



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 14 March 2012

Session 4

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FINANCE COMMITTEE

9th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Mark McDonald (North East Scotland) (SNP)

Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Alyson Stafford (Scottish Government)

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

CLERK TO THE COMMITTEE

Jim Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Wednesday 14 March 2012

[The Convener *opened the meeting at 09:30*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning, and welcome to the ninth meeting in 2012 of the Finance Committee. I remind all those present to turn off any mobile phones, pagers and BlackBerrys.

Our colleague Michael McMahon has tendered his apologies this morning following the sad passing of his mother on Monday. The thoughts, condolences and sympathies of the committee are with him today.

Under agenda item 1, I seek the committee's agreement to take item 7 in private. Are members content that we do so?

Members *indicated agreement.*

Draft Budget 2012-13

09:30

The Convener: Under item 2, we will take evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth. This is the first of three evidence sessions that we will have with the cabinet secretary this morning. This session will deal with issues that emerged from a recent consideration of the 2012-13 budget and the national performance framework.

I welcome John Swinney to the meeting. He is accompanied by officials from the Scottish Government: Alyson Stafford, the director-general of finance; Andrew Watson, the head of finance policy; and Roger Halliday, the chief statistician.

I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney): I do not have an opening statement for this evidence-taking session, although I will make one about the spring budget revisions. I am happy to answer questions on the Government's response to the Finance Committee report. We issued that prior to the conclusion of the budget process. It sets out, comprehensively, the Government's response on the various issues.

I associate the Government with your remarks about Mr McMahon, convener, and express our condolences to him and his family.

The Convener: Thank you, cabinet secretary. In time-honoured fashion, I will open with a few questions before opening up the session to colleagues.

I want to ask about how well the Scottish Government is managing its capital investment programme and the associated risks. One of the recommendations in the Audit Scotland report "Management of the Scottish Government's capital investment programme" concerned establishing a more active role for the newly formed infrastructure investment board. What is the role of that board and how do you see it developing?

John Swinney: The infrastructure investment board is a significant part of the architecture that the Government has put in place for the management of the capital programme. The board is chaired by the director general of finance and it brings together representation from across the organisation. The purpose of the board is to scrutinise major projects at an early stage so that, when we are embarking on any capital projects, we are doing so on the right basis and the right footing. I suggest that the reason why certain capital projects did not go the way that we would

all have liked them to go is that the early preparation was not precise and there was a failure to make the fullest judgments about the issues that had to be resolved.

Essentially, the infrastructure investment board has the ability, mandated by me, through the director general of finance, to require public sector organisations that are taking forward capital projects under the jurisdiction of the Government—not those that are undertaken by local authorities, where councils are clearly in the driving seat—to rectify any concerns that arise when the project is being embarked on, even if it means holding back the project until the concerns are resolved.

The board also considers the progress of projects throughout their delivery. It is not the manager of the project. Members of the board might be managers of individual projects, but the board as a whole essentially performs a challenge function in relation to the managers of projects, ensuring that the governance arrangements are being properly undertaken and that progress is being monitored. Crucially, the board has the opportunity to reflect on lessons that have been learned from evaluations of particular projects.

The board undertakes three principal functions. First, it supervises the implementation of the capital programme to the satisfaction of ministers; secondly, it provides advice to ministers on the relative priority of current projects and projects that aspire to enter the capital programme; and, thirdly, it provides the permanent secretary with briefings for his six-monthly update to the Public Audit Committee, which is now an established part of the reporting on progress on capital projects.

The Convener: Thank you for that comprehensive answer, which is much appreciated. I want to move on to the Christie commission report. Can you give us any examples of actions that the Scottish Government has taken in response to that report? What impact will those actions have on the preventative spend agenda in community planning partnerships, local authorities and national health service boards?

John Swinney: The Government has published a response to the Christie commission, which has informed and become an integral part of the spending review settlement that I announced in September. That is best illustrated by the four pillars that we set out in the Government's response to Christie, which are the emphasis on collaboration; the shift to preventative spending; the development of a more active and challenging performance culture; and the development of workforce strategies and workforce utilisation.

