The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 16 November 2011

Session 4

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FINANCE COMMITTEE
10th Meeting 2011, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Alex Johnstone (North East Scotland) (Con)
*Derek Mackay (Renfrewshire North and West) (SNP)
Margaret McCulloch (Central Scotland) (Lab)
*John Pentland (Motherwell and Wishaw) (Lab)
*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Martyn Evans (Carnegie UK Trust)
Mary Fee (West Scotland) (Lab) (Committee Substitute)
Paul Grice (Scottish Parliament Clerk and Chief Executive)
Liam McArthur MSP (Scottish Parliamentary Corporate Body)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Wednesday 16 November 2011

[The Convener *opened the meeting at 10:01*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the 10th meeting this session of the Finance Committee. I ask all present to turn off mobile phones, pagers and BlackBerrys.

I have apologies from Margaret McCulloch, who will be replaced by Mary Fee. Sadly, Alex Johnstone will no longer be a member of the committee after this meeting. I take the opportunity to thank Alex for all his hard work during his relatively short time on the committee. I look forward to welcoming his successor, Gavin Brown, next week.

Agenda item 1 is to decide whether to take items 4 and 5 in private. Both items involve consideration of the committee's approach to the financial memoranda accompanying the Alcohol (Minimum Pricing) (Scotland) Bill and the Agricultural Holdings (Amendment) (Scotland) Bill.

Are members content for those items to be taken in private?

Members *indicated agreement.*

Carnegie UK Trust

10:01

The Convener: Item 2 is to take evidence from Martyn Evans of the Carnegie UK Trust on its report "More Than GDP: Measuring What Matters".

I welcome Martyn Evans and invite him to make a short opening statement.

Martyn Evans (Carnegie UK Trust): Thank you for the invitation to speak to the committee.

As you know, economic growth as an intermediate policy objective has served us well in the United Kingdom over the past 100 years. Gross domestic product has doubled every 25 years and transformed the lives of my family and probably yours, and of millions of people throughout Scotland.

The gains of growth have not always been evenly distributed, but there is no doubt about the general social and personal benefits. However, the policy of grow, tax and spend, which made 20th century Britain, is under increasing critical review. European thought has been at the heart of those challenging debates, earning the side swipe that Europeans are the idlers of the world, looking for an easy 21st century.

The interest of the Carnegie UK Trust is twofold. First, our trust deed, which was signed by Andrew Carnegie, is simple and remarkably modern: he requires us to address the wellbeing of the people of the United Kingdom and the Republic of Ireland as their needs change from time to time. We have been looking at that for the past 100 years.

As we move into the 21st century and towards the trust's centenary in 2013, we want to look forward and to understand what wellbeing means in the 21st century and how we can harness the energy of civil society, Government and its people to improve wellbeing.

We established a round-table of eminent people in Scotland to follow on from the Sarkozy commission. The most striking outcome of the round table was the acclaim that it gave to the national performance framework established in 2007 by the incoming Scottish National Party Government. The framework is a rare international example of a Government trying to measure what matters and using those measurements to drive public policy, spend and investment.

The Convener: Thank you for being brief in your opening statement. I am afraid that some people have not been quite as brief in recent weeks.

How do you persuade people—for example the media and others—to take the issue of wellbeing on board? We hear in the media that GDP is relatively flat at the moment in the UK, although it is slightly higher in Scotland, but GDP seems to be the totem for all. One issue is that, if politicians decide to move to different measures of, for example, wellbeing, it provides an opportunity for others, in the media or political rivals, to denounce them for trying to take people's eye off the ball, which is GDP. Although I believe that the report is excellent and that there are good arguments in it, how practical is it to sell your message?

Martyn Evans: That is critical. My conclusion is that there is never a right time to change. When there is economic growth, the issue is of marginal interest, and when there are problems in our economy, it is a distraction, so whenever the debate is raised there are voices that say no.

The important point is that it is necessary to carry on measuring GDP—it is crucial for any Government to measure GDP—so we are not throwing the baby out with the bath water. Also, the debate about happiness can become a distraction. Wellbeing is partly about happiness, but the debate can be trivialised by being characterised in that way.

I do not have an easy answer on how we give the media and the public confidence in the idea of having a wider range of measures, but since the round table I have come round to the argument that a dashboard is required. If GDP is the only measurement—like speed in a car—that will tell you something but not everything about what you need to know, so a dashboard of measurements is required.

The key discussion is about what, apart from GDP, we should both measure—we currently measure a lot of things—and use to drive our policy. Getting people to take the issue seriously is a great problem. I have seen the matter trivialised and I have seen those who oppose the idea say that it is about the psychology of individual preferences and has nothing to do with Government.

Back in 2007, the very progressive idea of fulfilment was proposed, which is that the issue is not happiness but personal fulfilment. If one objective for the Government is to help people to achieve that, let us have a decent discussion about that. I regret that there is no magic bullet, but I am sure that you know that.

The Convener: Absolutely. In some ways, it is like trying to steer the Titanic. When one measure is used and is held up as being important for so many decades by so many people around the world, it is hard to change things.

In the report, you ask for more subjective rather than objective analysis. Will you explain that? Generally speaking, I think that one tries to have as much by way of hard facts as possible in a report, because in the political and economic spheres there is a lot of argument about facts, figures and statistics. If one puts a subjective layer on top of that, it can sometimes undermine the credibility of what one is putting forward.

Martyn Evans: That is a strong criticism of the claim that we should take the subjective view that the report proposes, but I think that it is defensible on the grounds that we can ask people about and demonstrate wellbeing in terms of security, self-esteem, purpose, vitality and autonomy. Those are the kind of things that people value and that make them feel better, and we can measure how that happens. I am afraid that we get into a rather undergraduate discussion about utilitarianism and Aristotelianism, which is a bit difficult to present in public discussion, but it is not only about happiness; it is about fulfilment.

If we ask people what they mean by being fulfilled, there is a common conversation, in which people say, "I like my job and I feel fulfilled. I have a decent family circle and I feel good about that. I feel safe in my environment." Many of those things are measurable, so we can measure what people are saying about themselves being fulfilled and, in Scottish terms, flourishing. I agree—and this is where it becomes difficult for politicians—that that can sound very soft and subjective, and could sound like we are saying, "Tell us what you would like and we will deliver it to you," which is not in the power of politics or politicians. However, what makes us feel good about ourselves and society is important. One reason why that is becoming more and more apparent is what we call the wealth paradox, which is quite well established.

The relationship between wellbeing and income is clear, but it tails off to almost nothing at some income levels, for complex reasons. Many people feel that they have a decent enough income but do not feel that their wellbeing is increased. The evidence is that people in Great Britain and Scotland feel that their wellbeing is not increased at between £20,000 and £30,000 of income. After £30,000, people do not feel that their wellbeing is increased. In America, the figure is between $50,000 and $70,000.

