



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Tuesday 14 September 2010

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Tuesday 14 September 2010

CONTENTS

INDEPENDENT BUDGET REVIEW.....	Col. 2445
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**FINANCE COMMITTEE
19th Meeting 2010, 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 GAVE EVIDENCE:

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 14 September 2010

[The Convener *opened the meeting at 14:01*]

Independent Budget Review

The Convener (Andrew Welsh): Good afternoon and welcome to the 19th meeting of the Finance Committee in 2010 in the third session of the Scottish Parliament. I ask everyone to turn off their mobile phones and pagers.

Agenda item 1 is to take evidence on the report of the independent budget review group. I welcome to the committee John Swinney, the Cabinet Secretary for Finance and Sustainable Growth; Dr Andrew Goudie, the Government's chief economic adviser and director general economy; and Alyson Stafford, who is acting director general finance. I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): First, I want to acknowledge the members' contributions to what I thought was a helpful debate on the independent budget review report last Thursday and to put on record my thanks to the members of the review for their work. As I am sure members will be relieved to hear, I do not propose to repeat all the points that I made in the debate, but I hope that it will be helpful to highlight some of the key issues that were raised.

The IBR report provides a frank assessment of the financial challenge that we face from the shrinking income from the Westminster block grant and rising spending pressures. In last week's debate, I rehearsed the financial projections in the review and in Dr Goudie's analysis and I am sure that the committee will be familiar with them. The primary response to the IBR will be our draft budget in November and we have an agreed timetable for the budget scrutiny process into the new year. I hope that today's session is a helpful precursor to that.

My aim is to deliver a budget that commands support across Parliament, supports Scotland's economic recovery, offers protection to vital public services and takes forward action to develop a low-carbon economy. I am committed to setting out a budget that protects the most vulnerable in our society and, as I confirmed in the debate, the Government will take particular care to ensure that in three important areas—economic and social impact, equalities and carbon assessment—we scrutinise the cumulative impact of our decisions.

The Scottish Government has already responded to a number of the report's key points and recommendations. As I explained in last week's debate, we have done so with the aim of creating the space for debate on the findings of the report and to build consensus where we can. For example, the IBR recommended no less than a 2 per cent efficiency requirement beyond the current financial year and we have confirmed our intention to follow that recommendation. We will announce details of our future approach to efficiencies in November, building on the achievements of our current programme, which has a target this year of £1.6 billion.

We remain committed to reforming the public sector, building on the extensive achievements of our existing simplification programme, which will deliver recurring savings over the coming years. We will continue to drive out savings through better procurement and reducing the scrutiny burden, and the IBR has endorsed our search for better value in capital spending through the Scottish Futures Trust. That work is crucial when future capital spending is under such threat.

We have looked at—and will continue to look at—our own operations, making substantial savings in administration, marketing, publishing and travel, and will explore the scope for more. Although we have adopted a prudent approach to public sector pay, we will need further constraints, given that 60 per cent of our cash costs are in staff salaries. Our approach to pay will be set out with the draft budget, but I explored some of the key parameters in last week's debate.

We have already established a presumption against external recruitment, strict controls on staff head counts and robust limits on the use of consultants, managed with strict financial controls. Ministers are in dialogue with trade unions and others about how best to respond to the financial pressures that we face in a way that protects those on low incomes and the role of public sector employment in our economy. The IBR recommends a strategic approach to public sector pay and that is what the Scottish Government seeks to deliver. Indeed, it forms a key part of our engagement programme both with the public and with delivery partners, and the Government has had extensive discussions with local government in preparation for the budget. Further details of that engagement programme were set out last Thursday.

We welcome the IBR's commentary on water services and believe that Scottish Water, which is performing extremely well, should remain under public ownership.

We have made it clear that we will maintain existing eligibility for free personal care and concessionary travel and that we will apply to the

health service in Scotland any Barnett consequentials arising out of the protection that is given to the health service by the United Kingdom Government. Our preference remains to retain the council tax freeze and we are discussing with local authority partners the approach to that issue.

The analysis contained within the IBR report will be hugely helpful to all our efforts over the coming months. I have described the key points of the Scottish Government's response to date and my desire for debate and consensus. Tomorrow, I will attend the finance ministers' quadrilateral meeting in London to discuss these challenges with the UK Government and the other devolved Administrations. We believe that the current UK Administration is cutting public expenditure too quickly and too deeply and I will outline our budget priorities and concerns to the Westminster Government as I press for greater clarity about its spending plans and the implications for Scotland. That will give us the greatest possible chance to bring forward a budget that is appropriate to the needs of the people of Scotland and values the public services on which our people depend.

I am happy to answer questions.

The Convener: Thank you for that statement, cabinet secretary. I now invite members' questions.

Linda Fabiani (Central Scotland) (SNP): I was interested to note the report's endorsement of the provisions of the Public Services Reform (Scotland) Act 2010. In the programme of simplification and efficiencies and the approach to scrutiny, is consideration being given to where the functions of different bodies either directly or indirectly overlap?

John Swinney: Whether we are talking about public service delivery or the scrutiny landscape, our objective with simplification is to ensure that duplication is avoided. Frankly, there is nothing worse for public bodies to end up being scrutinised by different bodies on the same questions because of a lack of continuity and cohesion. Over the past few years, we have taken steps to try to improve practice by giving the Accounts Commission the role of managing or organising the scrutiny activity of various bodies to ensure that scrutiny inspections of public authorities are co-ordinated and that the range of questions that need to be asked are asked only once. I think that we are now beginning to see the fruits of that approach.

