980s. That raises a big question, to which the Government is turning its mind. The committee has clearly already turned its mind to that question in its report on strategic budget scrutiny, but I imagine that it will come back to it because it is of such significance.

Mr Brownlee also asked whether the budget had positioned us to deal with that situation. The answer that I gave to Mr McCabe a few moments ago was designed to say that, over a period of time, we gradually adjusted public expenditure away from an assumption of growth by several percentage points above inflation, through an assumption of more modest increases, to an assumption of a real-terms reduction, which will become the norm for a number of years.

Over the course of these three years, we will try to change the profile, the perspective and assumptions of public expenditure to address some of the challenges, but we have some distance to go to be able to deal with the scale of the financial settlement that we expect to face beyond 2010-11. What rather restricts the debate is the fact that we do not have indicative or definitive numbers for the financial situation post 2010-11, but those figures will become clearer as the financial information comes to us in the course of the next year.

Derek Brownlee: I fully accept that we do not have those figures just now, but we have a pretty firm steer on the direction of travel. Do you agree with the Auditor General for Scotland, who suggested last week that efficiency savings are not enough to meet the challenges and deal with the real-terms reductions?

John Swinney: I am not sure whether it is appropriate to describe the Auditor General's evidence as helpful in the circumstances, but it is certainly as dispassionate and factual a commentary in the public domain as there can be on such questions. I hope that it helps to inform Parliament's deliberations on a serious outlook on public expenditure. In that respect, his work is important. I assure the committee that it commands my attention, but those questions have commanded my attention for considerable time.

The Auditor General's work also provides some significant insights into the challenges that we face. The programme of efficiency savings that the Government is implementing will help to contribute to the process. Undoubtedly, the programme over which Mr McCabe presided and the one over which I am presiding have helped with some of the reshaping of public spending that I talked about and with the need to come to terms with a different profile of expenditure. However, a much greater challenge exists beyond that, and our collective thinking will have to focus on that in the years to come.

Derek Brownlee: I understand what you say about the contribution that the efficiency savings programme can make. However, the point is that, given the likely outturn of public finances at the United Kingdom level, the Scottish Government will no longer fund and provide some things in years to come, and the issue is which items those will be. Is that correct?

John Swinney: That gets just a few steps ahead of where we are now. To answer such a question, I would have to know the profile of public expenditure. The situation would also depend on what we consider to be efficiency savings. For instance, significant transformations in the way in which we deliver public services could make real efficiency gains—much greater than the ones that we achieve now—because they would be driven by a more acute financial perspective in the period that lies ahead.

If we are in a financial climate in which we are looking at more significant reductions in public expenditure and more significant challenges around some of these questions, we have to be more demanding about what the public sector can deliver in efficiency savings. We have to consider the ground that Mr Brownlee has covered, but it is rather difficult to give a definitive answer without the full picture of the resources that we have

available. I am as keen as anybody to ensure that we have a debate that focuses on some of these questions. We should listen carefully to the contribution that the Auditor General has made, because it helps to inform many of the discussions and deliberations that we now have to have.

David Whitton: Welcome to Glasgow, Mr Swinney—I know that you have been looking forward to coming. One of the things that you mentioned in your opening remarks was the Glasgow airport rail link. Why was that project, as opposed to any other project, chosen to be axed from the capital budget?

John Swinney: As I explained to Parliament in my statement on 17 September, looking at the financial picture that lies ahead I had to make judgments about the sustainability of our capital programme. I undertake such reviews on a regular basis—I look at our capital programme to assess its affordability and to determine the projects that can be taken forward. As I shared with committee, and I just explained in my answers to Mr Brownlee, I could see that we had a very difficult perspective in relation to public expenditure in the years to come, and I took the view that I had to take steps to ensure that the capital programme was made sustainable.

I looked at the whole profile of the capital budget. I look at that on at least a monthly basis—as the end of the financial year becomes ever closer, I look at it a great deal more frequently—to see at what stage projects are and what the likely financial demands will be. I was able to identify different opportunities to restrict that capital programme, and I settled on the GARL project because it was at an early stage of development. It was not as if I was having to withdraw funding from a project that was 50 per cent complete or anything undesirable like that, nor was I having to take decisions to cancel projects that I would have judged—these are my judgments; I am not trying to suggest that they are anybody else's—to be more desirable to take forward than the Glasgow airport rail link.

I appreciate that people are disappointed about the decision that I made, but the judgment that I reached was that the Glasgow airport rail link was certainly a desirable project but not an essential project for the infrastructure of the country in the same way as the completion of the M74 link is significant and essential to the completion of the network in the country, or the M80, the improvements to which I observed as I came here today—I am glad to say that they are moving at a terrific pace.

That was the basis of my decision to remove a project that I did not think was critical to the national infrastructure of Scotland—I readily

accept that it was desirable, but it was not essential.