The reasons for that feeling are complicated. A popular conversation among people is about being materially better off but not feeling it. People say, "Am I working harder? Yes. Am I more stressed? Yes. Do I feel safer? No." Given that the crime rate is reducing but the fear of crime is increasing, whether those views are objective is a different question.

I hide nothing from the committee. As experienced politicians, committee members all know that public debate about the subject is extremely fraught, but the debate is moving quite fast and in a positive direction. The popular conversation about feeling materially better off but not feeling better is at the heart of the matter.

I am not sure whether having the conversation is easier post-2008—after the financial crisis. I feel that it is easier, but I am not into the public conversation yet—I am much more into the conversation among think tanks and thinkers. The committee will have a better idea than I do about how the issue plays in public.

The Convener: The economy is flatlining and I imagine that the population is more insecure than it was a few months ago because of what is happening across Europe and in the wider world.

The subject is fascinating. Many of the arguments have been aired in other areas. For example, the report says that Chile has an average per capita income of $12,000 and that the equivalent figure in Denmark is $34,000, yet life expectancy in Chile is higher—although issues such as diet and lifestyle come into play.

How receptive are senior politicians to the message that you present? How likely is a consensus? If the proposals are implemented only in Scotland or the UK, they will not necessarily work particularly well, because comparisons will still be made with elsewhere. How receptive are people across Europe and the wider world to the process? I notice that resource denudation is classed as a negative, yet it is not really, because chopping down trees and employing people to log them are considered to be growth, although the environment could be damaged permanently. Will you comment on that?

Martyn Evans: We have discussed the subject in Cardiff, Belfast and Dublin and I will discuss it in London soon. The devolved nations and the Republic of Ireland are interested. The devolved nations are interested because they do not control all the instruments for controlling GDP or fiscal and monetary policies. An issue is the wider range of control that Governments can have, but that is not the only reason for the interest.

The other devolved nations look at what happens in Scotland. They are very interested in the national performance framework—Wales is to do something similar and Northern Ireland is trying to look at something similar. One characteristic of Scotland is that we hide our light under a bushel. We can say something proudly about this.

More internationally, we will do a study trip next year to find out some answers. We will go to France, because of the Sarkozy commission that looked at the issue, and to major cities in America and Canada that have also looked at it. People from the New Economics Foundation, the Institute for Public Policy Research and other bodies that have covered the subject more widely tell me that it is the meat and drink of some private conversations among politicians, but the public conversations have yet to be had. In private conversations, politicians accept the issue and its complexity.

As you said, working out what is and is not part of wellbeing is quite difficult. For example, some debts improve wellbeing. All the evidence says that a mortgage is a debt that improves wellbeing, whereas short-term debt or credit card debt does not. The issue is working out what we mean. If just indebtedness was measured, the picture might be complicated.

10:15

I return to your question about how receptive senior politicians have been. I have not spoken to a lot of senior politicians about our proposal, but the ones to whom I have spoken have been enthusiastic about it. We had Sir John Elvidge, who was a senior civil servant, at our round table and the evidence that we got was that the civil service liked our proposal because it gave certainty to a broad Government agenda and a sense of direction set by senior politicians—in this case, in Scotland. What senior politicians think, what the public think and what the press think are all interlinked. As I said, I am concerned—as anybody would be—that the debate could be trivialised. I believe that it is a modern debate to have.

The great advantage in Scotland is that we have evidence. Elsewhere, there is little evidence about how Governments use the measures, although there is lots of intellectual argument. There is also a popular concern about wellbeing versus financial and material wealth. I am not sure that that has been sorted out—in fact, we all know that it has not been sorted out. There is unease about the relationship between the two, and that is the 21st century dilemma. The 20th century dilemma was about growing our wealth and our society; the 21st century dilemma is about how we can establish a sustainable society, how an economy such as ours can flourish within Europe and how we can flourish as a people.

The Convener: Thank you. I invite members to ask questions.

Alex Johnstone (North East Scotland) (Con): I am inclined to agree with all that Martyn Evans has said. There are plenty of examples in Scotland. For example, in the statistics over the years, rural Perthshire has often come out as one of the lower-waged parts of Scotland; yet, in any survey that asks how happy people are, it comes out right at the top. I can see how that would work. I am concerned about how what you propose would change the results. If we used your method, would the deprivation map of Scotland be different? Would different areas be considered the most deprived, and would some of our currently most deprived areas be considered less deprived? How would it change the map?

Martyn Evans: Remember that I want GDP plus a range of things to be taken into account, with a concentration on those things that are damaging to wellbeing that are hidden within GDP. For example, traffic jams improve GDP—that is one of the conundrums of GDP. Equality within a society is positively associated with wellbeing, although the relationship is complex. If we used measures and drivers to achieve greater equality of income and opportunity in society, which is an ambition—although it is not an ambition of many Governments, as they do not measure it as well as they could—the map would, I hope, be changed because, rather than just willing and hoping that it would be an outcome of all the other policies, it would be central. There would have to be a way of measuring it.

The challenge is often not in saying what we would like to measure but in finding a suitable way of measuring it. However, you should remember what happened with GDP—it took 30 or 40 years to get agreement on that, and a very complex process had to be gone through before we finally got that single measure agreed. If we want to improve equality—which I would say is a measure of wellbeing—we must find the complex series of things that need to be put into the equation to measure that and find how we can drive all institutions below Government to try to achieve a greater degree of equality, including income equality.

Alex Johnstone: I take it that you are talking about the better targeting of resources. Would we find Government resources targeted more accurately at the areas of greatest deprivation, resulting in a bigger differential between those who receive Government resources and those who do not, or would Government close the gap by targeting some of the resources that are currently allocated to deprived areas at areas that are not currently identified as being deprived?

Martyn Evans: We have a policy of grow, tax and spend, which has served us very well. In the spend part, we have tried to redistribute the benefits of the growth, but that has been uneven. We have not found very efficient ways of tackling some of our most deprived postcode areas in Scotland and the rest of the United Kingdom. We have done our best and put a lot of resources in, but we find that we are recycling those resources. In housing, for example, we build and refurbish, and then we have to do it again in 10 or 15 years' time. There is a cycle of spend.

I wish that I could say that it was quite simple, but anyone who has any experience of political life will know that that is completely false. However, there are issues of wellbeing that relate not only to spend, but to community resilience, how communities feel about themselves and how we might empower them.

The idea is not a radical one, but a modern one about how we start to engage with communities so that they themselves define what wellbeing is. I will give you one example. We are going to do some work next year about what we call—and some previous researchers have called—incivilities. What people in communities really care about are things that many people at high levels of public policy dismiss as being not quite good enough—things such as graffiti, dog dirt and unpleasantness in their area, and poor rubbish collection; they think, "We want something more important than that to concentrate our intellect and our public finances on." However, if we tried to tackle some of those things, I think that wellbeing would increase. It is about allowing communities to say what their preferences are.