At a time of public expenditure constraint, there will be pressure to reduce further the cost of the scrutiny landscape. Although some of that is in the Government's control, some of it is in the control of the Parliament and the Scottish Parliamentary Corporate Body. It is important to make that

distinction. The issues with which the SPCB wrestles are matters for it and are nothing that I can influence. Nevertheless, I assure the committee that the Government is intent on finding other efficiencies in the process, which would benefit not only the public purse in terms of the money that we have to put into scrutiny but public authorities, which might be able to devote fewer resources to scrutiny than has been the case in the past.

Derek Brownlee (South of Scotland) (Con):

My first question is brief and factual. I want to understand precisely what you are saying about health spending. Am I right in saying that your commitment is that the health budget for 2011-12 will not be less than the cash health element of the health and wellbeing budget for 2010-11, plus whatever net consequentials arise from the UK Government's decision to provide protection or real-terms increases to the national health service in England?

John Swinney: First, the health and wellbeing level 2 number will be more comprehensive than expenditure on the health service, as it covers a range of other attributes. That is not the budget line that we will consider at level 2.

Secondly, the Government has said that we will pass on to the health service in Scotland the Barnett consequentials of any increase in health spending south of the border. We must wait for the comprehensive spending review to determine those figures, as they are not currently available. In the past, the United Kingdom Government has made changes to the health service's baseline budget that are of absolutely no relevance to us, other than that they make an increase in health spending in England look more substantial than it is in reality, so the numbers are not quite what they appear to be.

Derek Brownlee: The baseline over which you have control is the Scottish health budget.

John Swinney: The baseline over which I have control is the one that is publicly stated, which is the baseline for health spending in Scotland.

Derek Brownlee: In last week's debate, you touched on the presumption against external recruitment. When did that presumption become active?

John Swinney: In either March or April this year.

Derek Brownlee: Does it apply only to the Scottish Government? Does it extend to the NHS, for example? I presume that it does not extend to local authorities or Government agencies.

John Swinney: It applies within the Scottish Government. Any non-departmental public body that is dependent on the Government for its

resources must make its own decisions, within the context of the resources that are available. At this stage, I consider the approach that the Government is taking to be a fairly clear signal and direction to external bodies as to the approach that the Government considers to be appropriate. We may need to revisit the matter by making a firmer ministerial direction in due course.

Derek Brownlee: Since the presumption was introduced, how many times has it been overridden? Do you know how many instances of external recruitment there have been since then?

John Swinney: I do not have the figure to hand today, but I am prepared to explore whether we can provide it to the committee.

Joe FitzPatrick (Dundee West) (SNP): In your opening statement, you mentioned that you are pressing the UK Government for greater clarity. In which areas would you like to have more information? When do you hope to gain that extra clarity, prior to receiving the final budget and figures?

John Swinney: A material part of the debate on our budget arrangements has been the proposition that the Government could set out a draft budget in advance of receiving details of the comprehensive spending review. I do not need to rehearse to the committee my view on that proposition. Clearly, there are significant variables in the budget information.

It is pretty clear that a difficult discussion is going on in the UK Government just now about defence expenditure. Defence expenditure carries 0 per cent comparability for the Scottish block of expenditure, but the size that the defence budget becomes clearly has an effect on our budget. There are no Barnett consequentials arising out of a change in the Ministry of Defence budget, but that change has an effect on the size of other budgets within the departmental expenditure limit total and therefore affects the arithmetic calculation of the Barnett consequentials at the end.

14:15

In addition, there has been commentary in the past few days from the Chancellor of the Exchequer about his desire to seek further savings of more than £4 billion in the welfare budget. If the chancellor were to achieve that objective and retain the spending envelope as he has stated it is to be, one option could be that the amount of resources that are available for departmental expenditure limit spending, which is what we control, could be enlarged by £4 billion, and, obviously, Barnett consequentials might arise out of that.

There are a number of uncertainties. I will certainly make the point to the Chief Secretary to the Treasury tomorrow, as I did in the previous finance ministers' quadrilateral meeting in early July, that it would be helpful if we were provided with clarity on the pattern and development of the UK Government's decisions on public expenditure, to give us the maximum amount of time to formulate our budget.

Joe FitzPatrick: Assuming that more clarity comes from your calls to the UK Government, will you be in a position to update the estimates with which councils and so on are working?

John Swinney: We have made a number of assumptions. Dr Goudie's paper, which was published in the aftermath of the UK budget in March, and his follow-up analysis, which was published after the UK emergency budget in June, assess the implications of UK decision making for the Scottish budget. If there are changes to those assumptions, we are in a position to restate that information, but we really have to wait for the definitive quality of information that comes from a budget or comprehensive spending review, rather than our best assessment. However, we will consider that point once the information is to hand, if it is forthcoming.

David Whitton (Strathkelvin and Bearsden) (Lab): I assume from what you have just said that you assume that Dr Goudie's direction of travel is correct and you are not questioning his numbers.

John Swinney: That has been my position for several months.

David Whitton: During the debate, much mention has been made of why you cannot produce worst and best-case scenarios that outline your line of thinking. The finance minister in Wales asked each Cabinet member there to go through their budget line by line to identify where possible savings could be made. Has the same thing been done in Scotland? What level of savings have you and your Cabinet colleagues come up with? When are you thinking about letting Parliament know what that is?