David Whitton: You will not be surprised to hear that in our evidence-taking sessions this morning, the Scottish TUC, the Scottish Chambers of Commerce, the SPT and others all expressed disappointment at the GARL decision. In a paper from the committee's budget adviser, Professor Bell says that, although the Glasgow airport rail link decision will save some money in the short term,

"It is not clear what the long-term costs and benefits of the decision not to go ahead ... will be."

Given that the stated purpose of the Government and of your budget is economic growth, how do you square the two?

14:45

John Swinney: This goes back to what I said to Mr Brownlee, and what I have said to the committee on a number of occasions. We are moving into a climate in which, regrettably, we cannot do all the things that we might want to do because we do not have the resources to afford them. That is the territory that we have reached on some of these issues. I marshal the facts to the committee: the difficulties are the changes to the planned budget with which we are wrestling and the profile of public expenditure in the years to come. I ask colleagues to consider that not everything that we might want to do can be done because the resources do not exist to support that. That is the judgment that I arrive at.

I made it clear to the Transport, Infrastructure and Climate Change Committee, when I gave evidence to it last week, that this is a draft budget document. It is not the last word, and I am not the final decision maker on the issue: Parliament has to be convinced of the budget before it approves it. However, it is there as a means of addressing the difficulty that lies ahead, which is why the decision on GARL was taken. I understand the disappointment of the organisations that Mr Whitton mentioned—I have heard those representations—but the judgment that I arrived at was to ensure that we have a sustainable capital programme.

David Whitton: I fully understand that you have to make the choices—you are the minister responsible—but your stated purpose is economic growth, and you have to make decisions in line with that. What I want to know is how your pursuit of the policy of free school meals fits with that stated purpose. How do your desire to cut prescription charges and your continued desire to keep council tax increases at zero fit with that stated purpose?

John Swinney: All of those measures will help families to wrestle with the difficult financial times that the country faces. The choices that we have made in various areas of revenue expenditure are designed to try to support people through a difficult period of strains on their household income.

I speak to many members of the public who entirely appreciate what the Government has done on the council tax. When the Government came to power, people said that the council tax had been at an unbearably high level in relation to their income, and they appreciate the fact that the council tax has been frozen since then. The measures that you mention are helping to support families and households through difficult economic times. They support the spending power of individuals. If they are not spending money on council tax increases, they will spend it in shops and businesses in Glasgow and elsewhere.

We are seeing Government capital expenditure that has an economic impact—that is precisely why we do it. Although, from the perspective of its impact on the economy it would be desirable to have a Glasgow airport rail link, I have to consider the other programmes that deliver an impact on the economy. There are plenty of other such projects around the city of Glasgow. I mentioned the M74 and the M80. The Airdrie to Bathgate rail link is coming into the city, and the Southern general hospital took a decisive step forward on Friday with the awarding of the preferred bidder. There is a range of other capital expenditure before we get anywhere near the economic impact of the capital spend. I was at a construction conference in the city this morning at which the city council made clear its major capital expenditure plans, which are very welcome.

David Whitton: I am sure that you, the First Minister and your colleagues think that the national conversation is desirable, but it might be argued that it is not essential. Equally, you might think it desirable to have a referendum on whether Scotland should make moves towards being independent, but the cost of that is reported to be £9 million and I would argue that it is hardly essential.

John Swinney: That is perhaps where Mr Whitton and I part company—unimaginable though that prospect might be. I think that it is essential that the Parliament has a full range of economic powers and that the question is either discussed as part of the national conversation or addressed in the context of a referendum on Scottish independence—which, I stress, is not yet the position of Parliament. I am sure that much more discussion will be had before the issue is resolved.

As a finance secretary in a devolved Scotland, I am prepared to use all the levers at my disposal. I

am doing that and, as Mr Whitton knows, I have demonstrated a willingness over the past two years to take on board suggestions from other parties about how I might use those levers more effectively. I acknowledge the fact that other parties have made suggestions and that we have taken them on—it is absolutely appropriate for a minority Administration to do that. However, one of my frustrations is that the more significant interventions that I want to make would require our having a greater range of financial powers. Joe FitzPatrick represents Dundee, where the games industry is based. Fantastic achievements have been made there, based on the foundations of the University of Abertay Dundee. However, the games industry has told me that the one thing that it wants is tax credits and I cannot offer it tax credits. That is an illustration of why it is essential that we move on in relation to those questions.

David Whitton: I, too, have connections with Dundee and I understand where you are coming from on that issue. However, as I said before, you have to make the choices on the basis of your priorities. One of the Labour Party's priorities is modern apprenticeships. Last year, we got an agreement from the Government that it would increase the number of modern apprenticeships by 7,800. Can you tell me where we are with that? The cost was to be about £16 million. Were you able to deliver that, and will you listen to appeals for more modern apprenticeships in the next budget?

John Swinney: I acknowledge the fact that the Labour Party made that suggestion last year, which I was happy to accept. That is an illustration of how different political parties can make focused and quantifiable suggestions that enable us to make a choice as parliamentarians. Undoubtedly, it was a focused proposal.