To come back to your question, I would hate to think that this approach would have any negative effect on resource allocation to our poorer communities. I would expect it to have a positive impact, but it is not just about spend; it is about building on the assets that communities have and recognising that they themselves can make a contribution.

Alex Johnstone: You do not view it as diverting resources away from what Burns described as "honest poverty" and towards people who have money but find that it has not made them happy.

Martyn Evans: One of the best quotes that I have seen appeared in *The Guardian* right at the beginning of the big society thing. It said that the big society was an interesting idea about empowerment, but asked whether it might just benefit those with fat wallets and sharp elbows.

That would be my concern about any policy that seeks to empower communities and individuals: will it just empower those who already have power and allow them to consolidate and ring fence what they have? In some respects, it is the Government's role to ensure that there is a redistributive element in society.

The conversation, in which you are engaged as much as I am, is about what the measurements are and who sets them. Part of our argument is that those measurements are set not just by Government, but by civil society and communities, and public authorities should respond to them. I would not be arguing for this approach if I thought that it would take resources away from our most deprived communities. In many ways, those communities epitomise the lack of wellbeing despite the wealth that surrounds them.

Alex Johnstone: So your approach will help us to target resources better, but we will not end up closing the gap in spending between the rich and the poor, so to speak.

Martyn Evans: I certainly hope that it would help us to target resources better. It would drive the people who are responsible for services to understand what they are trying to achieve rather than just have targets set from above. Closing the gap between rich and poor is a difficult one because it depends on Government tax redistribution policy; it is for Government to decide what it would like to do and what it puts before the electorate. As you know, it is quite controversial—not in theory, but in practice—to take money from one part of society and put it towards others.

Paul Wheelhouse (South Scotland) (SNP): I enjoyed reading your fascinating and thought-provoking report, Mr Evans. As a former economic consultant, I am guilty of having undertaken many evaluations on the basis of GDP. However, I buy in very much to what you are saying, and I think that we need to widen the range of indicators that we use.

I will deal with two subjects. The first, which links in to the discussion that you have just had with Alex Johnstone, concerns how society—the public sector—invests. To date we have used the Treasury's green book, which contains guidance on economic appraisal and evaluation of public sector projects, to decide between different options. Much of the focus is, understandably, on the rate of return on the public funds that are invested. Did the round table look at that document as part of its work? Given its thinking, do you have a view on how valid the green book is and whether the criteria for investment need to be refreshed?

Since I became a member of the Finance Committee, it has dealt with written submissions and other evidence from witnesses on the relative merits of projects such as the Borders railway and the Glasgow airport rail link. Clearly, GARL would have a significant economic impact on Glasgow and the western central belt. I do not deny that in any way, but the Borders rail project is important to the community that I serve, not just for economic reasons but for social reasons. Do we place enough value on the wider social benefits of such projects, or is it always a beauty contest based on the rate of return?

Martyn Evans: I regret to say that the round table did not look at the green book—it did not look at public expenditure at that level. It met only four times, and it was quite difficult to bring those prominent people together in the short time that we had. I do not doubt that there is more work to be done. However, the conversation regularly returned to the perverse incentives that exist in public expenditure and the counterintuitive rules that apply. As an economist, you will know that measurement is critical and also that we can measure things that are contradictory and still come to a figure. Often, however, money trumps measurement. Whatever we measure and however the measurement is done, people can say, "It doesn't matter what it says; it costs too much."

Our objective in the round table was to take up the Sarkozy commission recommendation that every jurisdiction should have a round table. We could not get any buy-in to that from the UK Government, so we decided to try it in Scotland. We wanted to see whether we could widen the conversation among a range of interested people and open a debate about GDP-plus at the macro level. Having done that, we can have a range of other debates about the Treasury rules and whether they are implemented correctly. The one that I remember is the green book rule that public assets must be disposed of at the full price. That cuts across a range of other public policies on community growth, empowerment and so forth, but it is clear why we have it, because otherwise public assets could be disposed of at less than their value to us as the public. Working that one out would be quite tricky.

Paul Wheelhouse: Taking that example, we can imagine a situation in which a local school has to close and the community wants the building for a community centre or another local project that would contribute to wellbeing in the way that you described; however, for financial reasons and given the best-value regime, the local authority does not choose that option.

Martyn Evans: Yes. That example is regularly rehearsed with us. It is a specific example of the perverse rules, but we can understand both sides of the argument. Why should our assets be sold for less than their value? On the other hand, if the value created by the asset is built upon, what is the issue? It is important that the asset does not go outside community ownership; if it was sold to a private interest, we might be concerned about underselling our assets. You will know that we have undersold some of our major public assets over the past 30 or 40 years to great private benefit, so it seems strange that we cannot sell some of our public assets at a discount for community benefit.

Paul Wheelhouse: I agree. In the same vein, we regularly hear that the official statistics tend to underrecord the contribution that sectors such as education and health make to the economy because of the means by which gross value added—which is a building block for GDP—is calculated. We could argue that the value of sectors such as education and health and other social investments of that kind are routinely underrecorded. Did the round table discuss that?

10:30

Martyn Evans: We did. We focused on the third sector and said that there should be another set of national accounts to consider the contribution that the third sector can make, because it is difficult to capture that with the current forms of measurement. Sometimes, people say, "We only collect certain types of data; we do not collect enough," but that is not true; we collect an enormous amount of data, even if we do not use that data for measurement and policy creation. However, one area in which we do not collect enough data is the impact of the third sector.

The third sector is a significant part of the economy. As the Scottish Council for Voluntary Organisations readily reminds us, it employs a large number of people in Scotland and provides a large amount of income. However, we are finding it difficult to work out how to measure its economic impact and its impact on wellbeing. If we could work out how to do that for the third sector, I am sure that we could find ways of doing it for health and other sectors.

Paul Wheelhouse: My second theme involves the sustainability agenda. The summary of the round-table recommendations and the Stiglitz recommendations both refer to the loss of the Scottish sustainable development indicator set. Why has that had such an impact? What can we do to address that?

Martyn Evans: Every report of this nature is the result of a range of compromises. I would say that the green tinge of the report was not fully agreed by all members of the round-table—they let it go, but there were some very strong green voices, and rightly so. The feeling was that the Scottish sustainable development indicator set was a measurement that was collected in order to hold the Government to account for a difficult policy objective, which is to maintain our wellbeing and economic growth while not degrading our environment. The losing of those measurements was seen to be an indication—perhaps not a substantial one—of a lessening of interest in an important aspect of our wellbeing. At the time, people asked why we were taking those measurements away, given that we are measuring all sorts of other things and that the measurements contribute to accountability.

