



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Tuesday 14 December 2010

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FINANCE COMMITTEE
29th 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)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 14 December 2010

[The Convener *opened the meeting in private at 14:31*]

15:16

Meeting continued in public.

Scotland's Spending Plans and Draft Budget 2011-12

The Convener (Andrew Welsh): Good afternoon and welcome to the public session of the 29th meeting of the Finance Committee in 2010. The committee has already considered agenda items 1 and 2 in private, so we now move to item 3.

This afternoon, the committee will take evidence on the Scottish Government's spending plans and draft budget for 2011-12. I welcome to the committee John Swinney, the Cabinet Secretary for Finance and Sustainable Growth, who is accompanied by two Scottish Government officials: Alistair Brown, the deputy director of finance, and Dr Andrew Goudie, the chief economic adviser and director general economy.

I invite John Swinney to make an opening statement.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): I record my appreciation to the committee for its flexibility this afternoon in changing times to accommodate my appearance at other committees.

I am grateful for the opportunity to discuss the Scottish Government's budget for 2011-12 with the committee. It is a budget that sets out our proposals for delivering on the Government's priorities while managing an unprecedented cash-terms reduction of £1.3 billion in next year's budget, with reductions of £500 million in our revenue budget and around £800 million in our capital budget.

The state of the public finances in the United Kingdom as a whole has been the subject of substantial public and political debate—rightly so, given the impact that the scale of reductions in public spending will have on programmes and services. The Government is focused on its priority of working with others to ensure that we take forward a budget that addresses the tough circumstances that we face. As in previous years, I

am committed to working with all parties to build a consensus around our budget proposals.

The draft budget for 2011-12 sets out the Government's spending commitments, and I will be happy to answer questions from the committee on them. At the heart of our budget proposals we have set out the reinforcement of our social contract with the people of Scotland by taking measures to enhance the resilience of our economy and to protect communities across the country from the worst effects of the reductions in the Scottish budgets. We have maintained the focus that is provided by the national planning framework and the national outcomes, and we are building on the Government's economic strategy and the economic recovery plan.

The Government has taken steps to support economic recovery and economic growth, to protect household income and front-line services, and to improve our environment. At a time when many household budgets will be feeling the effects of pay restraint, whether in the public or private sectors, the Government feels it necessary to act to maintain the freeze in the council tax in order to support household income. We are also delivering on our commitments to abolish prescription charges and to maintain the concessionary fares scheme. We have protected spending on the national health service, thereby delivering our commitment to pass on the Barnett consequentials of the UK spending review, and we are continuing provision for free personal care.

We have worked with the leadership of the Convention of Scottish Local Authorities to reach agreement on the offer of a settlement for local government that maintains its share of the Scottish budget and delivers key policy commitments on police numbers, schools, education, adult social care and the council tax. We are taking forward our support to business through the small business bonus and through the Scottish Investment Bank. We have supported expenditure on climate change and the low-carbon economy with the renewables infrastructure programme and the climate action fund.

We face acute problems in the capital budget, but we are delivering on our strategic commitments, including the Forth crossing, the new south Glasgow hospitals projects, the school building programme and the local government share of the capital budget, in addition to providing funding—through the non-profit-distributing model—of £2.5 billion in support of future capital expenditure.

The draft budget contains a comprehensive package of measures to support the economy and protect front-line services. However, those measures must be supported financially, which is why we have an approach to public sector pay that

includes a pay freeze across the public sector, except for the lowest-paid people; the suspension of non-consolidated pay, including bonuses; the freezing of the amount that is paid to NHS consultants in distinctions awards; and constraints on recruitment.

We have announced our intention to deliver a 3 per cent efficiency saving in 2011-12 and to continue our focus on improving procurement in order to guarantee the maximum possible efficiency. We are carrying forward £100 million from 2010-11 to support capital spending in the next financial year, and we are proposing to increase business rates that are paid by the largest retail properties, to support our programmes.

The budget sets out the Government's priorities and I would be happy to answer questions from members.

The Convener: You are a busy minister in terms of the number of committee meetings you must attend today, so we appreciate your appearance before us. I invite questions from members.

Derek Brownlee (South of Scotland) (Con): At a previous evidence-taking session on the budget, we discussed—with Professor Ashcroft, I believe—the efficiency savings, which I touched on in the question that I asked you in the chamber when you announced the draft budget. Could you clarify on what the 3 per cent baseline for the efficiency savings is based? The suggestion that we heard from some witnesses was that the quoted savings are based on the independent budget review, which had taken a version of the departmental expenditure limit that excluded pay. To what is the 3 per cent being applied?

John Swinney: Essentially, the 3 per cent is being applied across the Government's budget programme as an assumption of what we consider individual bodies will have to deliver. Some areas of the budget have been reduced by more than 3 per cent, so there are clearly budget reductions beyond efficiency savings. That is self-evident from the material that is in the budget.

The budget is underpinned by a range of assumptions involving efficiency savings, public sector pay, the focus on procurement and the focus on efficiency in public bodies. From all that, we expect to realise the type of savings that are required to balance the budget. We will give clarity to bodies and components within the public sector about what we consider to be a realistic efficiency savings target, as part of the general work that must be undertaken in order to achieve a financial balance.

Derek Brownlee: Does that mean that you expect individual Government departments and

non-departmental public bodies to be capable of delivering 3 per cent of the revenue DEL budget in terms of efficiencies?