You ask what actions have taken place. I would not say that the collaboration agenda is a change

of direction for the Government, but it is certainly an intensification of the approach. For example, along with my Cabinet colleagues, I have regularly reinforced with public sector leaders the importance of the collaboration agenda as the main element in how the Government takes forward public service reform. That requires public sector organisations to work more closely together. The collaboration agenda very much informs the work that the Deputy First Minister has been doing on the integration of health and social care, which is being done in partnership with local government.

In addition, Mr Mackay, the Minister for Local Government and Planning, has led a review of community planning infrastructure jointly with Councillor Pat Watters, the president of the Convention of Scottish Local Authorities. In essence, that has been about developing a shared vision between public sector partners of how we take forward the community planning agenda, which is the crucial delivery mechanism for the Government's collaboration agenda.

In the spending review statement, I set out to Parliament a shift in preventative spending activity. That manifests itself in a headline fashion through the three change funds, which are for the early years, older people and reducing reoffending. The Government's movement towards greater emphasis on preventative spending is encouraging leadership at local level to think about what more can be done to take forward preventative interventions beyond the three change funds. I am delighted with the progress that local bodies have made in taking up that agenda.

On the performance culture, we have commissioned work through the Accounts Commission to equip ourselves so that, after the local authority elections in May, we are better able to monitor performance in relation to the achievement of outcomes. That is at the level of community planning partnerships, rather than individual bodies, because many of the issues are only ever addressed through the joint work of a number of public sector bodies. The Accounts Commission has been observing the work that Mr Mackay and Councillor Watters have been doing in reviewing community planning, and designing an architecture that reflects that.

We have reviewed the national performance framework. Although many aspects of it remain intact, we have introduced new indicators and additional outcomes in the framework. However, fundamentally, we consider that architecture to be fit for purpose and able to support the direction of Government policy.

The permanent secretary has been leading on many aspects of the work on workforce

development through the Scottish leaders forum, which brings together the leaders of most public sector bodies in Scotland. If memory serves me right, the forum met last Thursday. Its workforce development role is important in meeting the general challenges that public services face, given the financial pressures under which the Government is operating.

The Convener: Thank you for another comprehensive response. The Scottish Government has set out how it will progress the McClelland review's recommendations. Can you detail the Government's programme for implementation, and tell us what guidance, if any, it has given or will give to public sector bodies on approaches for maximising the opportunity to achieve the potential savings that the review identified?

John Swinney: I will address that question at a governance level first. A national board has been established to progress that agenda. It is convened by the director general for governance and communities—

Alyson Stafford (Scottish Government): It is chaired by Alex Neil.

John Swinney: My apologies—it is chaired by Mr Neil and supported by the director general for governance and communities.

There is also an industry engagement board, which is chaired by John McClelland and is trying to marshal some industry input into the exercise. As far as possible, while respecting and fully observing the requirements of the procurement legislation, we will proceed with a collaborative approach to working with private sector players to guarantee that we obtain the best solutions for the public purse and the best approaches to delivering information and communications technology infrastructure.

The key points in the McClelland review included the importance of establishing a clear direction for progressing ICT improvements across the public sector and, in particular, how we establish the closest relationship between that work and the design of public services in Scotland. In a sense, the ICT approach has been very much driven by considering what type of computers we will buy—well, it is not quite as crude as that. We want the discussion to gravitate towards how we will use ICT to improve the delivery of public services and to maximise the efficiency of the process.

The digital strategy, which was published on 3 March 2011, focuses on the needs of our citizens, how we use ICT to support the delivery of public services to those citizens, and how we can deploy common standards and use ICT to improve performance in delivery.

Another key point is that we have made clear to public sector bodies that we consider the aims, objectives, aspirations and ambitions of the McClelland review to be realisable in the public sector in Scotland. We have mandated public sector bodies to use the techniques and approaches that McClelland suggested to deliver on the efficiency agenda, which remains a recurring part of the Government's activities. We will work with those bodies to ensure that that work is driven forward. We are trying to make McClelland compatible with the digital strategy, which relates to much of the activity in this area.

The Convener: Thank you. I will open up the discussion to questions from other committee members.

09:45

Gavin Brown (Lothian) (Con): Cabinet secretary, I want to start with a question about asset management and refer you to your response to paragraph 32 of the committee's report. If I remember correctly, shortly before September's draft budget, the Scottish Futures Trust published what struck me as a fairly robust report on asset management. In its response, the Government says that it is "proactively" taking that forward. Given that the Government's response came out on 18 January, are you able to update the committee on the asset management issue?