The view of those on the round-table was that the national performance framework was a progressive policy that was ahead of its time. We got clear evidence that the civil service was behind the framework and liked it, but we did not feel that it was used as an accountability mechanism—it was too new to be viewed in that way. Instead, more traditional financial accountability measures were applied to Government spend. I do not know what your current views are, but it was interesting to us that it had not been to the forefront of parliamentary committees' minds with regard to measurement, which means that the sustainability measurements might not have had the traction that they might otherwise have had and that, because people were not used to using them, they could be reduced or diminished.

John Mason (Glasgow Shettleston) (SNP): On how practical and useful the approach is, from what you have already said, I think that you might agree that individuals already use a range of measures in their own thinking—perhaps consciously, perhaps subconsciously—about their lifestyle. For example, they do not always go for the highest salary, because other factors might be more important, such as living in a certain area, being near to their family or enjoying their job more. Is it therefore necessary for the Government to get involved in all that as well? Is there a danger that the Government might try to do too many things and take its eye off the economic ball?

Martyn Evans: I have a lot of sympathy with that view, emotionally. When I first approached this area, I asked myself whether the Government was being asked to intrude into individuals' lives. My conclusion, eventually, was that that was not the case. We are trying to find out what matters to people collectively—everyone's desires and wishes—and how the Government can impact on that.

It is not jobs but job security that appears to be one of the major drivers of wellbeing. People tell us that they feel better if they know that their job is secure and that they have a long-term future in their job. That insight is not particularly brilliant, but if you can find a measure for job security—one thing that the Government is trying to do is to create not just jobs, but stable jobs—that will fulfil a role of the Government, which it has taken on and does well in many areas, and refine it in terms of what people feel, thereby creating their own wellbeing. That is an attempt to answer your question.

I think that it is right to have those sceptical voices because, if we are not careful, this could degenerate into a west coast of America-style "What would make me feel happy?" situation and that is not the point of government. The Government should not intervene to make individuals feel happy, but we need to know what wellbeing and fulfilment levels are to know whether the Government can do anything. Sometimes, the Government cannot do anything and that would also be a good political discussion to have.

John Mason: That is helpful. My other point was to do with recommendation 5 in your report, which is about distribution and inequalities. Can you explain? Perhaps I have not understood. You say that some things are good and you talk about the solidarity of purpose target and so on, but what do we not have in that area that we need?

Martyn Evans: I am afraid that I cannot be specific about what you do not have. We felt that the measurement and the purpose were not sufficiently focused for that matter to be a primary driver of public policy. Perhaps I can use my experience in the health service to explain: narrowing the gap between those who have the poorest health outcomes and those who have better outcomes is constantly an issue. That is bedevilled by the fact that those who are better off have better health outcomes. It is not that the lowest group has worse health outcomes, but that the better-off group has much better health outcomes. If you were not careful, one perverse outcome could be that you would start to stop people at the top of the income scales—those who are wealthier—becoming healthier and healthier. We must be careful about what we measure, or the policy that we pursue might have the objective of reducing health inequalities but, in reality, would only stop already healthy people becoming healthier.

John Mason: Do we need a change of emphasis on the range of measures that we already have rather than completely new measures?

Martyn Evans: If I was speaking to another Parliament and a different Government, I would be saying that they did not even have the measures available. The great thing about this Government is that it has such measures, so the argument is about how effective their use is and whether we can improve them. You get nine out of 10 for having the measures, but we can improve them.

As for the detail about how to do that, the round-table said that it did not have the time or expertise to make suggestions but that it wanted to drive a discussion that said that this is a great place to be but that the measures could be refined to achieve the policy objectives, which are not just about GDP growth but go beyond that. They are quite sophisticated objectives, such as those on income distribution and inequality, and if we can find such measures and give them to the public agencies and other agencies, perhaps we can narrow that gap. That would be the ambition.

John Pentland (Motherwell and Wishaw) (Lab): My point follows on from John Mason's question and, again, it is about recommendation 5. It harks back in some ways to the old concept of a social wage. It is not just about the money in your pocket—the social support and services that people get matter, too. A good example of that might be the fact that the council tax freeze puts a couple of quid in everybody's pocket, but the other side of the coin is that people's wellbeing could be disrupted because of the cuts in services.

A lot of these things are great ideas in principle, but putting them into practice has proved to be a wee bit more difficult. It is one thing to identify and measure wellbeing by whatever method, but if it becomes central to Government policy making is there not a danger that policy could be determined by whether actions will boost the chosen indicators at the expense of other actions that are not included within the targets? Does not that choice of wellbeing indicators then become a political issue?

Martyn Evans: I will take your last point first. Absolutely—it is clear that if you choose a series of measures and then drive them, you are making political choices. One set of political choices is distinguished from another by the parties that would, presumably, put themselves up for election and the difference comes when a party puts a certain set of measures before the electorate and is chosen, as it will then pursue those measures. It strikes me that that is the point about political competition. I absolutely see and accept the point: these decisions are not value neutral and they absolutely would have a political and social value.

The inequality debate, again, is a matter of parties' preferences. On measures for increasing wellbeing, the New Economics Foundation suggests that there should be a target band of income for everybody. We should assess how many people are in the target band and how many people can be moved into it. The foundation states that income increases are important for wellbeing but that above a certain level they have a diminishing return on wellbeing and that how many poorer, lower-paid people can be moved into higher income bands is critical. That is not what the Carnegie UK Trust says but what the New Economics Foundation says, because we are moving into making active choices on policy objectives. I believe that it is a completely legitimate policy objective to have a target band of income, and that a political party could choose what income band would be appropriate to drive public policy and what redistribution or tax levers should be pulled to achieve that target.

Derek Mackay (Renfrewshire North and West) (SNP): At the risk of being positive, I suppose—

Alex Johnstone: Steady now.

Derek Mackay: I know.

I have never known a party to go into a Scottish election saying that its core objective is to increase the nation's GDP. It is perhaps more sophisticated than we are suggesting. Most politicians, Governments and public agencies have a varied range of indicators for determining important outcomes. For example, local councils' single outcome agreements have a range of indicators, health has a range of target outcomes and the national performance framework has a range of indicators.

When a nation wants to compare itself against another, GDP is regarded as the most important factor. Is not GDP more a measure for countries to use in making comparisons between and competing with one another, rather than a measure for Government agencies, which are more focused on matters at a local level?

Martyn Evans: GDP is an internationally recognised number—it is a series of numbers that end up in one number—that allows international comparisons. However, as the convener said at the beginning, it is also a clear driver of public policy. If GDP is in decline or is negative and we are in recession, those are headline figures. Economists know that GDP consists of a complex set of things that are rather strange. For example, traffic jams increase GDP, and crime increases GDP—when GDP is unpacked, it is a strange measure.