John Swinney: Yes.

Derek Brownlee: You mentioned the unitary charge numbers in your opening statement. The figure of 2.3 per cent of the revenue DEL budget in 2015-16 is the proportion of that budget that is taken up by expected unitary charges at that point. You also talk about an additional 1 per cent being top-sliced and a cap being introduced of the percentage of revenue DEL that unitary charges would take. Can we assume from that, that the cap would be set at 3.3 per cent of revenue DEL, or has a separate decision been taken on what the level of the cap would be?

John Swinney: I think that the question of the level of the cap is important, because the sustainability of any revenue-based finance is crucial. If the committee were to ask me where I think the upper limit of a cap could be set, I would say that it would be appropriate for it to be no higher than 4 per cent.

I have announced a programme of revenue-financed investment that totals £2.5 billion and will take the percentage of resource DEL in the direction that Mr Brownlee talks about. However, I have given guidance that a sustainable level of revenue-based finance would be no higher than 4 per cent.

Derek Brownlee: Do you intend that the cap should apply on a global basis across Government or will it be pushed down so that, for example, individual health boards would have caps on their budgets? Would the cap operate at a higher level?

John Swinney: The levels of commitment are now such that a process would have to be put in place to establish that framework. That would have been inevitable in any situation that any finance minister faced. It is a process point whether we hold the cap in a separate budget line or acknowledge it in individual budget lines at health board level or in other budget lines. The key thing is that we establish a level of revenue-financed activity that the Government supports at no higher than 4 per cent.

Derek Brownlee: In relation to your plans for further and higher education, page 140 of the draft budget talks about sustaining the number of core places despite the reduction in funding in 2011-12. Is that the 2011-12 academic or financial year?

John Swinney: It is the 2011-12 academic year.

Derek Brownlee: Has the Government looked at sustainability beyond that same level of funding?

John Swinney: The budget that I am setting out to the committee is for 2011-12. As Mr Brownlee will be aware, this coming week the Cabinet Secretary for Education and Lifelong Learning is setting out the Government's green paper, so that question is best left for him to consider in his statement on Thursday.

Derek Brownlee: I have a brief follow-up question on a different issue. It is a central purpose of the Government to grow the economy, but obviously there has been a reduction in the budget to the enterprise agencies. What, if any, assessment has the Government made of the impact on jobs of the policy decisions that have been taken by the Government in the draft budget?

John Swinney: Mr Brownlee is absolutely correct that the Government's focus is on improving economic performance in Scotland. That has been an enormous challenge in the past couple of years because of the prevailing economic conditions; nonetheless, it has represented our focus.

It is important to recognise that the test of whether the budget supports economic development is not answered by the size of the Scottish Enterprise and Highlands and Islands Enterprise budget, and I am happy to debate that point. Many other interventions make a difference, whether it is other business-related investment, which might be support for the small business bonus scheme or the support to public expenditure through our local government sector, which represents a spending pattern that reflects every locality in the country. There is no sense that public expenditure is being concentrated in a way that stops economic development and activity in different areas.

The assessment that the Government carries out is to satisfy itself that the measures that we put forward in the budget are able to support effectively the process of economic growth and activity in all our communities. That is what lies at the heart of the decisions that we have taken.

Derek Brownlee: Measures that have been announced in previous years include statements about how accelerated capital spending would support, protect or create X jobs, which I presume were based on some sort of multiplier through the economic model of what a given level of capital investment would generate in employment. Has that been done for some of the policy decisions in the draft budget?

15:30

John Swinney: Mr Brownlee is correct that, in some aspects of specific economic programmes, we can identify, as a rough rule of thumb, that

when we accelerate, for example, £100 million of capital expenditure, it either protects or develops about 1,500 jobs in Scotland. A budget of this nature is slightly different, because we are deploying £28 billion of public expenditure and tabulating all the individual policy choices and changes is slightly more difficult and complex. I can give the example that the reduction in capital expenditure could affect about 12,000 jobs in Scotland, which is why the NPD programme is designed to counter the effects of what would be a negative economic impact if it happened.

Derek Brownlee: Whether we agree or disagree about it, there is a methodology for the capital spend and it can be argued over. Whether we agree or disagree about the substance of the policy decision that has been taken about business rates for large retailers, for example, is there a methodology or aspect of the economic model that the Government uses that allows you to say that that will have an impact by reducing the likelihood that jobs will be created, or by costing jobs?

John Swinney: That would be slightly more difficult to calculate because it does not relate directly to Government expenditure but relates to a series of judgments and assumptions about the actions and reactions of individual private companies. The impact is, therefore, a much more difficult factor to calculate and—unless the chief economic adviser wants to contradict me—it is not one that the Government's economic model would deliver.

Derek Brownlee: So the Government's economic model—

The Convener: Is this your final question?

Derek Brownlee: Yes. I just seek clarity. The Government's economic model can calculate the impact on jobs of its spending decisions, but it does not calculate the economic impact on jobs of its taxation decisions.

John Swinney: That is correct. I should point out that, on the impact on employment, our estimate is that the efforts to constrain public sector pay, for example, could save around 10,000 jobs.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): For clarity, cabinet secretary, how long will the pay freeze last?

John Swinney: We have set out our pay policy for 2011-12. The Government sets that policy annually and we will continue to develop that pay policy work as appropriate for 2012-13.

Jeremy Purvis: If there are any negotiations for three-year deals in the coming year, the Government will refuse to enter into any deal for more than one year. Is that right?