John Swinney: In answer to the first question, yes, my Cabinet colleagues and I are going through every aspect of public expenditure. The public and Parliament would be mightily surprised if we were not doing that, in the current context. Secondly, we continue our discussions and examination of the different options for changing public expenditure. That is an on-going piece of work. Thirdly, I expect to share that information with Parliament when I am in possession of the comprehensive spending review output and then in a position to provide a draft budget to Parliament in November.

David Whitton: We know that you will have to find £1.7 billion of savings in real terms for next year's budget. In the work that you and your Cabinet colleagues have done so far, have you identified savings at that level?

John Swinney: As I said, the work on that is in progress. We are looking at a range of options. Clearly, it is possible to identify any number of savings, but the question is what the consequences and impact of those savings would be. We will, of course, consider that issue. As I said in my introductory remarks, we will assess the impact of all those proposals against the three major tests of economic and social impact, the impact on equalities and the impact on carbon assessment.

David Whitton: Why do you and your Government still insist that you would prefer council tax to be frozen when evidence from the Convention of Scottish Local Authorities and the IBR group basically states that the council tax freeze is no longer sustainable?

John Swinney: The council tax freeze is important because it provides welcome relief to householders. It has provided welcome relief to householders over the past three years and it will become ever more relevant when they are paying substantially more in tax as a consequence of the UK Government's decision to increase VAT and make various other changes that will increase their tax bills. As a consequence of all that, and bearing in mind that we will, inevitably, be looking at a very constrained environment on pay policy, the council tax freeze remains desirable to the Government. However, as I said in the debate on Thursday, we are discussing the issue with our local authority partners.

David Whitton: For the sake of clarity, could you outline what your pay policy will be? I am not sure that I fully understand what it is. The IBR paints different scenarios, none of which is good—let us put it that way. Have you a preference among the four scenarios that it outlines?

John Swinney: I said in the debate on Thursday that the Government's pay policy will be set out at the time of the publication of the draft budget in November. When I became a minister in 2007, there was no pay policy set out for the financial year that had already started. This time, we will be setting out a pay policy significantly in advance of the start of the financial year and earlier than other stages at which I have set out pay policy in the past.

The second point, which I also made in the debate, is that pay policy has become more constrained in each year of this Administration. Under the pay policy for this year—2010-11—the maximum basic award is 1 per cent. I have made

it clear that I expect that to be constrained further by the time we set our pay policy, but I cannot give the committee a definitive position today. I will set out all the detail about pay policy, because it affects a whole range of bodies, some of which we have to interact and have wider dialogue with about the formulation of pay policy, but I expect it to be more constrained than the current position, which is that the maximum basic award is 1 per cent.

David Whitton: The IBR report states that, even if the most severe of its options were introduced in the first two years and followed by tight pay restraint for the next two years, up to 11,500 jobs could be lost in year 1 and public sector employment would fall by about 29,000 by 2014-15. Do you recognise that figure? Do you think that it will be at that sort of level?

John Swinney: I certainly hope that it is not, but I recognise that there is a relationship between the budget gap that we have to fill, and salary increases, the number of people employed in the public sector and working practices in the public sector. For example, Mr Whitton quoted to me the real-terms gap of £1.7 billion between what we have available in 2010-11 and what we might expect to have available in 2011-12. Those numbers are derived from Dr Goudie's analysis—I accept that they are very credible. Let us make it slightly simpler and say that it is £1.2 billion in cash terms—the derivation of the figures is exactly the same as Mr Whitton mentioned. Every time there is a pay increase, that is not eroding the £1.2 billion gap; in fact, it is making the gap larger. Every time any more money is paid either in progression, to which in many cases staff are contractually entitled, or in a pay increase, the gap becomes wider, as a consequence of which our search for efficiencies and savings gets bigger.

Given that pay accounts for 60 per cent of our costs, clearly we have to keep the pay bill closely under control. That is why the Government believes that flexibility in the workforce is very important. The private sector has demonstrated in the course of the economic difficulties that we have experienced in the past two years that it has been possible to protect employment, but that has required change in working practice, which has involved people not working for as long as they were working before, shorter working weeks, people working in job-share situations and people perhaps not taking the progression to which they are contractually entitled. All those issues have to be part and parcel of the discussion that we take forward on managing pay.

I come to this from the ideological position that public sector employment can contribute in a beneficial way to the health of the Scottish economy. It is not in the interests of the Scottish

Government or in my interests—and it is not my agenda—to reduce public sector employment unnecessarily. However, I have to face the reality that there is a financial gap between the numbers that we have talked about today, which has to be filled. If there are salary increases on top of that, that expands the challenge that has to be addressed.

David Whitton: Your lengthy and detailed answer would seem to point you towards option 3, which is a complete pay freeze and no incrementals either.

John Swinney: It might have sounded like that, but I was just trying to give a helpful and full answer to the committee about some of the issues that we have to wrestle with.

David Whitton: It was just my observation of your reply.

John Swinney: As Mr Whitton knows, I am always interested in his observations. From my point of view, those are some of the dynamics that have to be wrestled with. If there is an opportunity to secure flexibility in the public sector employment force, it might be possible for us to address many of the challenges that we face without a level of head count loss that the Government would not want to bring about.

For completeness, I should also say that the Government is particularly keen to take account, as we have done within our own pay remits in the Scottish Government, of the many people who are on low incomes, for whom some of the issues around tax increases will be very significant. The Government will want to take action to tackle the problem of low pay and to address some of those circumstances.

The Convener: Mr Whitton, three other members want to come in and I want to be fair to everybody. If I can bring them in now, you can perhaps come back in after they have finished.