John Swinney: Ministers have mandated the SFT to take forward the thinking in the report on asset management that you mentioned, and it will be an active priority for the organisation. In the budget, I allocated further resources to the SFT to begin to take this work forward, because an element of pump priming will be required to advance the agenda. It is essentially a core priority of the SFT, and we will expect it to take it forward in an effective way.

The committee has heard Sir Angus Grossart's view of the SFT's role. He is very clear that it is an advantage for the SFT to have a bit of distance from the Government. Sir Angus is mandated to take forward the agenda in an even-handed way—I was going to say "neutral", but there is nothing terribly neutral about the way in which Sir Angus pursues that agenda—and to deliver the outcome that the Government has requested. I am sure that the committee will receive regular reports on the work that is being done.

Gavin Brown: I am not expecting you to give the committee a specific month, but could you give a rough indication of timescales for a follow-up report or the implementation of anything in the previous report?

John Swinney: Given that the spending review is predicated on a fair amount of asset

rationalisation, certain propositions will have to be taken forward in that respect. If the SFT is able to exceed that process of asset rationalisation, it will get no complaints from me; indeed, that is what it has been empowered to do. I will leave it to the SFT to tell the committee about its approach to the issue; I certainly cannot give you any definitive timescale. All I can do is state again that the budget makes a number of material assumptions about asset rationalisation that will have to be followed.

Gavin Brown: In that case, I will move on to the collection of non-domestic rates. The Government's budget over the spending review period relies on very healthy collection rates. In response to paragraph 44 of the committee's report, which says that

"The Committee supports the LGR Committee's request for regular reports on ... collection performance",

the Government seems to suggest that it is not minded to give us anything more than we get at the moment. Is that correct?

John Swinney: My view is that information on the collection of non-domestic rates should be distributed annually.

Gavin Brown: You disagree with the committee's conclusion that there ought to be "regular reports".

John Swinney: "Annually" sounds like "regular" to me.

Gavin Brown: Reports are already made annually. It would be slightly unusual for the committee to recommend something that is already happening.

John Swinney: The committee took the view that there should be "regular" publication of reports. In my view, an annual publication is a regular publication.

Gavin Brown: Your view is that the committee has just asked for things to remain as they are.

John Swinney: I am simply saying that the committee asked for a "regular" update. I think that an annual update is a regular update.

Gavin Brown: That is interesting. What information do you get about collection performance? Are you given monthly reports or quarterly reports? What is your handle on the situation?

John Swinney: I will review the performance of non-domestic rates collection at least six monthly but perhaps more frequently. That process is undertaken to inform any revisions that might be required to be made to the non-domestic rates assumptions that will be made in a future budget settlement.

Gavin Brown: So the information is there. If you were minded to publish it or furnish the committee with it, that would not be difficult to do.

John Swinney: The question that we have to wrestle with is what the point is of collecting this information. The purpose of gathering the information is to enable the Government to provide Parliament with an informed basis for the identification of the non-domestic rates total that is available for forthcoming budget settlements. The annual publication of statistics gives Parliament a full account of what has been collected in non-domestic rates.

We have to be careful about giving out information at different stages throughout the year, which I assume is what Mr Brown is looking for, because doing that does not provide us with a particularly informed view about what the total collection will be for that year. Even if we publish that information, it does not enable us to do anything with it. Once the non-domestic rates assumption for the budget is set, it is set—that is it. It is guaranteed by the Government and it cannot be revised during the financial year. The arrangements that we have for the publication of non-domestic rates information strike me as being appropriate.

I issued further information on non-domestic rates on 2 March when the Government published the quarterly update on the revaluation appeal statistics. That was provided to give a further update on an issue that had been raised actively with Parliament.

Gavin Brown: Are you seriously saying that it would not be useful to the committee to have a quarterly or six-monthly update? It would allow the committee to see how collection rates are doing compared to, for example, the previous year or compared to the target. Is it your view that it would not be useful to the committee to see that?

John Swinney: That is my view, Mr Brown, yes.

Gavin Brown: How do you square that with the fact that the Minister for Local Government and Planning, Derek Mackay, was a member of the committee when it concluded that regular reports would be useful?