John Swinney: That is correct.

Jeremy Purvis: Thank you.

A key part of the introduction to the budget document and in your comments today is supporting the economy. Did Professor Joseph Stiglitz advise the Government on the preparation of the budget?

John Swinney: Professor Stiglitz has not advised on the detail of the budget, but I have seen material that leads me to suspect that he would approve of the focus on capital expenditure and the measures that the Government is taking. His view would be that they will be beneficial for the economy.

Jeremy Purvis: Has Professor Stiglitz given the Scottish Government that view of its proposals?

John Swinney: It is a general view that I have seen Professor Stiglitz express about the importance of capital expenditure for the economy.

Jeremy Purvis: What advice is he providing to the Scottish Government?

John Swinney: Professor Stiglitz has agreed to provide advice to the Government on the formulation of forward economic plans and we look forward to receiving that advice.

Jeremy Purvis: So that is going to happen.

John Swinney: Yes.

Jeremy Purvis: But there is nothing to do with this budget.

John Swinney: Save the fact that Professor Stiglitz has expressed a channel of thinking on economic decision making that is supportive of the direction of the Government's capital investment programme.

Jeremy Purvis: There is a large section in the budget document on the Government's overall funding envelope. The Government continues to say that the reductions are too fast and too deep. In an answer to a question in the chamber, you expressed the Government's position that the profile of the reductions should have been longer. However, there is no alternative in the budget document, so where is the Scottish Government's alternative consolidation profile?

John Swinney: As I have said before, the Government takes the view that it would be desirable for economic recovery if fiscal consolidation were to take place over a longer timescale than the one that the current United Kingdom Government envisages. We take that view because we feel that the private economy in Scotland is still taking some time to recover from the economic difficulties that it has faced—there is some encouraging news, but there are still many

challenges—and it is clear that, in the past couple of years, public expenditure has fulfilled an important role in stimulating economic recovery.

Jeremy Purvis: Dr Goudie has published two papers giving Scottish Government forecasts for beyond 2020 and modelling the impact on the economy, so I presume that the Government has modelled what the alternative profile would be when it comes to the size of the Scottish budget.

John Swinney: It is quite easy to take a view about public expenditure reducing over a longer period of time and changing assumptions about economic growth, because that would clearly be a product of such a decision. That would enable an alternative model to be identified, which is a perfectly tangible and practical proposition.

Jeremy Purvis: Why have you not done that?

John Swinney: We have set out in the budget document our alternative thinking on the budget. We have set it out in some detail in, I think, chapter 4 of the document. That captures the Government's thinking about how things could be done differently.

Jeremy Purvis: However, I think that I am right in saying that it does not have an alternative profile of expenditure for the Scottish budget that we can see. The reason I ask is that, when the Chief Secretary to the Treasury was before the committee, I asked him:

"Given the Scottish Government's position that the reductions are too far and too fast, did it ever say in its discussions with you what would not be too far and too fast?"

He said:

"I do not recall an alternative profile of expenditure being offered or suggested."—[*Official Report*, Finance Committee, 25 November 2010; c 2812.]

Why was no alternative profile provided to the Treasury?

John Swinney: The Chief Secretary to the Treasury, the Secretary of State for Scotland, the Minister for Finance and Personnel in the Northern Ireland Executive, the Minister for Business and Budget in the Welsh Assembly Government and I attended a discussion at the Treasury as part of the finance ministers' quadrilateral meeting in early October 2010, prior to the publication of the comprehensive spending review. The Welsh, Northern Ireland and Scottish finance ministers all made clear to the UK Government their very firm view that the proposals that were set out in the emergency budget document in June went too far and too fast. That view was expressed clearly to the chief secretary, who certainly made it clear to me that day that he had heard what I said. I can only share that information with the committee.

Jeremy Purvis: For clarification, were any figures provided as to what would not have been too fast and too far?

John Swinney: We set out clearly to the Chief Secretary to the Treasury our view that what was proposed in the emergency budget was too far and too fast and that we believed that the UK Government should undertake its fiscal consolidation over a longer period of time.

Jeremy Purvis: I want to be very clear: were any figures presented by the Scottish Government?

John Swinney: We set out our argument, in common with those of the Welsh and Northern Ireland representatives, that the United Kingdom Government should reconsider its published proposals, which we considered would undertake fiscal consolidation too far and too fast.

Jeremy Purvis: Did that argument include any figures from the Scottish Government?

John Swinney: The argument presented the very clear and simple conclusion that the UK Government was undertaking fiscal consolidation too far and too fast.

Jeremy Purvis: Would I be wrong if I said that the proposition from the Scottish Government did not include any figures?

John Swinney: You would be able to form a judgment on what was involved by the clear and simple answers that I have given the committee today.

The Convener: Okay?

Jeremy Purvis: I have a further question, convener.

The Convener: Right, but other members want to ask questions, too.

Jeremy Purvis: I would like to ask more questions on this particular point, but I suspect that the convener wants me to move on. Are the budget figures on business rates net of the revenue that you expect to raise from the Princes Street penalty?

John Swinney: The assumptions on business rates in the budget document include the revenue that I expect to raise from the business rates additional levy on retailers, so they include those revenues.

Jeremy Purvis: Am I correct in saying that the Scottish Government has a policy position of there being a cap on the increase for the rates bill next year with regard to the poundage, so that the rates will not go up higher than inflation or the retail prices index for next year?