David Whitton: Okay, convener.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): The way that you described the cash cut and then looked at the pay scenarios was helpful. That is the practical way that I have been thinking about it: how much cash reduction will we require for next year's budget?

Picking up on what you said about pay, I agree if you are saying that we want to protect low-paid people as far as we can. Basically, the cash cut is £1.2 billion plus more, because most of the pay scenarios still involve pay increases. I take it that even option 3 would not really save cash.

14:30

John Swinney: That is the point that I was trying to make to Mr Whitton. The cash gap that has to be found in 2011-12, which is a combination of revenue and capital, does not take into account any increase in salaries, although any such increase will simply add to the gap.

On the progression element of public sector pay, the director general finance can correct me if I have the number wrong, but the estimate of the progression liabilities is of the order of £140 million across the public sector in Scotland. That is in addition to the £1.2 billion gap.

Malcolm Chisholm: So, it is a very big gap; it is even bigger than we thought it was from the headline figure, and if we add on the protection for health it becomes considerably bigger. I suppose that leads to the discussion, shall we say—or, perhaps, the slight disagreement—that we had in the debate last week about the costed options. That will be the nitty-gritty of the debate over the next few months.

It is hard for us to see from the IBR report what the actual options are for next year. Some of them have been ruled out anyway, such as changes to some universal benefits. I think you said in the debate that, if there were 2 per cent efficiency savings, that would amount to £500 million. We can assume that that is a costed option, but would a problem with that not be that you were treating every budget in the same way? At present, efficiency savings in certain budgets are recycled. I suppose the concrete question is whether 2 per cent efficiency savings could also apply to health, with its increase. Could 2 per cent come off that increase as an efficiency saving and be returned to the centre?

John Swinney: Well, that option would exist, but that is—

Malcolm Chisholm: Would that be consistent with what you said about passing on the health consequentials? Could you still take 2 per cent off?

John Swinney: As I said, the Government has not come to conclusions about the contents of its efficient government programme. Clearly, there are a range of possibilities that could exist, but in the past it has been the case that the health service has been able to retain efficiency savings that are made and to reinvest them. The Government has added to that for 2011-12 with its commitment to pass on any Barnett consequentials that arise from the decisions of the United Kingdom Government in relation to health south of the border. Clearly, even if we assume that the increase in health spending south of the border is at the gross domestic product deflator rate of 1.8 per cent—[*Interruption.*—]—and that the

deflator from south of the border is used, the health service will be required to make efficiencies in its operations to cope with the pressure. A range of interventions will be required to guarantee that we can deploy effective services in the area.

Malcolm Chisholm: If the consequentialists say that you should give a 2 per cent cash increase to health, would it be consistent with the statements that you have made to return 2 per cent of that to the centre as an efficiency saving?

John Swinney: The Government has not come to a conclusion on that point.

Malcolm Chisholm: So it is not ruled out.

John Swinney: It is neither ruled out nor ruled in.

Malcolm Chisholm: Okay.

John Swinney: The committee is asking me to give definitive positions when the Government has not come to a definitive position on any of those questions. It will be possible to answer all the questions when the Government comes to the conclusion that it comes to in the course of the budget process.

Malcolm Chisholm: I suppose that the assumption is—indeed, we are already seeing this—that some of the reductions next year will be made through staff reductions. The Scottish Government and some agencies are already asking for early retirements and suchlike, and are even offering severance packages for people under 50, I understand. In the short run, it seems that that will not save money. How are those packages to be paid for? Can they be paid for out of this year's budget, or will they have to be paid for out of next year's budget? It is difficult to understand. Even if it is a spend-to-save policy that might save money in one or two years' time, it will not save money next year, it appears.

John Swinney: Certain severance packages that are available now are being paid for out of the contents of financial provisions from 2010-11, and that will generate savings for 2011-12. The approaches that have been taken at the Scottish Environment Protection Agency are being paid for out of this year's financial provisions. There are a number of areas in which voluntary severance activity can be undertaken in that respect.

I have spoken about a recruitment freeze. We still have turnover rates in the public sector—although they are reducing compared to where they were. There are opportunities to manage down head count in a voluntary fashion through that mechanism.

Malcolm Chisholm: You have said that the costed options for next year are all in the report,

although some of us were a bit sceptical about that. Can you give another couple of examples of costed options for saving money in 2011-12 over and above the efficiency savings?

John Swinney: Perhaps I was at cross-purposes with colleagues in the debate last Thursday, but I can find plenty of tables in the IBR report with numbers for 2011-12, and they give colleagues some choices. I am not for a moment suggesting that the report is the encyclopaedia of all the possible choices that might exist. As Mr Chisholm will know from his experience of public life, there are many other options—the ones that are before us are those that have been examined by the budget review—and there are numbers alongside them. Whether or not the Government chooses to follow those options is a different proposition altogether.

Malcolm Chisholm: It would be good, before the end of this questioning, to have a couple of examples. The point that I am trying to make is that it would be useful to hear more. You are admitting that you are discussing lots of options with your officials. Most of us do not know what those are, however. The centre for public policy for regions has discussed more detailed financial modelling being necessary, and that is self-evident.

John Swinney: I have commissioned an independent budget review which has, in an open, transparent fashion, given the public debate in Scotland a range of options to pursue. Last week, the committee noted the fact that the independent budget review had highlighted a range of savings that could be made following its conclusions. I have set out the Government's position in relation to some of those matters, and I have left space for the Government to be persuaded about other particular choices; we will consider others as a consequence of our own dialogue and debate internally within the Government. There is also a space for Parliament—for the committee and for political parties—to formulate their views about where other savings should be made. The Government will, of course, consider those.