John Swinney: Mr Mackay fully explained his response to that point when you challenged him on it during a parliamentary debate.

Gavin Brown: I did indeed challenge him on that point and the very clear impression was given that a more regular report would be published.

John Swinney: Mr Mackay dealt adequately with the intervention that was made on his speech in the parliamentary debate. As I have said today, it strikes me that an annual update on the

performance on non-domestic rates collection is a regular update.

Gavin Brown: I am slightly astonished to hear that your view is that, although the committee recommended regular reports in paragraph 44 of its report, and although the Local Government and Regeneration Committee suggested that there should be regular reports, those committees are simply asking you to carry on with what you are already doing. Do you honestly believe that?

John Swinney: I have said it a couple of times already, convener. At the risk of repeating myself again, the answer to that is yes.

Paul Wheelhouse (South Scotland) (SNP): If I may, I will make a comment on that subject, for the sake of clarity, before I ask my question. You state on page 5 of your response:

“If any adjustments are necessary this will be brought to the attention of the Parliament and its Committees for scrutiny through the Budget process.”

It would therefore not be accurate to say that you are not prepared to give an update if the underlying assumptions have changed. You have made a clear statement that you are willing to update the committee if adjustments are necessary.

John Swinney: I have to make a judgment about whether the non-domestic rates assumption in the budget for future years can be supported and substantiated. As I have told the committee before, and as is clear from the annual statistics, in some years in the past decade the non-domestic rates pool has been in surplus, and in some years it has been in deficit. I have to make judgments based on the condition of the non-domestic rates pool when I formulate the assumptions that are made in the budget for the subsequent years.

Paul Wheelhouse: I will move in a different direction with some questions on single outcome agreements, the Christie commission and the national performance framework, on which we took evidence from Mr Halliday.

A number of witnesses in recent evidence sessions have highlighted a problem in matching up the health improvement, efficiency, access and treatment targets and the other indicators in the single outcome agreements against which community planning partnerships will be expected to monitor progress. Do you have a view on that? In your response, you state that there is on-going work by the Health and Sport Committee on performance measurement, but do you want to take this opportunity to say where we might go on the matter?

John Swinney: I have heard such observations on a number of occasions. The argument is

sometimes advanced that there is something contradictory in pursuing HEAT targets and pursuing the outcomes framework that the Government has set out, with the indicators and approaches in the national performance framework. I do not take that view at all. The HEAT targets are more specific than the outcomes to be achieved—and they are much easier to measure, I have to say—but there is nothing contradictory in the two.

The HEAT targets are about ensuring that commitments that are given to members of the public in relation to their expectations about health treatment and management are fulfilled. In that respect, a clear and specific approach is taken round about the HEAT targets. I do not think that they take us in a different direction from the national performance framework. They just take us to a more precise level of specification, and we should think about them in that context.

Paul Wheelhouse: That is helpful. In essence, when community planning partnerships are looking at the issue, there should be no barrier to the two things working together. It has been presented to the committee as an excuse, almost, or at least an explanation—

John Swinney: It is sometimes said that the HEAT targets make it difficult to pursue activities in community planning. I do not accept that view.

Paul Wheelhouse: Thank you. We heard interesting evidence at our previous meeting about the growing up in Scotland study and the evidence that is emerging about the early years. As one of the most important aspects of the shift to preventative spending relates to the early years, I asked our witnesses whether that information should inform the monitoring of progress against outcomes by the community planning partnerships. It was stated that, although the sampling method that was used is not particularly suitable for the purpose, the information could be adapted by the community planning partnerships to supplement other sampling. We were told that the methodology that was used in the growing up in Scotland study could be used to ensure that the partnerships have adequate information at an appropriate geographical level to understand how the outcomes are being met at a local level. Is there any scope for taking that approach further? The growing up in Scotland study has a specific purpose and the information is monitored in a particular way, but could that source of data help to supplement the information sources that are available for the national performance framework and single outcome agreements?