The resources for the 7,800 extra modern apprenticeships have been allocated in 2009-10 and sustained in the 2010-11 budget. The places have been commissioned and we are working extremely hard through a number of different interventions to ensure that all of the places are taken up. It is not entirely within the gift of the Government to create an extra 7,800 modern apprenticeships, but we have made financial provision to support an extra 7,800 modern apprenticeships.

The Cabinet Secretary for Education and Lifelong Learning made a statement to Parliament last week, to which Mr Whitton responded with his new, enlarged scope of responsibilities. That statement set out the various different steps that are being taken, including the adopt an apprentice scheme and the protection for apprentices who may lose their jobs. If other suggestions are made as to how we might utilise the money that is

committed in 2009-10 to deliver a greater impact, the Government will be happy to consider them. I inject the caveat, which I think is entirely reasonable and understandable, that because of the economic conditions we cannot guarantee that we will be able to fill all the places, but we will certainly do everything that we can. If Mr Whitton has suggestions to make, we will willingly receive them.

On the point about further discussions, I certainly look forward to discussing, as I did for the 2009-10 budget, how the draft budget can be strengthened in any way to ensure that it commands a broad consensus within the Parliament.

Stewart Maxwell: Cabinet secretary, you have made clear your desire once again to accelerate capital expenditure. I know that you have been making the case for that to the Chancellor of the Exchequer. Will you update the committee on how those talks are going—if there are talks—and whether you are likely to succeed?

John Swinney: The first thing to say is that an element of the financial challenge that we face in 2010-11 is driven by the fact that we are required to pay back the accelerated capital that we have already drawn down. That is one of the first motivations.

The second point is that we are at a fragile position as regards economic recovery. The GDP statistics for the third quarter, which the UK Government published a fortnight ago, show that we are still in recession. There was much optimism that we might have moved out of recession in the third quarter and the fact that we did not suggests that we still have a fragile economic recovery. As a consequence, it would be beneficial if we could sustain the accelerated capital expenditure in the period ahead.

The proposal has been put to the chancellor. We have not had a formal response, but I would not expect to have a formal response until such time as the chancellor announces his pre-budget report. Some weekend news reports suggested that the chancellor was saying that there should be no more accelerated capital expenditure, but I saw other news reports in which the same remarks were interpreted as meaning that there should be accelerated capital expenditure. It is often difficult to penetrate the media assessment of the matter.

I appreciate the support of the Labour Party in Scotland and that of the leader of the Opposition, Iain Gray, for the argument for a further tranche of accelerated capital expenditure. I certainly appreciate his intervention in writing to the chancellor to support that proposition. I expect that we will have a clear position by the time that the

pre-budget report is published, which I expect to be before the end of the year.

Stewart Maxwell: I assume that you have been not just hoping but planning for accelerated capital expenditure. Given that that is probably the case, will you enlighten us about your priorities for the use of that capital expenditure? Taking up your point about the input of other parties, which Mr Whitton also raised earlier, have you had representations from other parties about what that capital expenditure should be used for? Can you share those with us?

John Swinney: The Cabinet has had initial discussions about the matter. Obviously, our decisions about accelerated capital expenditure to date show our priorities. It is fair to say that a priority in the forthcoming period will be social housing expenditure. I think that that position is pretty broadly supported across the political spectrum.

It would be inappropriate for me to set out other parties' views. We can hear their positions in public debate. As I have said, publicly and in Parliament, I remain happy to discuss with other parties their priorities.

15:00

Stewart Maxwell: I have a small question that is not about accelerated capital decisions but about something that might have an input. When you made the announcement to Parliament about the GARL project, you referred to the possibility of the fastlink project. Will you update us on your thinking on fastlink? Is that being taken into account in plans for future years?

John Swinney: I made comments to Parliament about fastlink and about supporting the transport infrastructure for the Commonwealth games in the city of Glasgow—the Government is strongly supporting the development of the Commonwealth games in the city. We are keen to progress discussions with the relevant local authorities about fastlink. Those discussions are a priority for the Government.

We have made it clear that we will actively and physically support the development of Dalmarnock station, which will be the key Commonwealth games station, as a major transport interchange for the games. We stand ready to support that.

I am happy to update the committee as discussions on fastlink proceed.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I will briefly follow up David Whitton's question about which projects are desirable and which are essential. The Government's view is that a referendum is

essential. From which budget line would the costs of a referendum come?

John Swinney: No financial provision has been made in the budget for a referendum, because Parliament has not passed the legislation. It will be appropriate for us to make provision once Parliament has approved the legislation. I would decide on that later and make the appropriate changes in the autumn or spring budget revision.

Jeremy Purvis: Would a referendum require a cut to something that is in the budget? If not, does that mean that the budget that is in front of us does not represent all the money that is at your disposal?

John Swinney: The money that is at my disposal is in the budget document.

Jeremy Purvis: So where would the money for a referendum come from?