As I said in the debate on Thursday, I will set out a draft budget in November, as is my statutory duty. I am, in the run-up to that period, very willing to consider propositions from across the political spectrum about different options and proposals.

Malcolm Chisholm: We need to approach that through finding savings, but with relative protection for certain areas. You are committed to protecting health care and the universal benefits that you have mentioned. In the debate, you told me off for wanting to protect too much. I was trying to make the point that the concept of relative protection is reasonable. To take this opportunity to correct what you said at the time, I did not say that we

should relatively protect the education budget—I said the schools budget. My point was a serious one. If we, collectively as a Parliament, decided that we wanted to protect the schools budget relatively—and it would be only relatively—are there any mechanisms that we could use for doing that under our relationships with local government?

John Swinney: The core of what you ask is about how we construct a relationship with local government. I do not have the exact number in my head, but I would be surprised if, back in the pre-concordat days, the proportion of the Scottish budget for providing school education that was under ministers' control—the ring-fenced grants that the Government held in the centre and which were not in the local government settlement—was more than about 12 to 15 per cent. One myth is that a degree of control that existed in the past went after the concordat was agreed. I concede that some control existed, but it was not on the scale that Mr Chisholm's question suggested.

In the dialogue with local government, we take forward parliamentary priorities for school education and other significant issues with the aim of seeking agreement with local government. The concordat is about establishing agreement between national and local government on how we focus on shared priorities. Much attention has been paid to some policy commitments in the concordat, but the concordat also included an agreement between national and local government about what matters to us in the outcomes that we try to achieve. That has led to more alignment of national and local government expenditure to support those outcomes.

Malcolm Chisholm: I have a final question on equality issues, which I also raised in the debate. When will you publish the equality and budget advisory group's report?

John Swinney: I have not considered the publication timescale. I have the report, which is extremely helpful. I had a refreshing discussion with the equality and budget advisory group just a couple of weeks ago. The report contains no issues that would delay publication and, in the light of Mr Chisholm's question, I will certainly consider publication. The report that the group has produced contributes helpfully to the analysis of the budget's impact on equalities issues. It is a comprehensive piece of work, for which I thank the group.

Malcolm Chisholm: You will publish the report in time for it to be part of the budget discussions.

John Swinney: Yes. I will certainly do that.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Good afternoon, cabinet secretary. You said that you would outline the

Scottish Government's position at the quadrilateral meeting. Is the Scottish Government's position that the devolved budget should grow in real terms next year?

John Swinney: That would be desirable, but I suspect that it would be a bit of a tall order.

Jeremy Purvis: Will you argue for such growth?

John Swinney: I will certainly argue with the Chief Secretary to the Treasury that the reductions in public expenditure across the United Kingdom, whose implications will be felt in Scotland, go too far, too fast.

Jeremy Purvis: Can I infer from that a negative answer—that you will not argue that the budget should grow next year—or will that be your starting point?

John Swinney: I will argue that the UK Government has taken a set of decisions that are resulting in public expenditure reductions that will go too far, too fast.

Jeremy Purvis: Why will you not argue that the budget should grow next year?

John Swinney: I accept that a period of fiscal consolidation must occur. My problem is that the UK Government has taken that position too far.

Jeremy Purvis: That answer is helpful. You will argue not that the budget should grow but that the reductions are too quick and too deep. In your judgment, with the advice of Dr Goudie and Ms Stafford, what should the reductions be?

14:45

John Swinney: Essentially, the UK Government is presiding over a level of fiscal consolidation of around 2.4 per cent in 2011-12. If you look at the International Monetary Fund's current output, you will see that its view is that the level of reduction for countries in the developed world should be of the order of around 1.25 per cent. There is a significant contrast between the level of public spending reduction to be applied by the United Kingdom Government, unless there is a change of direction in the comprehensive spending review, and the view that has been taken by the International Monetary Fund, which is generally viewed as authoritative and conservative on some questions.

Jeremy Purvis: So, is your judgment that the corollary is that a 1.25 per cent reduction in the Scottish budget would be appropriate?

John Swinney: What I am saying is that, if the UK Government is reducing public expenditure at just short of twice the level that the International Monetary Fund believes is appropriate, that should encourage the UK Government to think again

about the scale of the reductions that it proposes to apply.

Jeremy Purvis: Is that what you will put forward as the Scottish Government's position tomorrow?

John Swinney: I will set out a range of points to the Chief Secretary to the Treasury in our discussions tomorrow.

Jeremy Purvis: Will that matter be included in those discussions?

John Swinney: Obviously, I have made it clear to the Chief Secretary of the Treasury on previous occasions that I think that the reductions go too far and too fast, and I will continue to maintain that.

Jeremy Purvis: Forgive me for not having the figures, but what is 1.25 per cent of your budget?

John Swinney: It is of the order of £300 million of the DEL total.

Jeremy Purvis: Okay.

I want to ask about the conclusions in the independent budget review group report. It is argued in that report that the Scottish Futures Trust should have a more central role. I noted your comments when the SFT published its press release on the £111 million savings that have accrued this year. Is that £111 million available for redeployment?

John Swinney: That money is essentially benefits that have been generated as a consequence of the approach that has been taken to procurement through the intervention of the Scottish Futures Trust.

Jeremy Purvis: So, it is real money that can be used to offset reductions or spent elsewhere.