The core argument is that we have an international comparator that allows us to make comparisons between countries in terms of the important matter of growing their economies. Would we want to take that away? Absolutely not. Would we want to build, as the Sarkozy commission is saying, another series of equally robust international comparative figures? Yes, that would help and we already make such comparisons in some ways. The Organisation for Economic Co-operation and Development comparisons—unfortunately they are for the UK, rather than for Scotland—are made under a range of indicators that are absolutely fascinating. In many ways and over a range of areas, they tell a good news story about what the United Kingdom is and how we are engaged. I would like to see the indicators disaggregated for Scotland in order to know what the story is for Scotland.

If we are to have GDP-plus, we should learn from all the lessons from GDP and economists' efforts in order to make it a robust, agreed single indicator. By doing that, we can use the comparisons rather than argue about the figures behind them. GDP is necessary, but is it sufficient? Absolutely not. International comparisons could be made between other aspects of wellbeing. Let me give an example—jobs—which is an important one. We have the broad public policy in the United Kingdom of lower job security and greater labour mobility, which will bring in foreign investment and grow our GDP. Other countries have a policy for stable jobs and investment in jobs for the long term. Those are complex political choices, but the evidence is that people value stable jobs, which increases wellbeing. The trade-off is therefore whether we want a declining economy and a few well-paid secure jobs or a growing economy. The conversation becomes about what we are willing to trade off, which is a complex political question—not what measures of wellbeing and GDP we have, but what we are willing to trade off between those various measures.

Derek Mackay: Thank you.

10:45

Paul Wheelhouse: First, I have an observation based on what Derek Mackay said about the focus on GDP. He is right to hit on that issue. The most powerful organisations in the world are organised on the basis of the size of each country's GDP—the G8 and G20—and some of the key decisions that affect the wider wellbeing of society and other nations are set by those so-called big hitters because of the absolute size of their GDP.

If we looked at GDP per head, there might be a different league table, and I also want to raise the issue of the international development index. If we rank countries in order of their development, the likes of Norway and New Zealand—which has a lower GDP per head even than us—are more developed than we are. That is a reflection that there are other international benchmarks, such as the international development index. Should we perhaps set more store in our place in those league tables than we do in GDP?

Martyn Evans: I think that we already set quite a lot of store in those measures. The national performance framework has international comparisons about other matters. International comparators are always useful to have as they help us drive where we want our society to be and how to approach trade-offs in issues such as taxation—how taxed we want our people to be.

Of course, how wealthy a country is determines many things—for example, how much power it has because of the money that it can spend on its military—and I do not think that that will change. However, that is not the argument: it is not to reorder who is in the G20 or whatever. Powerful economies have all sorts of ways of growing, but the argument is whether in Europe, in the 21st century, we will be a powerful, growing economy on the basis of the 20th century. The answer is probably not. We have to find other ways of defining ourselves. Part of it is the knowledge economy—the kind of jobs that we want—and part of it relates to the manufacturing base that we can have here.

There are all sorts of complications, which is why the discussion is a European one. It is not a discussion that is taking place in China or India, which are growing their GDP, internal consumption and exports at an extraordinary rate, and it is not really a discussion in America either. The discussion will grow there, but the Americans see themselves as competing in the 21st century to maintain their position of GDP, world and military power. That is why it is a European discussion and, even more so, a Scottish discussion. A small country in Europe has to find what its Government can deliver to its people. There is a lot of disparagement outside Europe about the debate. As I said at the beginning, it is seen as lazy Europeans wanting more—they had more in the 20th century, and they want more in the 21st century. That is an argument to be rebutted.

The excitement of the discussion is that there is a lot of UK and devolved interest in it. It is timely and, leaving aside party politics, I think that Scotland has something very important to say about it. It is not in any way perfect—we cannot just export the argument—but that is not the point. The point is that the Scottish Government is the only Government that we could find that has a broader set of measurements related to the discussion. I cannot say that we spent a huge amount of time looking everywhere. In fact, people told us to go to Bhutan, but we were not interested. I would love to go there, but the issue is not about happiness. We are talking about a complex industrial society in a modern world finding forms of measurement that include GDP-plus. The Scottish Government has tried to identify what that "plus" is. We think that it is great—it could be improved, but it could also be a template for other jurisdictions to look at.

Paul Wheelhouse: Thank you.

John Pentland: Will you expand on recommendation 11, where you say:

> "The decision, to cease monitoring and reporting … was a step backwards"?

Would you like the sustainable development indicators and Sustainable Development Commission to return?

Martyn Evans: Yes, we would like them to return. We measure an enormous amount of things, so I can understand why we may want to rationalise what we measure, but measuring a range of sustainability targets drove a conversation about how sustainable we were trying to be as an economy. Why would we not have those? We would like them to return, perhaps not in their old form, but we would like the issue to be back on the agenda.

That would be consistent with the public policy discussion about whether the way that we are driving our economy is right and whether we are destroying things for future generations for our own benefit now. However, I do not want to say that the indicators were perfect and that we want to reintroduce them. I want there to be a conversation about how we measure our sustainable impact and how we hold Government, its agencies and civil society to account for environmental degradation.

The Convener: In the concluding comments of your report, there is an interesting quotation from John Stuart Mill, who

> "predicted that once economic growth had delivered prosperity, a 'stationary' economy would emerge in which we could focus on human improvement: 'There would be as much scope as ever for all kinds of mental culture, and moral and social progress ... for improving the art of living and much more likelihood of it being improved, when minds cease to be engrossed by the art of getting on.'"

That sounds like something about which we would certainly be enthusiastic, but how will we know when we have reached that stationary position, if we reach it? Everyone says that economic growth is clearly not sustainable in the long run and there will always be people in any given society who do not feel that they have their proper share of it, so what would happen with people who did not feel that they had a role in that stationary economy? How would such an economy secure economic competitiveness and ensure that society remained vigorous rather than becoming stagnant or sclerotic?

Martyn Evans: That is a great point. I did my masters degree on John Stuart Mill, so I remember that quotation vaguely from it. He is in the report because we wanted to have a strong Scottish thinker who questioned constant economic growth.

You asked whether we could reach a point of stability. I do not think that Mill is right about that, but he is right that GDP is an interim measure—an intermediate policy objective—and not the outcome in itself. That is the important thing. He was trying to say that we are trying to get economic growth not for its own sake but for a particular purpose. If economic growth results in things that destroy or undermine fulfilment, wellbeing or the environment, we question it.

That brings us neatly back to your first point: how do we have a public discourse about that? It is difficult, because there is a mantra that economic growth is, in itself, a good thing. That is where we are now, but is it a good thing? A range of people are questioning whether it is.

I do not think that we possibly could reach a stable point. However, John Stuart Mill is a great person to quote, because he is a great Scottish thinker.

The Convener: That is a good point on which to end. Thank you, Mr Evans, for answering our questions in this fascinating evidence-taking session.