John Swinney: A decision would have to be taken on where the money was to come from, if Parliament required me to find the money to fund a referendum.

Jeremy Purvis: You would find the money by cutting something that is in the budget, because I presume that you have allocated all the money.

John Swinney: I would have to make a choice in order to provide for a referendum bill—yes.

Jeremy Purvis: That would be a cut from a line that is in the budget.

John Swinney: I would provide for a referendum in the budget.

Jeremy Purvis: I will return to accelerated capital. Mr McCabe asked about the overallocation. What proportion of the overallocation of £100 million is capital for the budget year?

John Swinney: The overallocation is all resource.

Jeremy Purvis: Okay—thank you.

Last year, part of the acceleration was for the town centre regeneration fund, for which £60 million was brought forward from 2010-11 to 2009-10. From where in the 2010-11 budget was that money cut?

John Swinney: Under a capital programme, we have a picture of the time that we expect projects to take and of the associated costs. That applies to a myriad of projects in the capital programme. We keep under constant review the performance of capital projects against that profile. Clearly, in the context of a £3.5 billion capital programme, some projects will cost more than one expects and some will cost less; sometimes projects do cost less than we expected. Some will come in on time,

some will be delayed by planning processes and some will be accelerated by planning processes. We have to constantly monitor the performance of capital programmes.

Additional factors will come into play. For example, in the current financial year, we have greater costs because we have to pay the costs of the swine flu vaccine, and some of that will come out of capital expenditure. We have to make provision for elements like that. Essentially, we revisit the capital programme's contents to ensure that all commitments can be delivered, as we have said.

Jeremy Purvis: I was confused about one thing, although one of my parliamentary questions was answered. The Government repeatedly tells us that the budget is fixed, so choosing to increase some expenditure can only mean reductions in other expenditure. That might apply to the referendum—it will be interesting to know what will be cut to accommodate that—but it does not seem to apply to the town centre regeneration fund. Last week, I asked from which line in the 2010-11 budget the £60 million was taken, and Alex Neil's answer was simply that the regeneration fund

“did not come from any individual budget line in 2010-11. The 2010-11 budget as a whole was re-prioritised to pay for the Town Centre Regeneration Fund in 2009-10.”—[*Official Report, Written Answers*, 29 October 2009; S3W-28166.]

What scope do you have to reprioritise the budget to come up with any policy that you wish? What is the scale of the reprioritisation?

John Swinney: I do not wish to repeat the answer that I have just given about some of the factors that we have to wrestle with in the capital budget but, at the margins, we can assess some of the impacts of changes in timescale and cost and then find resources. Any flexibility that exists in that process will get ever more challenging as the budget declines in real terms, as it is doing now and will do in the years to come. That is why we have to take difficult decisions about the size and shape of the capital programme.

Jeremy Purvis: I have a specific question about payroll and the approach to it of this budget and those in the coming years. It would be interesting to see some of the work of other committees, including the Health and Sport Committee, on the budget line for consultants' bonuses. Your position on bonuses is that you have asked that no executives in the public sector take bonuses in the coming year. Does that apply to the national health service?

John Swinney: I will try to give Mr Purvis as comprehensive an answer as I can, but I might have to write to the committee.

Consultants' bonus arrangements are handled as a discrete budget line in the draft budget

document. Public sector pay policy would not have any influence on that budget line. If I need to correct my answer, I will do so in due course, but I am pretty certain that that would be outwith public sector pay policy.

The Convener: We will await your written response, cabinet secretary.

John Swinney: I want to be as helpful as I can be to the committee today, because there are details that I can give. In a range of public sector organisations, pay deals are in place until March 2011. Those generally apply to Scottish Government staff outwith the senior civil service, such as those in the teaching and nursing professions and the police service. There are no pay deals in existence for local government beyond March 2010, so pay will have to be renegotiated after that point.

On the remuneration of senior personnel in non-departmental public bodies, Mr Purvis is correct: I have asked those individuals not to take up any bonus entitlement that may be due to them as a consequence of the remuneration process. I cannot enforce that, because the bonus is a contractual entitlement, but I have asked those staff members not to take the bonuses if it is judged appropriate for them to be paid.

I will formulate policy for any other staff pay remits for agreement by the cabinet in spring 2010, which will apply to any pay remits that come up for consideration in the financial year 2010-11. That policy will be published in the normal fashion. A pay policy currently exists for any remits that may be considered between now and March 2010.

The remuneration of senior personnel in the NHS is the one element on which I am uncertain, so I will take the precaution of writing to the committee on that.

The Convener: That would be appreciated, cabinet secretary. You have answered some complicated questions in great detail, but if you wish to respond to the committee in writing on any matter, please do so.

John Swinney: I will do.

Jeremy Purvis: I return briefly to the cabinet secretary's answer to me on the issue of a referendum. You said—I think that I heard you correctly—that there was no provision in the budget for a referendum because Parliament has not approved legislation for one. However, I notice that there is provision for creative Scotland in the budget lines, although that has not yet been approved by Parliament. Why is there an inconsistency?