John Swinney: Essentially, the money is an identification of the benefits that have been leveraged out of more efficient procurement during 2009-10 by the activities of the Scottish Futures Trust.

Jeremy Purvis: Yes, but I want to know what that means. You refer to benefits accrued. Is that money that has been spent? Has £111 million been spent in addition to what had already been planned because of the Scottish Futures Trust, or has that money been saved? That would mean that it could be redeployed.

John Swinney: The best way to characterise matters is to say that that is a perfect example of being able to do more for less. Using the resources that we have to achieve more and taking decisions on procurement that will deliver greater value and benefits are substantial objectives in the current public spending environment. That is precisely what the Scottish Futures Trust has done.

Jeremy Purvis: So, £111 million more has been spent.

John Swinney: I thought that I had helped the committee with my explanation. It is a perfect example of doing more with less.

The Scottish Futures Trust has been a player in the design of procurement approaches on a range of projects, all of which have been published and assessed by Grant Thornton UK LLP as representing benefits that have arisen from the trust's interventions.

The Convener: I suggest that Jeremy Purvis's question is in danger of doing less with more, but he may wish to pursue it.

Jeremy Purvis: I just wonder where the money is. The cabinet secretary has confirmed that more has been spent.

John Swinney: No. I said that, as a consequence of SFT interventions, more has been achieved with less resource. That is pretty clear.

Jeremy Purvis: Okay.

David Whitton asked about what you have asked of your ministerial colleagues. What, in addition, have you asked of agencies? In response to the independent budget review, you said that if all of its conclusions were adopted it would produce too many savings and that you did not need to accept all the recommendations. How have you asked agencies and non-departmental public bodies to identify and explore savings in the next year?

John Swinney: NDPBs are essentially involved in the discussions between my ministerial colleagues and me about the likely budget settlements for all agencies and organisations. In some cases, all their funding—in others, some of it—comes directly from the Government. We must make decisions about the scale of support that we are prepared to make available. That is a material part of the discussions that I undertake with my ministerial colleagues.

Jeremy Purvis: Are you prepared to attach any figures to that? If I asked you whether agencies have been asked to identify a 10 per cent reduction for next year, would that be accurate?

John Swinney: We are taking forward a range of discussions about what level of savings we may have to secure, and what the consequences of particular decisions may be. The key point is that all of that material will be carefully assessed before any decisions are taken, to ensure that we are clear about what the impact of any particular changes would be.

The Convener: Tom McCabe is the only member who has not yet asked any questions.

Tom McCabe (Hamilton South) (Lab): I apologise for missing the start of your statement, Mr Swinney. I will feel forever deprived, but I will read the *Official Report*.

John Swinney: I am sure that you have heard it all before. There may have been one or two words that were new.

Tom McCabe: I heard you say that you think that the Conservative and Liberal Democrat Government is pushing too hard and too fast on reductions in public expenditure. That is a perfectly legitimate position—it was the position of the Labour Party at the general election. However, the other team won; the Conservatives and Liberal Democrats came into power and decided to do what they are doing. Essentially, the decision has been taken.

I have considerable respect for your formidable negotiating skills—I am sure that you will do well in reminding the Chief Secretary to the Treasury of the platform on which he stood at the general election. However, even if you achieve a 20 per cent reduction in his figure, we will still be looking at a reduction of about £1 billion—provided that everyone plays the game on salaries, which is yet to be seen. That is an enormous amount of money to come out of the Scottish budget.

As we said during the debate, it will be around November before people get an indication of how they are affected. That is an awful lot of pain to arrange in a short period of time; it seems to me that it will be well nigh impossible. There is every chance that some of the pain will be carried into the next year, which will make the position even worse. Do you worry about the fact that, by November this year, it will be difficult for the Scottish Government and organisations throughout Scotland to effect reductions of that magnitude?

John Swinney: I do not think that the fact that we face reductions in our budget will come as a surprise to public sector leaders. Just for the sake of completeness, I say in response to Mr McCabe's remark that the previous Government was planning two thirds of what the present Government is proposing.

Tom McCabe: Just for completeness, you acknowledge that a period of fiscal tightening is required.

John Swinney: We are all complete now.

I do not think that it is a defensible position to say that the public sector should be surprised that there is a challenge to face. We provided Dr Goudie's analysis in April and it was reinforced in July. The independent budget review has been produced. The Government has made a range of clear statements about our intentions on the

direction of travel, to quote the phrase that Mr Finnie used in the debate on Thursday, on pay—I have confirmed to Mr Whitton that I expect the position on pay to be more constrained than it was this year—on efficiency savings, on the passing on of Barnett consequentials to the health service, and on a number of other issues. A lot of politics gets traded across the debating chamber and across parliamentary committees, but I hope that Mr McCabe can understand my reluctance to produce a budget on the basis of numbers that are not definitive.

There are huge variabilities in the numbers. Although we know what the size of the overall DEL plus annually managed expenditure spending envelope for 2011-12 is likely to be, we do not know the balance between the two and, within DEL, we do not know the balance among particular policy areas in Whitehall departments. I do not think that it would add clarity if I were to set a budget only to have to come along a few months later and say that although I had said that the budget would be £X, it was actually £X minus or plus whatever the relevant figure would be. I think that the Government has given the clearest indication possible of the direction of travel. Whenever we have the numbers to hand, we will set a definitive budget for parliamentary scrutiny.