I suspend the meeting for five minutes for a natural break.

10:54

Meeting suspended.

10:57

On resuming—

Draft Budget Scrutiny 2012-13

The Convener: Item 3 is evidence on the Scottish Parliamentary Corporate Body's draft budget for 2012-13. I welcome Liam McArthur MSP, Paul Grice, chief executive, and Derek Croll, who are here on behalf of the SPCB. I invite Liam McArthur to make a short opening statement.

Liam McArthur MSP (Scottish Parliamentary Corporate Body): Good morning, colleagues. It is a pleasure to have the opportunity to present the details of the corporate body's budget for 2012-13 and our indicative plans for the following years. It goes without saying that the corporate body is aware that we are operating in an extremely difficult fiscal environment. We are well aware that we must strive as hard as anyone else to justify every pound that is spent. With your indulgence, convener, I will preface my remarks on the specifics of the budget with some background to our approach.

I refer the committee to the letter from the Presiding Officer and the chart on the first page of our budget submission. The chart shows the planned reductions in the SPCB's budget over the four-year period of the United Kingdom's comprehensive spending review, of which we advised the Finance Committee at this time last year. I pay tribute to the members of the corporate body in the previous session of Parliament, who did much of the essential groundwork and made some very difficult decisions to set us in the right direction. I am pleased to say that, after one year, we remain firmly on track to deliver the programme of savings that have been identified and that, by the end of 2012-13, we will have achieved a 12.2 per cent real-terms reduction in the corporate body's budget. That means that we will have delivered almost all of the four-year percentage savings target for the overall Scottish budget in just half of that time.

The profile of our annual budget reductions shown in the chart is considerably steeper in the first two years of the CSR than the profile of reductions in the overall Scottish budget, as we will deliver our savings early. It levels off in the remaining two years, although it still shows a further modest real-terms saving in each of the final two years, finishing at a cumulative real-terms reduction of 13.4 per cent.

The savings have been achieved through a combination of a freeze in pay for staff members of the Scottish parliamentary service, a freeze in MSPs' pay and expenses, staff reductions and a change management programme that has covered every aspect of the Parliament's operations. We are confident that the planned programme of recurring annual savings will enable us to continue to meet our key service requirements. However, it is important to recognise, first, that the high level of year-on-year reductions achieved in the first two years could not be sustained in the longer term without impacting on service levels; and, secondly, that the resource reductions will inevitably constrain our ability to respond quickly to changing requirements and to deal with unexpected cost pressures. The pay freezes, which extend to 31 March 2013, provide a high degree of certainty for the SPCB's 2012-13 budget proposals, as they cover over 60 per cent of the SPCB's total expenditure.

I will turn briefly to one or two specific issues, beginning with the external security facility. Committee members will be aware of the letter that the Presiding Officer issued yesterday on the decision to apply for planning permission to construct an external security facility. There is an on-going staged approach. Once the planning process and the detailed design have been completed, the corporate body will consider whether to tender for the construction of the facility. Subsequently, following the completion of any tender process, the corporate body will take a decision on whether to proceed with the construction. Those final decisions are likely to be taken in the latter part of 2012, and I hope to be able to say more on the matter when we give evidence to the committee on our 2013-14 budget submission at this time next year.

As the Finance Committee will already know, we received cross-party support last year for a proposal to freeze members' pay and expenses at the current level until 31 March 2013. The budget has been set on that basis.

On the subject of office-bearers, the SPCB is charged, as members will know, with the oversight of the commissioners and the ombudsman. The Finance Committee has rightly taken a strong interest in how we exercise that oversight. The 2012-13 budget submissions of the various bodies amount to £8.2 million, which is 2.6 per cent lower in cash terms than the equivalent 2011-12 budget, and is on track to achieve the same level of real-terms savings as the rest of the corporate body's budget.

The SPCB is acutely aware of the fine balance that it needs to strike between robust scrutiny and the operational independence and statutory functions that those bodies were given when Parliament established them. I am grateful for the strong support that the Finance Committee has given us in recent years to adopt a robust approach in our scrutiny of those budget bids.

Finally, I would like to place on record the appreciation of the corporate body for the work done by the chief executive and his team in preparing the corporate body's 2012-13 budget submission.

That concludes my opening remarks. I hope that I have conveyed a sense of the approach that we have taken to the overall budget for 2012-13 and the years to follow. My colleagues look forward to answering any specific questions that members may have.

The Convener: Thank you for that opening statement. I will start by asking about capital expenditure. In schedule 2, the capital expenditure bid is £1.5 million in 2012-13, with an indicative figure of £2.313 million in 2013-14. However, no information is given on what is contained within that budget line, and no explanation is given of the indicative increase in 2013-14. Could you give us some more information?

Liam McArthur: The £1.5 million capital project budget allows us a degree of flexibility to schedule individual projects. No expenditure is committed for this year or for 2013-14, for which a figure of £2.3 million is given in the budget. Projects that could fall under that budget heading include information technology refreshes, of which some have taken place over recent years. For good and sensible reasons, including issues that members raised, there has been a pause in some of that work. Nevertheless, we will have to return to the subject in the next financial year and possibly the one after.

Further to yesterday's letter from the Presiding Officer on the external security facility, I repeat that it would be prudent for us to retain some flexibility, depending on future decisions, to allow for costs that may arise to be met. I am confident that we will be able to do that.

The Convener: It is indicated that there is planned expenditure of £685,000 for maintenance in the next financial year compared with only £75,000 in this financial year, but there is no explanation of what that extra money will be spent on. Will you provide us with some details of that?

Liam McArthur: The percentage rise looks quite incongruous against the overall trend in the budget, but it is worth bearing in mind a couple of points. The budget of £75,000 for the current year is much lower than the trend over recent years, which largely reflects priorities in the months following an election, in which the focus is very much on supporting new members and members who are returning in a different capacity to settle in. There is therefore a reduction in the amount of attention that can be given to other aspects of facilities management. I think that I am right in saying that the budget for the previous year was around £400,000, which is more in line with the

£685,000 that you are seeing in the budget under consideration here.

It is also worth bearing in mind that, as the Parliament building ages, there is likely to be a general upward trend in the maintenance budget, reflecting the wear and tear of a building used as much as the Parliament, which is likely to require more on-going maintenance. The maintenance budget covers works that have been on-going for some time and which have perhaps been put a little in abeyance following the recent election.

The Convener: In effect, much of the increase is delayed maintenance from this year rather than a huge upsurge in the requirement to spend money in that area.

Liam McArthur: Yes. We would certainly not want to put a halt to that on-going work for any longer than is strictly necessary. The cost could spike considerably if routine maintenance was put off for more than a year or so. Getting back on to that trend is very much the sensible approach and that is what we are seeking to do.