John Swinney: The Scottish Government's policy position is that the core poundage rate would be no higher than the rate in England. As I explained to Parliament on Thursday, that rate has not yet been set, so I have been unable to set the poundage rate for Scotland. However, I will do so as soon as I possibly can.

Jeremy Purvis: Why is there a difference in the policy position in that regard between your Government and the Welsh Assembly Government, which on 1 November gave a provisional poundage and cap on that, on the basis that it wanted people to be aware of what the capped increase could be? Why has the Scottish Government not done the same?

John Swinney: The circumstances in Scotland are that we have a commitment to have a core business rates poundage rate that is no higher than the rate in England. It is a rather difficult position for me to settle when I do not know the position in England—I would have expected that to have been settled by the end of November 2010, but it has not been. So, I am trying to set the business rates at a level that compares with a number that I currently do not know.

Jeremy Purvis: If the RPI was set at 4.28 per cent, would that level of increase be damaging for Scottish businesses?

15:45

John Swinney: It certainly would be a level that was consistent with the mechanism that has been used for uprating business rates on an annual basis. As I said to Parliament last Thursday, I want to reserve my position on the question until I see what action the UK Government takes on business rates in England.

Joe FitzPatrick (Dundee West) (SNP): In your opening statement, you spoke about supporting the low-carbon economy. Obviously, that is contained to some extent in the budget. What impact would there be and what extra leverage would you have if the UK Government were to change the accountancy rules around the fossil fuel levy so that it could be put to use in Scotland now rather than having to wait several years for a green bank?

John Swinney: Clearly, the fossil fuel levy resource would be enormously helpful to us in supporting the development of the low-carbon economy. It represents about £190 million-worth of potential capital investment, which is not money that we need to find from the UK Government but money that is held in a different context. Certainly, finding a mechanism by which to undertake that ability to spend is what this is about—the issue is our ability to spend in a fashion that is additional to our existing public expenditure levels. Such a

change would be of significant benefit to the Scottish economy and the development of the low-carbon economy.

Joe FitzPatrick: If the rules were changed, could you start to spend the money to the advantage of a green economy within the next year?

John Swinney: Without a doubt. We are already allocating resources through the budget to support projects that can be considered to be within the low-carbon economy. By their very nature, such projects would be undertaken. Clearly, in the context of the budget, decisions are taken in the context of many competing priorities. Obviously, if we want to support more projects, or if projects emerge that are of a sound and attractive character, we would want to do more to intensify that effort in a swifter timescale. Undoubtedly, if that additional resource were to become available, it could help to attract further projects and proposals to undertake development in Scotland.

Joe FitzPatrick: The budget also protects local government share. How was the share divvied up among councils?

John Swinney: That was undertaken by the application of an agreed distribution formula. As Mr FitzPatrick knows, the Government undertook a review of the distribution formula with local government earlier in this parliamentary session. We agreed the conclusions and applied the distribution formula. A population-based mechanism is applied across core revenue finance for local government, as is a maximum reduction in expenditure for individual local authorities. Once that is set, we add in the impact of grants that continue to form a feature of the local government settlement. In that way, we arrive at the draft distribution settlement that I shared with the Parliament on Thursday.

David Whitton (Strathkelvin and Bearsden) (Lab): Why did you not consult the large retailers before you hit them with the new levy?

John Swinney: The Government carries out extensive dialogue in the course of its activities with different representatives of the business community. That gives us information on the views and considerations of those representatives of the community. We have to form a view on tax measures, which I have a duty to share with the Parliament. For that reason, I formulated the proposal and announced it to Parliament. I will, of course, discuss it with representatives of the retail community in Scotland.

David Whitton: Do you accept that it might inhibit economic growth if you impose this levy on companies that are themselves large employers in many communities across Scotland?

John Swinney: Mr Whitton is absolutely correct. Those organisations are large employers—and welcome ones, I would say. I acknowledge their economic impact and the economic contribution that they make. They support economic growth in Scotland and their contribution is desirable. I have to formulate a set of budget proposals that strike a balance between raising revenue in a number of different areas and supporting public spending programmes, and I have to support those programmes in a context where budgets are falling in cash and real terms. That sometimes leads to areas where we have to increase taxation.

I appreciate that the decision that I have arrived at causes concern among the retailers in question, but given the financial health of the retail sector and the limited significance of business rates in retailers' overall economic calculations—typically, business rates account for about 2 per cent of large retailers' turnover, of which the levy is obviously a component—I think that the increase can be borne by large retailers in Scotland.

David Whitton: Given that we are looking at a one-year budget, is it only a one-year increase or is the intention to continue the levy in future?

John Swinney: That would be a part of the business rates framework going forward.

David Whitton: I think you said last week that you were thinking of introducing five bands. Can you tell us what they are yet?

John Swinney: The material was published in the order. There will be five bands that range from 2.5p to 15p, and the 15p band will apply to a rateable value in excess of £2.14 million.

David Whitton: I apologise. I had missed that.

Clearly, Scottish Water must have had a fair amount of surplus cash swilling about if you were able to tell it that it was not getting any of your money. Do you have any idea what the impact will be on the future capital investment of Scottish Water, given that its borrowing levels are not being funded by you this year?

John Swinney: The Government has given Scottish Water a commitment that, during the 2010 to 2015 determination period for the water industry, the Government will provide £700 million-worth of capital investment. Needless to say, the requirement for that investment will vary depending on the stage of particular developments and the cash flow health position of Scottish Water.