10:00

John Swinney: There is certainly no shortage of information in this area of policy, and all the information points towards the importance of focusing on the needs of the individual child and ensuring that all the steps and measures that we undertake to address the needs and circumstances of each child are appropriate in every case. The national performance framework enables us to give community planning partnerships a clear direction on what we expect. Ensuring that we meet our aspiration for our youngest citizens to start their lives in the best possible way will involve an interplay between different public sector organisations—the health service, the education services, local authorities, the third sector and even, in some of the more acute circumstances, the police service. Our policy frameworks are now perfectly aligned with the performance framework, and the direction that that gives to public sector organisations to follow that line of thinking is particularly appropriate.

Paul Wheelhouse: I have one further supplementary question. You mentioned exercising leadership in looking at what other prevention measures could be devised locally and nationally and expecting civic Scotland to make proposals. I am a member of the cross-party group on armed forces veterans—indeed, I attended the Officers Association event at the Sheraton hotel last night, when this matter came up. Is there scope for partners to approach Government on a change fund in respect of veterans' issues, which might address a specific, targeted need?

John Swinney: I signal today that public sector organisations that are looking at public policy and designing preventative interventions to try to avoid some of the more complex and costly problems that the public sector faces will get nothing but encouragement from the Government. There is a lot of evidence of that emerging from different public sector organisations. Many individuals and public sector leaders feel empowered by the possibilities that arise in that respect, and we want to encourage that in every way that we can.

Mark McDonald (North East Scotland) (SNP): I record my membership of Aberdeen City Council.

Local elections will take place in just a couple of months, after which there will likely be new COSLA leadership, as Councillor Watters has suggested that this is his final term as president. Do you feel that there might, after the elections, be benefit in looking again at the concordat and single outcome agreements in line with the new emphasis on preventative spending to see whether there are ways in which they might be revisited or refreshed?

John Swinney: I am always open to dialogue with local government. In the aftermath of the local authority elections in May, the Government will continue its constructive engagement with local government. We have reaped significant rewards from the co-operative and collaborative framework that we have put in place between national Government and local government, and I readily commit the Government to that approach again.

The nature of the concordat has often been misunderstood. It has often been presented as being either a deal about money, which is certainly part of its composition, or a deal about policy priorities, which is also a fair representation of some parts of it. Essentially, however, it is about progressing a joint agenda between local and national Government in order to focus on shared priorities that we are all committed to addressing. It has served Scotland well that we have involved local government.

Mr Wheelhouse raised issues about the early years strategy. The formulation of the early years strategy in Scotland was not an exclusive activity of the Scottish Government but fully involved local government in joint policy development. Adult social care policy in Scotland today is not exclusively the work of the Scottish Government either, but has, into the bargain, been a joint venture with local government.

The concordat and the process of focusing on joint priorities have to reflect that joint agenda between the two levels of government, through which we commit to acting openly and constructively as equal partners. That is how the Government will wish to pursue the agenda in the years to come and—certainly—in the aftermath of the local authority elections.

One of the major themes that I have asked Mr Mackay and the Accounts Commission to take forward in the community planning review is to ensure that when the local authority elections are completed, authorities focus more than ever on achieving outcomes. Their performance will be assessed on that basis, which will be quite a change in the reporting framework for local government.

Mark McDonald: Colleagues from across the parties in local government have welcomed how the concordat has operated. I was not suggesting that it is not fit for purpose, but was asking whether it would be worth looking at it again, in line with the change in local government in 2012 and the shift in focus in the recent budget.

John Swinney: The spending review last September was very much a product of dialogue that I, with ministerial colleagues, had developed with local government in the run-up to the review, which made me confident that a joint approach

was being taken to preventative spend that would be reflected in the actions of local authority leaderships. We are, therefore, part way through the process already.

Mark McDonald: That is helpful.

I want to ask about a couple of other things, one of which is the role of third sector organisations. We had John Downie from the Scottish Council for Voluntary Organisations at the committee recently; he talked about his concern that when tough spending decisions have to be taken locally, third sector organisations have problems both with the contracts they have and their access to new contracts, and that it is the services that are provided at arm's length by such organisations that are often among the first to be trimmed. We saw the recent kerfuffle with the citizens advice bureaux in Glasgow. How do you see a framework being developed in which third sector organisations have parity of esteem with other providers?

John Swinney: Over the past few years, the Government has worked, principally through the development of what I would call the interface mechanism, to create a stronger voice for the third sector in every community planning partnership at local level, which is where true influence has to be exercised. Before that, when I was pressing local government to speak to and involve the third sector in their deliberations and planning, the common complaint would be, "There are so many organisations. Who do we speak to?" Therefore, we have established a much more entrenched role for the third sector in the community planning process and, as a consequence, the sector is able to articulate its perspective much more actively within the community planning arena.