John Swinney: Creative Scotland is essentially an amalgam of two bodies that already exist.

Jeremy Purvis: But Parliament has not yet approved it.

John Swinney: Yes, but we have a Scottish Arts Council and a Scottish Screen today: those bodies exist. Under the arrangements that are in place, we are actively progressing the management and transformation of those organisations as part of the Government's programme.

We are, of course, progressing the debate on Scotland's constitutional future through the national conversation, which Mr Whitton objected to only a moment ago. That example is comparable to the creative Scotland situation.

Jeremy Purvis: You say that you are mindful of PPP repayments in the future, and you referred to table 5, "Estimated payments under PPP Contracts", on page 145 of the budget document. Does that include non-profit-distributing projects?

John Swinney: Yes, it does.

Jeremy Purvis: It would be helpful if the document stated that NPD projects were included—as the Auditor General stated clearly in his report, although that is by the by. Can you confirm that the Borders railway, the hub in the north and the hub in the south are all unitary repayment projects? The total cost of those projects is just shy of £1 billion. The Government took decisions to fund them all through revenue, using a repayment mechanism. I wonder where the balance lies: you say that you are mindful of the coming pressures, and you highlighted some of those costs, but the Government has made decisions on funding the two hub initiatives and the Borders railway through that mechanism.

15:15

John Swinney: It might help if I make it clear at the outset that, whatever mechanism we choose, the projects must be paid for if we go ahead with them. My point, which I think that I made to Mr Brownlee or Mr McCabe, is that if we take projects forward through repayment mechanisms we must consider the scale of the sums that are being paid back annually. We must take stock of that issue and show it more clearly in the budget document, because in a period when there is a decline in real-terms revenue budget, those sums and the Network Rail RAB payments are significant factors with which we must wrestle.

Jeremy Purvis: Are you not adding considerably to those sums?

John Swinney: Given the scale of what we have inherited, I am not sure that "considerably" is the appropriate word. We have inherited a heck of an amount of borrowing. We are indeed adding to it for projects that I thought that you support. My

point is that in the context of financial management in the years to come we must have much clearer distillation of information.

Bill Kidd (Glasgow) (SNP): I thank the committee for allowing me to ask a question. My question relates to Glasgow, so I declare an interest in that I am an MSP for Glasgow and a former councillor on Glasgow City Council.

The United Kingdom Government has refused to treat money that is used for regeneration in relation to the 2012 Olympic games in London as spending that attracts Barnett consequential for Scotland, despite the conclusion of the House of Lords Select Committee on the Barnett Formula, which was chaired by the Labour peer Lord Richard, that that should happen. The consequential could be used to fund regeneration in relation to the 2014 Commonwealth games in Glasgow—money for regeneration will otherwise have to come from the Scottish Government's budget. How much would those Barnett consequential be worth?

John Swinney: I would be happy to write to you with the precise figure. Olympic funding is in two parts: support for sports activity and development; and support for regeneration activity in the east end of London. We have no issue with the UK Government on funding for sporting activities, but we have an issue with it on the regeneration moneys. The matter has been raised with the UK Government, not only by us but by the Administrations in Wales and Northern Ireland. The three Administrations are as one on the legitimate case for consequential under the Barnett formula in that area. The resources would certainly help with regeneration in relation to the 2014 Commonwealth games in Glasgow.

The question is how we resolve such issues, because it is more than a little frustrating when we advance arguments but get no further than a Treasury decision that is invariably a no. There is a discussion about a mechanism whereby we could achieve a better outcome on some of those questions.

I am advised that we estimate the cost to be of the order of £300 million per annum—I will not need to write to you on that, after all.

Bill Kidd: Okay. Thank you.

Malcolm Chisholm: In your opening statement, you said that your overriding priorities were the protection of front-line services and economic recovery, or words to that effect. I will focus briefly on each of those.

We have heard a lot about recovery and I certainly support your call for further capital acceleration, but I want to make two points about the economic side of the budget. I feel that I need

to do so after this morning's session, which focused strongly on the economy. Over and above the point about GARL that David Whitton made, there was a lot of concern about the fact that there has not been more of an emphasis on supporting the economy, given the general economic condition. It seems completely counter-intuitive that the budget of Scottish Enterprise, which plays a central role in economic development in Scotland, is being cut. Secondly, if one looks at the economic development lines as they appeared in draft form a year ago, none of them has changed very much over the year as a result of the declining economy. Both those points raise the question whether enough emphasis has been placed on what is stated to be the primary purpose of the Scottish Government.

John Swinney: We must think about that question in a different way. I quite understand Mr Chisholm's analysis of the enterprise budgets and I will come on to comment on it in a moment, but we must look at the issue in the broader context of what the Government's thinking was when it said that its purpose was to increase sustainable economic growth in Scotland. I should not use shorthand. Our purpose is to focus government and public services on increasing opportunities for all to flourish through increasing sustainable economic growth.