Obviously, we are facing an acute challenge in 2011-12 in our capital budget. I have taken steps to try to moderate that impact, and Scottish Water has helped me to moderate it further by enabling the capital expenditure to be back-loaded, or by

supporting the capital expenditure. Its capital programme remains intact.

David Whitton: Those who compiled the independent budget review document stated in it that no area of Government expenditure should be protected from the effects of the reduction. A number of witnesses who have been before the committee recently, many of whom are Scotland's leading economists, have questioned why you have ring fenced health in the way that you have. Why do you think that ring fencing health in that way contributes to economic growth?

John Swinney: There are two questions here. The first is about why we have ring fenced health and the second is about what that contributes to the economy.

We have ring fenced health for reasons that are largely to do with the hard reality that, as our population lives longer, the demand for health care rises, and as the demand for health care rises because of the longevity of the population, so too do demands increase as a consequence of the development of new treatments and medications. I do not think that any of us will be surprised by that general trend of pressure within the health budget. Over the past nine to 10 years, health expenditure has risen quite substantially above inflation, so there has been a measure and a mechanism to try to take account of those forces in the health budget. However, it is clear that budgets are now falling in cash and real terms, and that is a challenging financial environment for the health service.

The health service is getting the benefit of a real-terms increase in its resource budget, but I would not want to suggest in any way that that will create an easy situation. Pressures on the service as a result of longevity, new treatments and new circumstances will continue relentlessly, but resources will not rise nearly as swiftly or acutely as they have done. Our judgment was that we had to provide adequate and appropriate support to assist the health service through that challenge. That is my explanation for ring fencing the health budget.

The second question was about the economic benefit of that. Like local government, the health service is in every community in the country, and it delivers employment in every part of the country, from its most congested parts to its most rural parts. As a consequence, sustaining expenditure on its front-line services sustains employment. If we sustain employment, we will sustain the ability to contribute financially to our wider society. Investment in the health service contributes to economic growth in every part of the country.

David Whitton: I imagine that the same argument could be made about higher and further

education, housing and regeneration, rail services, enterprise, energy and tourism, but all those budgets have taken a hit. That seems to be rather strange if economic growth is your number 1 priority. Why have you taken a salami-slice approach to those budgets but ring fenced the health budget?

John Swinney: I will leave it to Mr Whitton to explain what his spending priorities are.

David Whitton: I thought that this session was for us to ask you questions, not for me to offer explanations.

John Swinney: I did not ask any questions; I merely made the observation that I will leave it to Mr Whitton to explain his spending choices. I have explained my spending choices and am in the course of doing so to the committee.

It is right to ensure that we can deliver the health services that members of the public expect in their localities and that we can sustain employment in the health service as a contributor towards economic growth and economic development. It is clear that I have had to take a range of very difficult decisions relating to the budget. Mr Whitton mentioned housing, for example. The housing budget is falling by 25 per cent, and the capital budget is falling by 25 per cent. Therefore, the housing budget has not suffered disproportionately compared with any other Scottish Government budget.

I point out to Mr Whitton, as I think I pointed out in the chamber last week, that the reductions in capital spending that the current UK Government is progressing are identical to those that its Labour Government predecessor produced. Therefore, we should not be surprised by the capital spending profile. There are difficult decisions relating to the budget, but decisions have been taken to try to protect economic growth and support the development of our economy.

David Whitton: But you would accept that, given the way in which you have cut, some people might question whether economic growth is still your number 1 priority.

John Swinney: I have explained the basis on which the Government takes the view that our choices continue to support economic growth in Scotland. What we have done to supplement our capital investment programme is evidence of our aim of developing a strong Scottish economy. I have found £100 million of savings this year to pass over to next year, and there is the investment in the non-profit-distributing model of capital investment, which will help the Scottish economy. Those are tangible measures to support the development of the Scottish economy.

David Whitton: Last week, you made a welcome U-turn on publishing figures for the coming years. Do you have a date yet for when we can expect to see those numbers?

16:00

John Swinney: Mr Whitton helpfully indicated that the Opposition thought that a reasonable timescale was publication by the stage 1 debate in late January. I confirm that position today.

The Convener: Joe FitzPatrick has been roused for a quick question.

Joe FitzPatrick: Mr Whitton questioned the decision to ring fence the health budget. Have any Opposition leaders or finance spokespeople approached the cabinet secretary to suggest alternative spending proposals?

John Swinney: On all such questions, I want to proceed by respecting the confidence of the Opposition parties in taking forward discussions to reach a conclusion on the budget process. I always take such an approach.

David Whitton: I pointed out that the independent budget review document said that no areas should be protected. I also mentioned the witnesses who questioned whether ring fencing the health budget was wise and sensible.

The Convener: You have now put that on the record.

Tom McCabe (Hamilton South) (Lab): Is David Whitton referring to the independent review document from which four or five of the main recommendations were rejected immediately?

David Whitton: It is the same document.

Tom McCabe: A big part of the budget is 3 per cent efficiency savings. If you do not manage to make those savings, a pretty big hole will appear in what you have described as a balanced budget—in fact, the budget will not be balanced. For reassurance, will you tell us which other Governments—near or far—have managed to implement and sustain efficiency savings of 3 per cent?