I have been struck by some of the feedback that I have had from areas of the country where that system works well. I will not say that it works well in every part of the country, because the position is still a bit difficult in some parts. However, where it works well, it gives the third sector good and clear influence.

A difficulty is that we cannot protect the third sector from contractual change. Unfortunately, existing providers sometimes lose contracts in tendering exercises because their bid does not fulfil the purpose, is insufficiently robust or is uncompetitive. It is inevitable that contracts will involve individual difficulties. We will get round that by emphasising the interface methodology and mechanism, and by ensuring that we support and encourage the development of capability in the third sector to tender for public sector procurement contracts. I recently put resources into the third sector budget to support exactly that.

I am delighted that third sector consortia won all three tenders that were issued for the just enterprise programme and the two complementary programmes that will support the third sector's ability to win procurement contracts from the public sector. That has helped to embed the strength in the third sector. The Government will continue to take that approach.

Mark McDonald: I have pressed on a number of occasions for a focus on consortia arrangements from not just the third sector but from private sector organisations as a way of tendering competitively.

I have experience of priority-based budgeting in Aberdeen City Council, which has embedded that process. The council looks at the budget on the basis of the expenditure priorities and the likely outcomes that can be achieved from the spend. I am aware that use of the approach is patchy—some authorities use priority-based budgeting, but others have not yet made the transition. Does the Government have a role to play—not just directly, but through organisations such as the Accounts Commission—in assisting authorities to see how priority-based budgeting can help them to achieve outcomes and to cope with the difficult circumstances that are likely to be faced as the spending cuts bite in future years?

John Swinney: The Accounts Commission and the Improvement Service undoubtedly have a role in assisting local government in achieving that objective, which the Government certainly supports and which is reflected in the Government's choices about its policy and financial priorities.

Mark McDonald: The decision to move to a priority-based approach in Aberdeen was obviously required because of the somewhat cataclysmic report by the Accounts Commission about the authority's finances between 2002 and 2006. One hopes that other authorities might make that decision without the need for such an intrusion.

I have encountered the mindset that best value is all about the input—the money—and is all about taking the cheapest option. A discussion about a report drove that home to me. We were told that taking a certain decision might not achieve best value, but the report was only about how much money was being spent. Is the understanding of what best value means still an issue? It is not just about the input measure—how much money is put in—but about the service that is delivered across the board. Does work need to be done to engender a mindset change not just in officialdom, but among elected members?

10:15

John Swinney: There will still be a view that “best value” means “cheapest”. Despite the exhortations of the Government, the Auditor General, the Improvement Service and a variety of other people, the view that best value is about delivering the cheapest solution still percolates. However, it should not be about that. Mr McDonald mentioned quality, impact and outcomes, which are strong and material points that should be considered properly as part of a best-value assessment.

Elaine Murray (Dumfriesshire) (Lab): My first question is about Will Hutton’s review of public sector pay. We had an interesting discussion with him a few weeks ago. In the Government’s response to the committee’s report on the budget, you said that you were considering Will Hutton’s report. Do you have any further considered remarks on it, for example on the suggestion about an earn-back approach, under which senior civil servants would be required to meet performance criteria in order to receive their entire salary?

John Swinney: Basically, the Hutton report is a welcome and substantial contribution to the debate. It must be considered alongside the actions that the Government has taken in relation to senior pay. For example, I have suspended access to bonus arrangements for a number of years now among the senior echelons of the public services in Scotland. Where I have not had the ability to mandate that, I have asked people not to accept bonuses to which they have been entitled. In almost all the cases that I have seen, senior individuals who have been awarded bonuses as a consequence of exceptional performance have decided not to take them, which I welcome.

When new appointments have been made to existing posts, we have been working to remove bonus entitlements from terms and conditions. We have done that in a number of cases, as a beginning to stripping that approach out of the culture of senior appointments. I am confident that the Government is taking practical steps that will, in essence, implement the spirit and thinking of the Hutton review. We continue to reflect that in our pay policy and in the approach to senior appointments.