A key part of that is the focusing of government and public services, whereby we do not see it as being for the enterprise area alone to deliver for the economy. We acknowledge that all areas of government must think about what they can contribute to economic growth.

Secondly, the reference to opportunities for all represents acknowledgement that we must have in place policy instruments that will help us to improve economic performance not just in some but in all parts of Scotland. Some of our interventions are designed to tackle the acute economic difficulties that some areas are experiencing. Some parts of Scotland are withstanding the economic difficulties quite well, whereas others are suffering acute difficulties. Some of the decisions that we have taken about different funding streams and different allocations have been designed to take that into account; they do not all relate to just the enterprise areas.

The third aspect of our purpose relates to the concept of sustainable economic growth, which involves having a focus not only on improving the economy, but on advancing its sustainability into the bargain.

That explanation was designed to indicate that the Government has taken a view that it wants all of government and public services to be focused on making a contribution to increasing

opportunities for all to support and participate in economic growth.

Some of the enterprise budget lines require detailed explanation. For example, with Scottish Enterprise, we have gone through a process of reducing the size of the organisation through voluntary severance. We have accepted the board's business case that the organisation was too large, that it had certain functions that it did not require and that it needed to slim down. The net result of that is that, once payback has been achieved, which will happen over a two-year period, the operating costs of Scottish Enterprise will be reduced by £15 million.

There are other issues such as the transfer out of Scottish Enterprise to local government of the business gateway and of some regeneration activity. There is also the impact of capital acceleration. The budgets of Scottish Enterprise and of Highlands and Islands Enterprise are significantly higher in the present financial year than was planned in the spending review document, with the result that their budgets are deflated in 2010-11.

Out of all that, we can see that the Government put in place resources in a number of areas to focus Government much more on supporting economic activity and ensuring that the enterprise budgets were appropriate.

I will give Mr Chisholm an example with which he may be familiar from his experience as Minister for Health and Community Care. Two major projects have been enabled in Scotland that have the health service at their centre: the Edinburgh BioQuarter, with which he will be familiar from his local interest in the city of Edinburgh; and the Highlands and Islands health research institute in Inverness, which is a joint venture between NHS Highland, HIE, the University of Stirling and the private sector company Johnson & Johnson. Essentially, health service resources are going into a research facility that contributes to global research on diabetes. I use that example to illustrate my point that different areas of Government can contribute to the agenda of economic growth, without our taking the view that, if it does not come out of the enterprise budget, it is not happening.

Malcolm Chisholm: If the convener will allow me, I will focus on the other side of my question. The phrase "protection of front-line services" is commonly used, but how do you define front-line services? Over two thirds of the budget is going to health and to local government, but you have limited control over those budgets. When you make your decisions, how do you decide what a front-line service is?

John Swinney: My definition of a front-line service is a service that has an impact on the lives of individuals in Scotland. I have often given the example to committees—the Finance Committee will forgive me if I have given it here before—of an elderly member of the community who has a fall in their house. They will be taken by ambulance to hospital, have their injury repaired and be treated in the hospital. They will then probably come down to step-down care within the NHS. They might go into a care home, or might end up getting support in their own home from a third sector organisation. In that journey, that member of the public and their family do not care who has what badge on; what they want is that the care is there when they require it and that it is appropriate to their needs. That is what I define as front-line service. Maximising the protection around that is my priority.

Tom McCabe: I was interested in your answer to Mr Kidd. Everyone understands that when there are increases in certain United Kingdom budget lines, consequential increases come to Scotland, which is good. You would think that we would understand that it follows that when there are reductions in certain UK budget lines—for instance, because of efficiencies—consequential reductions come to Scotland, and that we take it when it is good and accept it when it is bad. However, your Administration has been very vocal in its opposition to the consequential reduction in this year's budget as a result of UK efficiencies—the Olympics is a good case in point. Is your Administration in danger of portraying itself as one that wants to have its cake and eat it, because it wants to accept the good parts but to complain when it has to accept the bad parts?

15:30

John Swinney: The examples are not just limited to the Olympics, Mr McCabe. For example, the Carter review of prisons looked at prison capital expenditure and provision in England. It reported to the UK Government in December 2007—the spending review, of course, was set out in October 2007—and recommended that £1.2 billion of the reserve should be spent on improving the prison estate in England to ensure that it was not subject to quality problems and so on that would affect prisoners in England.

I made representations to the UK Government about that because, given that we run the prisons in Scotland and pay for them under the devolved settlement, I thought that we should have a consequential of £120 million from that funding. The UK Government's response was that we could not get a consequential for two reasons. First, it said that the money was coming out of the reserve and there are no consequentials from the

reserve. My point was that provision should have been made in the spending review, because the situation was foreseen—a review was undertaken. Secondly, the UK Government argued that we did not have a prison overcrowding problem in Scotland. Of course, we all know that we do have a prison overcrowding problem in Scotland. Indeed, Mr Whitton is having a prison built in his constituency to deal with some of the issues. My point is that there are too many examples of not receiving consequentials.