John Swinney: The forthcoming financial environment that faces every Government in western Europe will require all Governments to achieve efficiency savings and public spending reductions of the order that I must confront. It is not particularly surprising that we face that situation—plenty of other Governments will have to face up to it.

To reassure Mr McCabe, I say that the Government has clearly delivered in the past three and a half years three balanced budgets. I fully expect to deliver a balanced budget for the fourth

year, in 2010-11, and I will concentrate on delivering exactly the same in 2011-12. From his knowledge of the public finances, Mr McCabe will be aware that I have no alternative but to deliver a balanced budget.

Tom McCabe: You will not be surprised to hear that that did not particularly reassure me. I did not ask what other Governments around the world will have to do in the future; I asked what they had managed to do in the past. Do you have evidence from anywhere else that anyone has managed to implement and sustain 3 per cent efficiency savings?

John Swinney: It is essential that we acknowledge that public expenditure will be under severe pressure for several years. Unless we take steps to maximise the value for money that can be achieved from public expenditure, we will not face up to those challenges without severely impacting on the quality of services that members of the public expect.

Mr McCabe will be aware of the Government's performance on efficiency savings. In 2008-09, the Government delivered efficiency savings of £839 million, which was 3.1 per cent of the 2007-08 departmental expenditure limit baseline and was higher than the target. In 2009-10, we delivered efficiency savings of £1.47 billion, which was 5.5 per cent of the baseline. There is confidence that such programmes can succeed. At the heart of that, it is crucial to acknowledge—as I stress to any public sector audience with which I engage—that we must find the mechanisms, while still spending £28 billion, to make the resource have a wider impact than it has previously achieved.

Tom McCabe: You think that you will be able to do that without losing a single job.

John Swinney: You will be familiar with remarks that I have made to the committee many times. At the end of the spending review period, I fully expect public sector employment to be lower than it is today. I have accepted that unreservedly.

Tom McCabe: That is what interests me. Some of the figures on which you have relied contain savings that have been made in local government, for example, which allegedly exceeded the targets that it was set. However, it managed to do that at a time when its workforce increased, which is quite a difficult trick to achieve. You have explicitly acknowledged that, to achieve efficiency savings, fewer people will be employed in the public sector. There is a bit of a contradiction in that, which I will put to one side, but you can see why people are concerned when they see that, in the past, efficiency savings were achieved at the same time as the workforce increased. Is such a position tenable?

John Swinney: My answer is contained in the important principle that we must ensure that we achieve more from the lower level of public expenditure that we have at our disposal. I cannot see how we can navigate the period ahead without accepting that principle, which must be a widely accepted public sector principle. Implicit in that is that we must accept that we will achieve more with fewer people in public sector employment.

I want to maximise public sector employment as much as I can; I do not come to the issue from the ideological position of wanting to reduce public sector employment for the sake of it. I could not have been more open with Parliament about the fact that one of the principal drivers for the Government's public sector pay policy is to try to protect employment, because for every pound that is put into increased salaries or an increased pay bill, head count will reduce.

The argument is twofold. First, we must achieve more with a lower resource base than we have had at our disposal in the past. Secondly, we must do so in a managed way that protects employment as far as we can.

Tom McCabe: You can see the concern that someone who is currently employed in the public sector may have. If, as a result of your aim to achieve 3 per cent efficiency savings, they lose their job, they may say to you—with some justification—that that was not an efficiency saving but a cut.

John Swinney: The Government has taken an approach to public sector employment that has been welcomed by the workforce. In my experience, the approach that the Scottish Government has taken of providing an assurance that there will be no compulsory redundancies has been a welcome step and has created an environment in which we can achieve greater efficiency in the Government's operations. It strikes me that we will be able to create such an environment in the period ahead.

The other reassurance that I give to Mr McCabe is that it is implicit in the Government's guidance on efficiency savings that a reduction in service cannot be deemed to be an efficiency. The test is whether services are maintained. If a measure maintains services, albeit in a different fashion or through different service design, it can be deemed to be an efficiency. However, just stopping doing something is not an efficiency but a cut in public spending or public programmes. That is quite a hard test.

Tom McCabe: In your introduction to the budget document, you say:

"This Government has never shirked the difficult decisions that are required in order to live within reduced means."

That is quite reassuring. In chapter 1, you go on to say:

"We must therefore make cuts to projects and services which, while highly desirable, are no longer affordable."

Can you give me a list of four or five projects or services that you have cut and indicate how much money you have saved?

John Swinney: There have been cuts in a range of areas. Earlier today, I appeared before the Transport, Infrastructure and Climate Change Committee. The fact that I have cut the freight facilities grant is not going down particularly well, but I have done it and have explained the rationale for that. The budgets of the Scottish Environment Protection Agency and Scottish Natural Heritage have been reduced. I have also had to take money out of VisitScotland's budget. We have done so in a fashion that protects the organisation's marketing expenditure, but it is a difficult decision.

Tom McCabe: Finally, are you saying that a decision to cut the budgets of SNH or VisitScotland is harder than, for example, a decision to reassess free concessionary travel?

John Swinney: We are getting into the realm of choices. We have to consider the projects and proposals that we think are appropriate as part of the social contract that exists in our society. My view, and the Government's view, is that the first port of call of any programme to reduce public expenditure should not be universal services that have been built up as a consequence of agreement in the Parliament.