Tom McCabe: I have a lot of sympathy for much of what you say, but there are some pretty big variables involved. It is clear from some of the statements that the Government has made that some people are in for a particularly big shock. You have already said that spending on health will be protected and that the health service will get the consequentials, but Mr Chisholm expanded on the fact that whether health will get those consequentials and be able to carry on as before remains to be seen. That is one big block of Scottish expenditure.

We do not know what you intend to do with efficiency savings. Will you recycle them or will they contribute to the savings that need to be made? That will have a big impact on the eventual outcome. To be frank, you have ruled out savings on a number of big-ticket issues that were flagged up in the IBR, which you commissioned, so you have constrained your options quite considerably. If you are to achieve the figure that is required, the cuts will have to be focused on a much smaller group of people in the public sector than might otherwise have been the case, who will get a bigger shock than they have been expecting. That is not unreasonable to say, is it?

John Swinney: We have made a range of announcements on, and given a number of indications about, the areas on which activity will be concentrated, from which it is clear how the Government intends to proceed. In addition, we

have made it clear that a range of interventions will be made, whether on the work of public bodies and ensuring greater integration in some of their activities, or on long-term work that has been under way for some time, such as the work on public procurement, on which we have already notched up significant savings on the basis of the work of our predecessors, and in which it is clear that savings can still be made.

That creates the foundations for us to build on, but I do not for a moment suggest that we are going into a public spending climate that is in any way straightforward—it is expressly not. I accept Mr McCabe's point about the scale of the challenge, but the Government has established strong foundations on which to make many of those difficult decisions.

15:00

Tom McCabe: My final question is on the independent budget review report. As the cabinet secretary knows, I am an advocate of restructuring the public sector. The report highlights that somewhere we need to find a space for people to come together and take an objective look at what will be required in the next 15, 20 or 25 years. That is a perfectly sensible suggestion. The review panel would like the political parties in the Parliament to come together and try to find that space but, to be honest, that will be difficult to do. Where is the space in Scotland to allow us to think more about how we sustain public services into the future, given all the challenges, such as those of demography and the fiscal challenges?

John Swinney: The issues that Mr McCabe highlights, which are dealt with in chapter 7 of the independent budget review report, are substantial and legitimate questions. Mr McCabe will know well one of the great myths about some public expenditure reductions of the past. There has been a lot of talk of significant reductions in public expenditure, but none of them in our lifetimes has been of the sustained nature of what lies ahead. It is not just a one-year problem—there will be a sustained period of public expenditure reductions. Therefore, that part of the independent budget review's report about how we navigate the years ahead is particularly significant.

One of my observations about the independent budget review is that we appointed three individuals to carry out that piece of work and they did it utterly dispassionately—I have not heard anybody say that it was anything other than dispassionate. There might be merit in considering the structure of that example as a way in which to address some of the issues that are contained in chapter 7 of that report.

David Whitton: I have two or three quick questions that I was not given the chance to ask previously. We are clear that you will not give us a budget until November, but will there be costed options in that budget for what you are going to do, given that you and your Cabinet colleagues have spent a considerable amount of time going through your budgets line by line?

John Swinney: I will publish a budget, as I have done on three previous occasions, that will define exactly how public expenditure will be spent so that it will all add up to the total at the end. If that is what Mr Whitton means by "costed", the answer is yes.

David Whitton: I kind of meant that we would not get any unforeseen surprises at stage 2 of the budget, but we can let that go.

John Swinney: My goodness, that would be novel. I could become the first finance minister to come to the Finance Committee with an amendment to the budget at stage 2. I do not think that anyone has done that before. The reason why I am undertaking discussions with other parties is to try to find agreement about how we proceed and to have an agreed budget proposition that comes to Parliament in November.

David Whitton: You have told us about things that you do not want to cut, but one or two issues are still up in the air. For the avoidance of doubt, what is your position on free prescriptions, given that it is one of the costed options in the review report, at table 5.9? If we were to increase prescription charges to the 2010 levels that are applicable in England, that would save £32 million.

John Swinney: I do not know whether Mr Whitton proposes to go through a list of all the remaining options.

The Government has set out its proposals on a range of different proposals in a number of important areas in the independent budget review, and we are considering the remainder of the independent review recommendations. We have done—

David Whitton: So, you have no position on prescription charges.

The Convener: Let the minister speak.

John Swinney: Yes—if I could just finish.

I am doing that to try to create space for a mature and open debate among the political parties. I look forward to all the political parties participating in that.

David Whitton: In the interests of pursuing that debate, you have told us that you have carried out a survey of the budget, and you have told us what you will not cut, but you have not told us what you will cut. As the Cabinet Secretary for Finance and

Sustainable Growth, should you not lead the way in that debate? It is all very well saying, “I am not going to cut this and I am not going to cut that. I don’t accept this and I don’t accept that”, but what do you accept in the review report?

John Swinney: I am at a loss to understand how little Mr Whitton pays attention to my lengthy speeches in Parliament. I thought that I had made the position absolutely clear. In previous years, I have been criticised for bringing to Parliament a budget that did not do enough to take into account the perspectives of the other parties in Parliament.

I am now saying that we should have a discussion about that. If we have it openly, in front of parliamentary committees, and I have to say what I think about every dot and comma in the independent budget review, we are not going to have much of an interactive debate. That is why, when the independent budget review was published, I suggested that it would be helpful for us to have discussions across the parties. We have started that process and I hope that it will continue.