We also have issues with council tax benefit. Mr McCabe might be familiar with the mechanism that existed before, which the UK Government decided to suspend after discussion with our predecessors. I disagree with that decision, and the statement of funding policy contradicts it, but arrangements are not in place.

There are a number of issues, and we need a better mechanism for sorting out the financial interaction between the two Administrations under devolution, because a mechanism that results in the Scottish Government being told, "The UK Government has come to a conclusion and this is it," is not healthy. Let me put it this way—I do not think that I am the only person who would feel a bit aggrieved about that if they were the finance minister in a Scottish Government.

Tom McCabe: I am interested in whether the Scottish Government is taking a new approach. I will not try to imitate the way in which the First Minister regularly speaks about "the grossly unfair £500 million of cuts imposed on Scotland by the chancellor." He does so with some gusto at First Minister's question time, but he never says, "Actually, they are justified cuts, but I'm not accepting them because I never got all these other consequentials." He says only, "They are unjustified cuts." If you are saying to us, "Actually, we can see a case for the £500 million-worth of cuts because of UK efficiencies, but we are not accepting them, because we did not get other justified consequentials," that is a different matter altogether, and you might garner some support from unexpected quarters. However, to be fair, Mr Swinney, that is not what you and the First Minister have said in the past.

John Swinney: It might have been entertaining if we had had the impersonation—I am sure that we could have sold tickets for that in Glasgow city chambers.

First, we have to be pretty clear about our terminology. These are not UK Government efficiency savings; they are cuts to budgets that are being transposed into our budget, and we are having to deal with them. Secondly, we are having to deal with them within a three-year spending review period that was supposed to be a clear period of assumed levels of resources, but now

those resources are not at our disposal. Those are some of the issues that are relevant to this discussion.

Tom McCabe: If I may, I would like to finish my points, convener; I do not want to hold up the committee.

I understand that the figure that was announced in 2007 is not the figure that is being realised this year; it is £500 million less, which everyone understands. I know that you have noticed this, Mr Swinney, but £7,400 million has been pumped into two Scottish banks, so the world is not exactly the same place today as it was in 2007 when the figures were announced.

John Swinney: But those are two fundamentally different concepts. We are talking about the measures that are in place in a supposedly fixed budget. I have some sympathy with the point about a fixed budget, because I thought that it was a fixed budget but, as a result of the chancellor's intervention, it has become £500 million less at a time when we are utilising it to its maximum potential to support economic recovery. I know that Mr McCabe will acknowledge the data that I am using on this point. We are at a fragile point in the economic recovery, and the last thing that we need is cuts to public expenditure.

Tom McCabe: In other words, you are an advocate of fixed budgets irrespective of a dire recession, a financial crisis and unemployment being well over 2 million.

John Swinney: I am saying that we cannot ignore those circumstances in discussing the decisions that have been made. The danger is that it has been assumed that we can just deal with the budget cuts and there will be no consequences. I am saying that there are consequences, which I have faced up to, although many people have criticised me for doing so, however tough the decisions that I have made.

The Convener: This market day is wearing late, so we will have one question from David Whitton and one from Jeremy Purvis.

David Whitton: Just one? That is a shame. I will make it one question with several parts, although they will be quick parts.

We have spoken about the acceleration of capital. One of the reasons for the £500 million cut that you keep going on about is the fact that we have had some capital acceleration.

John Swinney: I will have to correct your arithmetic, Mr Whitton, although that might prolong the afternoon.

David Whitton: Well, how much of the accelerated capital that you received have you spent? You want more accelerated capital. How

much do you want to bring from next year into this year? If you keep bringing forward your capital budget, you will eventually get to a point at which there is none left, but we have some big capital projects coming up—Mr Kidd has mentioned the Commonwealth games, and the Forth bridge has been mentioned. What provisions are you making for the future to ensure that you will still have a capital budget to spend?

John Swinney: We have had a £496 million net reduction in our budget as a consequence of decisions that were made in the UK's 2009 budget. On top of that, we have had a clawback of £347 million of capital expenditure. There is a fundamental difference between those two factors.

Mr Whitton asked what has been spent. We are still in the financial year in which the money is being spent, but we are planning to spend the full capital budget in 2010-11, which will include £294 million in accelerated capital expenditure. I will report to the committee on our performance in that respect as the financial year progresses.

Mr Whitton also asked how much more accelerated capital I would like. It would be helpful if we were able to bring forward something of the order of £300 million to mitigate the effect of the accelerated capital payback.

David Whitton: That is, coincidentally, the same sum that Mr Kidd was talking about. Is that just a coincidence?

John Swinney: If Mr Whitton wants to surmise coincidence, that is entirely up to him.