Linda Fabiani (Central Scotland) (SNP): You started your statement by saying that, as always, you would be looking for consensus on the budget proposals. It strikes me, listening to the comments of committee members, that there is certainly a consensus that times are hard. Do the cuts that we are facing mean that it is even more important now to have consensus on the budget?

John Swinney: I have accepted throughout my term of office that, as a finance minister in a minority Government, I have to secure wider agreement to the budget provisions. I have been able to achieve that over the past three budgets and I intend to pursue it for the 2011-12 budget into the bargain.

It is more important to achieve a consensus than it has ever been. I think that members of the public, looking at the fact that public spending is being reduced—I do not think that anyone could have missed the fact that public spending is being reduced, as it is part of the general discourse of debate—expect Parliament to take a set of measured decisions on these issues. I hope that we can make progress on the budget in the context of that type of approach.

Linda Fabiani: Could a degree of consensus on certain issues, such as the fossil fuel levy, which was mentioned earlier, and the disputed consequential, help with negotiations with the UK Government in these straitened times?

John Swinney: Undoubtedly but, even with a consensus, we will not always be able to secure an agreement with the UK Government. There has been pretty comprehensive agreement on the fossil fuel levy, but that agreement has not materialised into an outcome that is workable from the Scottish Government's perspective.

I have listened carefully and paid close attention to the contributions of all members of Parliament in recent months on the content of the budget, in order to inform the Government's thinking on how we might put forward a package of proposals that has broad agreement. There will not be unanimity on every figure in the budget that I have put forward, but I think that we have relatively broad agreement on some big questions. For example, I get the sense that there is relatively broad agreement that the correct course of action is being taken on pay, and it strikes me that there is probably relatively broad agreement on the focus on sustaining capital expenditure, but there will be areas on which there is not agreement. I accept, as I have implicitly throughout the process, that I need to secure agreement in that respect, so, if we need to change direction in any particular areas, that is clearly an issue that I will be interested to hear about from the Opposition parties.

16:15

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I appreciate that there are particular difficulties with the capital budget. When we questioned the economists a couple of weeks ago, I asked them what they thought would be the most important change to help the economy next year in its fragile state. Two of them, certainly—and possibly three—mentioned housing. I recognise the difficulties that you face, but would you be prepared to consider housing in the balancing of capital expenditure? As I said, there was a strong view that more investment in housing would be particularly helpful for the fragile state of the economy and would have many other social advantages.

You mentioned a 25 per cent cut in housing funding and you argued that it is the average cut—the same as the cut for capital expenditure as a whole—but is it not the case that housing benefited the most from the capital acceleration? If we take the average of the accelerated housing budget of 2009-10 and the decelerated budget of 2010-11, which seems a fair thing to do, the cut in the housing budget is 35 per cent, which is the figure that the Chartered Institute of Housing in

Scotland is using. Is there not an argument for rebalancing some of that capital expenditure? For example, there is an increasing budget for roads, which seems strange when there is such a big cut to the housing budget.

John Swinney: Mr Chisholm makes the completely fair point that there are choices in the budget. The capital budget is of the order of £2.5 billion. Choices are made in that and, if we as a Parliament believe that the housing budget should be higher, we can have a discussion about we address that. The other side of the coin requires us to reduce other budgets to make that possible—I do not mean that in any pejorative way; Mr Chisholm will appreciate the points that I make.

Therefore, of course it is possible to increase the housing budget, but the approach that we have taken to capital has been designed to make progress on major strategic projects, such as the Forth crossing and the south Glasgow hospitals, to take forward the schools programme and to ensure that we support local government capital expenditure. That has been the prioritisation in the capital programme, and a set of subsidiary decisions have followed from that. We can unpick the balance of the capital programme, but my stricture for doing that is that, if we put more money into housing, we have to take it away from somewhere else.

The increase in the roads budget is probably explained by the Forth crossing alone. We are all familiar with why that is required.

My final point to Mr Chisholm is that the core capital funding for housing is one thing, but Mr Neil is taking forward other initiatives, such as the national housing trust, that look from the first evidence to have the desirable feature that they involve relatively small amounts of Government support but anchor disproportionately greater investment by opening up local authority borrowing. There are interesting and novel ways in which we can try to expand the size of the housing budget, rather than by simply trying to allocate other capital expenditure, but I do not say that to close down any discussion on how it might be done.

Malcolm Chisholm: One problem that we have in examining the budget is that we have figures only at level 3. I want to ask you about two lines, one of which is in the housing budget and both of which are to do with energy. The supporting sustainability budget line goes down by £104 million to £83 million, but we do not know any of the detail of that. People are concerned about the energy assistance package and the wider home insulation programme, so could you give more detail? The decline in the budget for energy more generally, which is the biggest decline in your own

budget, is more than 20 per cent, from £43 million to £34 million. Again, people do not know what that includes, because we do not have the level 4 figures. It would be helpful if you could say something about those budget lines.

John Swinney: On the supporting sustainability line in the budget for housing and regeneration, at table 8.05, work is being done on a commercial negotiation about the funding support for certain programmes that the Minister for Housing and Communities is implementing. I am therefore not in a position to give definitive information on that; I hope that the committee will understand the reasons for that.

There is a complicated set of changes to a number of the budget lines in the energy budget. If Mr Chisholm will give me a moment to find the right page, I will run through that with him. *[Interruption.]* I do not have in front of me the level of detail that I thought I had, so I will write to the committee about it. There are some changes to different lines within the budget, and there is a crossover with the Scottish Enterprise budget. I will explain the detail of that in writing to the committee, but I covered it with the Economy, Energy and Tourism Committee last week.