The Convener: There is an increase of 131.9 per cent in next year’s budget for other projects. Those projects are broken down in schedule 3, but there is no separate budget line for corporate events, as there is at the moment. Do corporate events form part of the budget for other projects?

Liam McArthur: I will invite Paul Grice to comment on the details. The other projects include some of the building maintenance projects I referred to.

Paul Grice (Scottish Parliament Clerk and Chief Executive): For a period, we identified events separately. However, we feel that events have stabilised now, so they have been built into the mainstream budget. I am talking about the more corporate events such as business in the Parliament and the festival of politics. There will be a reduction in spend on those events of around 10 per cent in real terms.

For the purposes of transparency, the building maintenance projects are simply the more significant bits of building maintenance work that we would do. We felt that it was helpful to identify those separately from what you might call the routine maintenance. Again, there is essentially an internal competitive process in which we settle on exactly which projects to do. That process has yet to begin.

John Mason: I will press you a wee bit more on planned expenditure, particularly for building maintenance. That could tie in with the reduced contingency amount, because I presume that, if something unexpected came up, you would look to the contingency. How confident are you that the figures are robust? On the one hand, there is a history of buildings not being properly maintained, which stores up problems for the future. On the other hand, if you have a cycle of replacing, say, part of the roof every five years, you might in the event not need to do that, so you could make savings. Do you have a detailed maintenance programme for how often gutters are cleaned and pieces are replaced, for example?

Liam McArthur: I will ask Paul Grice to reply to your second question.

You make a valid point about the temptation to put off expenditure, which applies particularly in the current circumstances. The risk is that by doing that we only end up increasing the outlay in subsequent years. I think that I am right in saying that we have a planned maintenance programme over 25 years. We remain in accordance with that planned expenditure. As the chief executive pointed out, some stand-alone projects have been pulled out for transparency. They are not predictable, but they are almost inevitable, so factoring them into the budget is a sensible precaution.

Having sat on the other side of the table to take evidence from ministers about their budgets, I think that our approach to the contingency is largely in line with the Government’s approach to many of its departmental budgets. There is pressure to minimise the contingency, but some headroom to deal with unexpected expenses is necessary. In recent times, one of the biggest asks on the contingency has been from the unpredictable election outcome—believe me when I say that I know that more than most. Nevertheless, what we project is very much in keeping with previous years.

Paul Grice: I do not have too much to add, but I will answer John Mason’s second question directly. We have a robust 25-year maintenance plan, but you make a good point. I reassure you that we do not go ahead with an identified piece of maintenance if it does not need to be done. We predict the lifespan for major bits of plant and other equipment, to have a smooth maintenance programme and to avoid the problem of storing up trouble, which you identified. However, I assure you that, if we examine items and they are functioning well, we do not replace them just because that is in the plan. That is the balance that we try to strike.

We plan annually for financial purposes, but the process of reviewing what is in the plan and looking at available resources and what needs to be done is continuous, to achieve as far as possible a smooth maintenance profile over 25 years. I assure you that, if something did not need to be done, we would not do it, even if the budget was available. We would return that budget to the contingency or use it for another piece of work that required to be done.

John Mason: Liam McArthur said that the approach to the contingency was comparable to that in Government departments. Is that okay given the surprises that we have had in this building? It has produced one or two surprises, so there could be more.

Liam McArthur: I am fairly confident about the matter. You are right to say that we have had to draw on the contingency. Such events are not necessarily predictable, but they are to an extent inevitable. That is why the contingency is there. Our track record shows that we have not really had to come back to request additional resources. That might be the best assurance that I can give you. We are adopting a similar approach for the future.

Paul Wheelhouse: As a new member, I thank the chief executive and his staff for the support that they have given us.

Derek Mackay: Sook.

The Convener: I fear a parliamentary motion.

Paul Wheelhouse: Somebody else has already done that.

The transition after the election, when a lot of new members were elected, has been mentioned. The chief executive’s colleagues have done a great job.

I was going to ask about contingency funds, but the other issue that I am interested in is that annex B includes a table that shows the ombudsman and commissioners, their budgets and the cumulative position. Can you expand on the rationale behind the different levels of reduction across those budgets? Are there any particular factors that account for the differences?

11:15

Liam McArthur: I welcome your comments about the staff and the support that they provide. As a new member of the corporate body, I have gained some insight into the amount of work that goes on against a very challenging financial background and against the background of what was a challenging election outcome in terms of the number of new members. Your point is well made.

On the office-holders and the ombudsman, the figures may vary between different office-holders, but I am confident that the overall reduction that will be achieved across them all will be in keeping with what we set out to the Finance Committee in previous years. The budget reduction will be attained, even if the way in which it is done and the speed at which it is done vary between office-holders. That reflects the different circumstances that pertain to each of the commissioners and the ombudsman.

On the commitment to look at where there can be a level of restructuring, that is something of which the corporate body is seized. The corporate body is in fairly constant discussions with different commissioners about opportunities for them not only to deliver savings but to deliver an effective level of scrutiny and their statutory duties in a way that makes more sense. For example, in relation to the Commission for Ethical Standards in Public Life in Scotland, we will bring forward proposals in consultation with the Standards, Procedures and Public Appointments Committee and with ministers on how restructuring can be taken forward. Such proposals will be cognisant of the commissioners’ operational independence and statutory functions but will be intended to, among other things, deliver savings over the spending review period.

I do not know whether there are any specific points in relation to the budget but, looking at the list, I am certainly aware that there is variation—although not huge variation—in the figures. The best explanation of that is that, although the office-holders are all on track to deliver the overall levels of saving over the spending review period, the speed at which and the way in which they will arrive at that point will inevitably vary.

Paul Wheelhouse: Can you confirm that the office-holders are engaged in discussions with you about how they can deliver the savings and that there is nothing that the Finance Committee needs to be aware of and should note at this point about the pressures that the process might place on particular office-bearers?

Liam McArthur: It is right that you raise that concern, which my fellow corporate body members and I have raised with officials, who are the ones in direct contact with the commissioners and their staff. There is no point trying to screw the commissioners to the floor to secure savings, if the result of that is that they are unable to carry out the functions that Parliament has set them up to carry out. I am very confident that that is not the case, but we will certainly continue to have that issue at the front of our minds as discussions continue.

The Standards, Procedures and Public Appointments Committee and Scottish ministers will have an input into some of the restructuring and, if there were any fears that what we were doing was likely to prejudice the operational independence and functioning of the commissioners, they would be the first to let us know.

John Pentland: Before I ask the witnesses a question, convener, I raise a concern with the committee about some comments that appeared in the papers at the weekend about our committee adviser. I am not sure whether you are aware of them. There was an article in which a spokesperson for John Swinney relayed views rejecting our committee adviser's opinion. That being the case, would it be pertinent for you to write to John Swinney on behalf of the committee seeking an assurance that, when our adviser gives us advice that challenges him and his budget, that will not be dismissed? I just wanted to take the opportunity to flag that up.