The final question was about when we would stop bringing forward capital expenditure. My view on that is clear: we will stop bringing forward capital expenditure when we are certain that the economy is going to perform better without the injection of additional capital expenditure. The economy is likely to be in a safer position in 2011-12 than it will be in 2010-11. I accept that the money must be paid back and that we cannot keep on putting that off; my point is that there is an appropriate time for that.

Let us consider the conclusions of the G20 summit that took place at the weekend. The point was made that it is essential that the fiscal stimulus that has been offered is delivered and not retracted. That is my view of where we are just now. There are signs of economic recovery—the purchasing managers index data that were published this morning continue the encouraging trend. Nevertheless, the GDP statistics from a fortnight ago put some doubt in our minds.

The Convener: Jeremy, can you match the precision of David Whitton's question?

Jeremy Purvis: It is just one question in one part, convener.

The accelerated capital is the centrepiece of your plan, cabinet secretary; in fact, it is mentioned in the second paragraph of the budget. We are now eight months into the financial year. I presume that you have been tracking the spend profile of the accelerated capital, because it is the centrepiece of your economic recovery plan. Why are you not answering parliamentary questions about how much has been spent under that plan in the current financial year?

John Swinney: I am not aware that parliamentary questions on the subject remain unanswered beyond the accepted timetable.

Jeremy Purvis: Sorry—I must correct myself.

John Swinney: I thought that you might do that.

Jeremy Purvis: The answer has been that you will give Parliament that information only when you have the outturn figures for the Scottish budget, which will be next summer.

John Swinney: It is appropriate that we monitor the performance of the capital budget. The director of finance is doing that on my behalf on at least a weekly basis. I do it on a monthly basis, with the director of finance and other officials. As we get nearer to the end of the financial year, we will do it on a weekly basis to guarantee the effectiveness of spend. It is appropriate for us to set out the performance of spend in the usual fashion, through the outturn report, so that Parliament can judge the effectiveness of the Government's pattern of expenditure.

Mr Purvis says that the capital acceleration is the centrepiece of our programme. He is right to say that it is a significant part of what we are doing, but we have made a variety of other interventions that have contributed to a situation in which the level of unemployment in Scotland is lower than the level of unemployment in the rest of the United Kingdom. Our interventions in accelerating European regional development funding and European social funding, and some of the measures that we have taken on the payment of Government invoices and supporting the development of some of the new key industries in Scotland, are also major parts of our economic recovery plan.

Jeremy Purvis: Through your officials' weekly monitoring and your monthly monitoring, do you know how much of the £347 million that was accelerated has been spent and is in the economy rather than in the Government's bank account?

John Swinney: I am certainly able to see the progress in the pattern of projects. Some projects will not be scheduled to spend until later in the financial year, because of the decisions that Parliament made on them. Nevertheless, we track and monitor all of that performance.

Jeremy Purvis: Are you able to provide that information to the committee?

John Swinney: We do not provide any other information on financial performance to the committee within the financial year. I have previously told the committee that the outturn expenditure assessment is the correct way in which to consider performance in public expenditure. I have also made it clear that I am happy to come to the committee to discuss the outturn expenditure report, as I have done in the past.

The Convener: Cabinet secretary, you will appreciate that it is important for the committee to be able to measure outputs against inputs in terms of efficiency and bangs for the buck. How does the Government plan to report formally to Parliament on performance? That was done in previous sessions, as part of the budget process, through reports on performance against targets that were set for each spending review.

John Swinney: I have dealt with the issue of outturn reports and have offered to come to the committee to discuss them. I have done that previously and I am happy to do so again at any stage in the future.

In the spending review, the Government established the national performance framework, which is designed to ensure that we focus our expenditure on delivering improved outcomes in Scotland. The most recent data are regularly marshalled and reported on the Scotland performs website. The approach has the advantage—or disadvantage, depending on one's perspective—of showing where things are getting better or more difficult. The information is publicly available any day of the week on the website, so anyone can observe the progress that the Government is making.

15:45

The Convener: The search for efficient output production from inputs must not overload Government departments or prevent the process itself from being successfully completed.

John Swinney: In a sense, that is my view on the point about accelerated capital expenditure. A process is in place for monitoring capital expenditure and reporting to the committee, on which I will be delighted to come back to the committee to answer questions. We also have a performance framework assessment, which is publicly available at all times on the Government's website through the Scotland performs page and analyses how things are taking their course on a number of national outcomes.

The Convener: We have had a long, detailed and useful meeting with you, cabinet secretary. We would appreciate the opportunity to write to you for information on one or two minor matters.

John Swinney: Of course, convener.

The Convener: If you have no final comments to make, I thank you and your officials for your expertise and detailed evidence. I also thank everyone who participated in today's workshops or came along to watch the meeting. I hope that the event has been of interest and benefit to participants, whom we thank for sharing their knowledge and ideas during the workshops. Your contribution will greatly help the committee in its deliberations.

As we agreed, we move into private session to consider the evidence that we have heard.

15:47

Meeting continued in private until 16:07.

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