The Convener: That would be helpful.

Malcolm Chisholm: I do not disagree with your judgment on health although, as David Whitton said, many of the economists do. You will remember that I asked you about that when you made your budget statement but, in the interests of accuracy, the point that I made was that, in real terms, the health budget is declining. The explanation of that is that the decline in the capital budget offsets the increase in the resource budget, which results in a overall decline in real terms. In the interest of accuracy, you should always make the distinction that you are passing on the consequential of the resource budget only, not the capital budget.

John Swinney: The point about the capital budget that must be borne in mind is that, last year, the health budget was given an extra allocation of resources to deal with pandemic flu. That resulted in significant expenditure of, if I recollect rightly, £20 million for vaccine acquisition. That was not part of the ordinary capital programme of the health service. Resources were found and put into the health budget for that one purpose. It could never have been described as part of the health budget's baseline and, if it is removed, the issue that Mr Chisholm raises does not apply.

Malcolm Chisholm: But the fact is—and we understand the reasons for it—the capital budget in health, as elsewhere, will be under a lot of pressure. That has resulted in, for example,

Edinburgh's new sick children's hospital having to be funded in different ways, which will have consequences for resources. In that sense, we have to see the capital and resource budget together.

John Swinney: That is correct, and I have said what the profile is of the health resource and capital budgets together when the pandemic flu resources are taken into account. Mr Chisholm is correct about the Royal hospital for sick children in Edinburgh. However, I hope that it is accepted that the Government has gone to considerable lengths to put in place a capital programme that retains as much as possible of our activity in a challenging financial situation.

Malcolm Chisholm: My final question is about the distribution of money. Cuts by distribution become a more sensitive issue than they were when budgets were increasing. I am merely observing the difference between the approach in health, where as much as possible is being done to protect boards that might lose out under the funding formula, and the approach in local government, where you are going ahead with the formula without any recognition of the fact that we are in a situation of cuts. Both approaches will have negative consequences for my area. I am not saying that we need to have a balance between those two approaches, but it is striking that they are at opposite poles of the available options. You are going ahead with the formula without recognising the difference that the situation of cuts makes, whereas the indication is that the Cabinet Secretary for Health and Wellbeing is moving slowly because she does not want health boards to lose out in a tight situation, although we do not yet know the distribution for this year. In your portfolio, would it have been better to try to even out the cuts for local government, rather than just applying the usual distribution formula? That formula has had a devastating effect on Edinburgh and an even more devastating effect on Glasgow. Given the current unique situation, would it not have been better to share the pain more equally?

John Swinney: The core part of the distribution formula for local government, which takes into account the potential for very extreme outcomes, is the application of the floor mechanism, which has been applied once again in the local government portfolio essentially to rule out such significant reductions.

I appreciate that that approach does not solve every distribution issue, but it takes the edge off the impact, which can be significant in some areas of the distribution formula.

The Convener: There is one final short question from Jeremy Purvis.

Jeremy Purvis: Did special advisers draft any of the language in the budget document that you have presented to the committee?

John Swinney: My name is at the front of the budget document, and I approved the entire contents of the document.

Jeremy Purvis: Is it all written by civil servants, or did special advisers draft any of it?

John Swinney: The point is that the document has my name at the front of it, and I approved every word of it.

Jeremy Purvis: With respect, cabinet secretary, the point is my question.

John Swinney: Well, my answer is that I approved every word of the document.

Jeremy Purvis: And was any of it drafted by special advisers?

John Swinney: Undoubtedly special advisers would be involved in the process of developing the document, but every word of the document is approved by me.

Jeremy Purvis: I want to be specific on the question whether any of it was written by special advisers.

John Swinney: The document was written by civil servants. It undoubtedly will have had—well, it did have—special adviser input, but I approved every word of it.

Jeremy Purvis: Was there special adviser input on any of the figures?

John Swinney: Convener, I do not think—

The Convener: The cabinet secretary has stated clearly where responsibility rests.

John Swinney: I am giving the committee the very clearest statement that I have personally approved every single detail in the document, and I carry full responsibility for its contents.

The Convener: That is a very clear answer, Mr Purvis.

Jeremy Purvis: Can I ask about the £100 million underspend? If councils or any public bodies ask the Government, because of the winter pressures, to revise its thinking with regard to having a £100 million underspend at present, will the Government tell them that there is no further resource because it is keeping the underspend until next year?

John Swinney: The Government's spending plans for 2011-12 are underpinned by a degree of what I would call carry-over from this year to next, which I have planned and will be able to deliver. Further underspend may emerge in the course of this year, which may provide me with the ability to

shift resources to meet developing needs that arise as a consequence of the winter resilience issues.

Jeremy Purvis: Finally, is it the Government's policy to seek to attract large retail to be located in Scotland?

John Swinney: The Government would welcome large retail to be located in Scotland and has taken many actions, including the creation of a much more efficient planning system, to enable that to come about.

Jeremy Purvis: Will the differential tax system for large retail have any impact at all on Scottish competitiveness in that area?

John Swinney: I do not believe that it will.

The Convener: Does the cabinet secretary wish to make any final comments?

John Swinney: I have no further comments to add.

The Convener: Being a cabinet secretary in a minority Government is not a happy situation. We thank you for your work, your expertise and your detailed evidence here today.

Meeting closed at 16:29.

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