Ultimately—this was my point in my closing speech to Parliament last Thursday—I will publish a budget. I am not going to shirk that responsibility or pass it to anyone else. I am trying to create space for us to discuss what might be in the budget before I set it out. If other political parties want to be part of that process, no one will be more cheerful than I. Ultimately, in the middle of November, I will set out a budget and Mr Whitton will be able at that time to give his observations on the choices that we have made. It is my statutory duty to set out a budget and to subject it to parliamentary scrutiny, and that is what I will be happy to do.

David Whitton: The cabinet secretary is well aware that, in previous years, the Labour Party has taken part in those discussions in an open and frank way, and we look forward to doing so again. However, when the IBR report came out, you were very quick to say what you would not accept but not so quick to say what you would accept. That is my point.

John Swinney: I am creating the space for everyone to have their say in a fashion that will help us to come to some consensus about the difficult choices that lie ahead.

The Convener: Jeremy Purvis can ask a very quick final question.

Jeremy Purvis: Can the question be in a couple of parts, since the cabinet secretary has created so much space?

The Convener: I said that you could have a very quick question.

Jeremy Purvis: Part of the IBR recommendations was about reforms; I am looking at one example. There are almost 30 pensions administration centres throughout Scotland, and I know that the cabinet secretary knows the Scottish Public Pensions Agency in Tweedbank in my constituency because he has visited it. It is hugely efficient and impressive and it contributes considerably to the local economy. I think that there are 230 staff there.

How will you be moving forward with a rationalisation that does not necessarily cut all those centres? There could be some scope for some of them—in my constituency for example—to take on additional capacity or more work and to provide greater value for money. It would save money in the budget because there would not be such a great need for some of those administration centres. However, some of them operate under local authority auspices, so how will you get reform in those centres when a number of different organisations are controlling them? From the answer that you gave earlier about making savings across agencies, I know that you have a different sort of relationship with local government. We could therefore end up with the same number of pensions administration centres but the Scottish Public Pensions Agency could face cuts. How do you proceed on something like that? I am not saying that it is an easy situation.

John Swinney: I think that it represents an opportunity. Mr Purvis is absolutely correct in his assessment of the Scottish Public Pensions Agency, which is in my opinion an efficient and productive organisation that is well staffed and well led and has the capability—and even some capacity, as things stand at the moment—to undertake some of the pensions administration services that are currently undertaken by other bodies.

Mr Purvis highlights an opportunity to save resources across the public sector and to ensure that we have good outcomes from our pensions administration work. There would certainly be no diminution of service if a pensions centre were to transfer to the SPPA in Galashiels. Rather, I imagine that there would be every chance of service and value enhancement. That is a material opportunity that I have been discussing and am keen to take forward.

I should add that that would have to be done by agreement. I do not have the power to impose any decision in that regard. However, in all of the judgments that all public sector bodies have to make in the current financial context, that suggestion strikes me as being one that would be attractive to a range of pensions administration providers.

Jeremy Purvis: I am grateful for that.

Obviously, you are keeping to your position that you will publish your budget in November. However, in keeping with the point that I raised in last week's debate, I want to ask about information that has been sent to all health boards about capital allocation. Capital is a significant issue, which you have raised today. The circular, which was sent on 19 August, said:

"The projected fiscal environment and the impact on the health programme of a small number of large projects requires a refocusing of the arrangements in place for the distribution of capital resources across NHSScotland."

The annex stated to the second decimal point the percentage that each health board would be expected to get, as an illustrative allocation. However, I do not know how—if such a precise figure could be given to health boards on 19 August—you are saying to us today that you will not, until the end of November, have the information that will enable you to give illustrations to public bodies.

John Swinney: I have had the opportunity to examine the circular in detail, and I think that it is pretty clear that it is about a change to the process of deciding capital budgets of health boards; it is not about allocating budgets to health boards. The title of annex C, to which Mr Purvis has just referred, is "Illustrative Allocation of £150m via Formula".

That number has been identified by my colleagues in the health department and, in a way, the example that Mr Purvis raises illustrates my point that it is folly to produce a draft budget. The circular contains an illustrative example of how £150 million of capital might be allocated by this formula; it is in no way a draft allocation to health boards and it should in no way be inferred that it is.

Jeremy Purvis: Can I just—

The Convener: I think that the cabinet secretary has made his point clear.

Jeremy Purvis: So, no health board should be preparing its capital programmes for next year or the year after on the basis of this circular. Is that correct?

John Swinney: What health boards should be doing is preparing their capital programmes based on the methodology and processes that are in the document.

For the benefit of other committee members, who will not have seen this document, I should say that it contains 14 pages of text about process and protocol and the last page is headed "Illustrative Allocation of £150m via Formula". On that page, the health department helpfully translates 14 pages of text into an illustration of how a sum might be worked out, based on a figure of

£150 million. It is not an allocation to health boards and it should not be presented as such.

The Convener: I think, Mr Purvis—

Jeremy Purvis: Your clarification that no health board should be using these figures is helpful.

John Swinney: Convener, I am afraid that I must ask you to give me the opportunity to protect the position of the Government at this point.

The Convener: You have had that opportunity.

John Swinney: I will take the opportunity to do so every time something inappropriate is inferred.

The circular contains a methodology. It is not an allocation, and it should not be presented as such.

The Convener: You have made that perfectly clear.

As befits the subject, we have had a long session and have dealt with a great range of questions. Minister, do you wish to make any final comments?

John Swinney: No. I am fine, thank you.

The Convener: I thank the cabinet secretary and his officials for their attendance and I thank the cabinet secretary for his responses.

As previously agreed, we will now move into private session to consider our work programme.

15:16

Meeting continued in private until 15:20.

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