In relation to—

The Convener: Just a second. That is not relevant in any way to the business that the committee has before it.

John Pentland: Well, I have raised it. My reason for doing so is that I will now get into pointed questions with the SPCB.

In these times of austerity, with pay freezes across the board—not just for MSPs but throughout the public sector—was any consideration given to the additional £171,000 that is being offered up for additional ministers? Rather than give that increase, was it considered whether the money could come out of the existing ministerial budget? The budget includes £1,230,000 for ministerial salaries. How big an increase is that as a percentage of ministerial salaries?

We have heard about projects and capital programmes. Has consideration been given to providing money to create an Office for Budget Responsibility-style scrutiny body in the Parliament?

Liam McArthur: The structure of the Cabinet and ministerial positions is a matter for the Government. We are entirely comfortable that the changes can be accommodated within the budgets that have been set. The outcome of the election, which by any measure was fairly unpredictable, resulted in additional costs, such as winding-up allowances, as well as savings, such as a reduction in Short money. There are swings and roundabouts as a result of the outcome of the election. The structure of the Government is a matter for the First Minister and the Government; it is certainly not for the corporate body to pronounce on that. We are comfortable that the figures remain within the overall settlement. The trend that we are achieving is a pronounced reduction in the budget in the first two years of the spending review period and then modest reductions thereafter.

On your question about a scrutiny body, my understanding is that the Parliament has set up an office precisely to provide support to members in holding the Government and, indeed, the corporate body firmly to account. I was a member of the Finance Committee in the previous session of Parliament when an unusual alliance of me, Alex Neil and Derek Brownlee formed to press the case for such an office. I should also give Tom McCabe an honourable mention in dispatches. There was a consensus that the role needed to be performed more robustly. That was not simply because we had a change in Government, but because, after the first two sessions of Parliament, such a body was seen as a necessary support in rebalancing the debate between the Parliament and the Government in relation to budget scrutiny. I have been supportive of the efforts in recent years to put that in place. I hope that the issue that the member raises is now seen as being more adequately addressed than it was previously.

Paul Grice: Ministerial and MSP salaries are two good examples of items in the corporate body's budget that the corporate body accepts are decisions for for Parliament and then funds. Parliament ultimately decides on ministers and pay. The corporate body has historically—and quite understandably—not taken a policy view on the matter and it is important to see the salaries in that context. As Liam McArthur rightly pointed out, the corporate body simply accepts and deals with the outcome of elections.

With regard to the financial scrutiny unit, I simply reinforce Liam McArthur's comments. Obviously, we are very pleased to have introduced the service but, over the coming years, we will work, particularly with the Finance Committee, on developing it. Given that the committee is the service's principal customer, I hope that we can build on what we have started. I certainly see it as having a central function going forward.

John Pentland: Although, as you say, it is a decision for Parliament whether ministers get their pay rise, who sets ministerial salaries and the percentage that any rise should be?

Paul Grice: Scottish ministers' salaries are set with reference to UK ministers' salaries. As for annual uplift, my understanding is that ministers have not taken their annual pay rise for at least the past two or three years. Obviously, that is a matter for them but, as I have said, the salary is set with reference to UK Government salaries.

Liam McArthur: It is the same with MSPs, whose salaries are pegged to MPs' salaries. We might feel moved to take decisions on that in future, but the mechanism for MSPs' and ministers' salaries is fairly clear.

John Pentland: They might not have taken their annual uplift, but have they not devolved some of their responsibilities with the creation of other ministerial positions?

Liam McArthur: You could compare the current ministerial structure with that prior to the election, but I think that ministers, with some justification, would make a comparison with the previous Scottish Executive. Ministerial and departmental structures have evolved; in any case, it is a matter for the First Minister to take the lead on and Parliament to sanction. It is then up to the corporate body to make those decisions happen. It is always humbling to see the limits of your powers but, in this case, we have to respond to what Parliament decides.

The Convener: My understanding is that, before the Parliament was established, the idea was for MSPs to have the same salaries as MPs. However, the Prime Minister of the day decided to set MSP salaries at 87.5 per cent of MP salaries. I also point out that there were 22 ministers in the first two Administrations compared with 16 in the previous Administration and 19 in the current one, and that the ministerial salary freeze has been in place for four years.

Alex Johnstone: The subject that I wanted to raise has more or less been covered. Indeed, the more it has been discussed, the more I realise that I know where most of the bodies are buried and that I had better not say too much.

Even though members are in the middle of a two-year pay freeze and there has been a longer—and indeed continuing—ministerial pay freeze, some people might be surprised to find that the budget line for MSP pay is going up. Can you confirm that that rise has been caused entirely by the appointment of additional ministers; that that is a decision for the First Minister alone; and that the corporate body will follow that decision with the established salary levels?

Liam McArthur: As you say, this ground has been covered in earlier questions. It is not a matter for the corporate body, which simply responds to the decisions of Parliament. After all, the First Minister will decide how to structure the Government, but the Parliament still needs to sanction that decision. The corporate body is left to respond, which is what it has done.

11:30

Derek Mackay: Before I move on, I welcome the clarification that the Scottish Government compares well with the previous Scottish Executive and Westminster. I think that John Pentland got a wee bit mixed up talking about pay uplifts when we have a pay freeze that is expected to continue.

Given that we have focused on administration, I note that, with regard to MSP staff and office costs, the amount of Short money has been reduced from £562,000 to £439,000. Just as the SNP and the Government have increased, the Opposition has been somewhat reduced. Is the reduction in Short money entirely due to the lower number of Opposition MSPs?

Liam McArthur: Yes.

Derek Mackay: Thank you.

The Convener: Earlier, we discussed certain audit issues and noted that audit fees are being increased by 2.6 per cent. However, Audit Scotland has planned for an average reduction of 7.75 per cent in fees across most sectors of audit. Why is there a wee bit of disparity in that respect?

Liam McArthur: That is a very interesting point. Our budget has been based on our expectation of audit fees. I do not think that, compared with previous years, what we will be asking Audit Scotland to do will vary to any extent in future years and we have built into the line an expectation of a modest increase in line with inflation. Nevertheless, given your comment about Audit Scotland, we would be very interested to discuss with that organisation any implications for the fees that we will incur for the work that we ask it to carry out. We will certainly use the opportunity of this exchange to go back to Audit Scotland for a response. The committee can rest assured that, in light of intentions with regard to overall fees, we will seek a reduction in the charges that we incur. For the time being, though, I simply repeat that the current figure in the budget is our best estimate of likely increases in line with inflation.

The Convener: Thank you for answering the committee's questions.

At the start of the meeting, we agreed to take items 4 and 5 in private.

11:32

Meeting continued in private until 11:46.

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