Elaine Murray: Hutton’s suggestion goes a little further than that. It would have to apply only to new appointments, because we could not retrospectively take 10 per cent off somebody’s pay and tell them that they had to earn it. However, with new appointments, perhaps 10 per cent of the salary could be performance related, rather than there being a bonus.

John Swinney: I have rehearsed the arguments around the issue on a number of occasions with the committee. My firm view is that, if a bonus is paid, it should be for only the most exceptional performance and not for turning up and doing the 9 to 5. In the past, there was perhaps an assumption that people just got bonuses, and there was some lazy thinking about that. That is not the culture now and it is certainly not an inference that can be drawn from our pay policy. I can think of a number of cases in which individuals have made truly exceptional contributions and their boards have decided that they merited bonuses—which I understood precisely—but they decided not to accept them. I am grateful to those individuals for that.

The earn-back proposal that Dr Murray mentions is worth considering, although the Government has not considered it specifically. However, the Government will consider it, and I would be happy to feed back to the Finance Committee on it. As Dr Murray correctly said, it could be applied only to new appointments. In a number of recent appointments, bonus arrangements have been removed from contracts.

Elaine Murray: I move on to the third sector and the issue that Mark McDonald raised about parity of esteem. In your response to the committee’s report, you talk about the public-social partnership model, in which the third sector is involved in designing the service. There is then a pilot period and if the outcomes are achieved, the public sector would consider putting the service out to tender. The expectation is that the third sector would be well placed to win such tenders. You mentioned specifically issues to do with elderly people remaining at home. How long would you anticipate such pilot phases taking? Evidence that we have received suggests that it can take quite a long time to get an indication of whether a project is working properly.

John Swinney: That will vary depending on the subject of the project. Work on short-term issues about how support is provided to elderly people to enable them to remain at home and avoid admission to acute settings can be evidenced quite quickly because of the removal of predictability that there will be a hospital admission. I have been struck by work that I have seen in the health service and local government through which it is possible to predict which elderly members of our community are likely to become more vulnerable and when that is likely to happen. A proactive intervention might not always be welcomed, but it might be beneficial in order to avoid the development of circumstances that could result in referral to an acute hospital setting.

Such decisions will depend to a large extent on the type of project. As we look at the projects that

have emerged under the change fund in the current financial year—2011-12—and how those inform the preparations for the change fund for elderly people in 2012-13, there will undoubtedly be lessons to learn about how to deploy such interventions most effectively.

Elaine Murray: There is a bit of a problem with who pays when it comes to the third stage of the process, when the public sector puts a service out to tender. A local authority may not be willing to pay for or to commission a service that will save money for the health service, for example through elderly people not being admitted to hospital. Where does the change fund and central funding come into that, particularly at times of constraint when certain public authorities may not wish to spend their money to save money for someone else?

John Swinney: I suppose that I am hoping for a more collaborative culture. Dr Murray makes an entirely fair point. A local authority might be going about its business thinking that the savings that come from what it is doing will accrue to the health service, and the health service might be complaining about a local authority not providing community care support, which will result in delayed discharges that the health service will have to pay for, but those are two sides of the same coin.

I am encouraged by the Government's heavy focus on collaboration throughout its period in office, which is backed up by the Christie commission's views on the creation of a collaborative environment at local level. That is our way through this. I see a lot of good work at local level in that respect, in which public servants are trying to find ways of delivering better outcomes and of reducing the burden on the public purse—even when their own organisations may not be the beneficiaries financially.

What was crucial in the governance of the change fund for older people was that all the projects that were approved had to be collaborative. That has triggered a lot of good joint working at local level, which is giving us a better approach to the delivery of services.

Elaine Murray: This is my final question. I was on the Rural Affairs, Climate Change and Environment Committee when it considered the budget. We had some problems in squaring how the report on proposals and policies read across to the budget. Your response says that that is partly because the funding is allocated at level 4 or below, which makes it difficult to read-across what is being spent.

The RACCE Committee was keen that the process should continue year on year and that committees should take responsibility for

considering their parts of the climate change agenda. Do you have any thoughts on how the data could be made available for committees that are considering climate change targets?

John Swinney: A budget document can be presented in 101 different ways. We try to follow a format—I hope that it appeals to the Finance Committee—that provides continuity in how we present data for scrutiny.

Equally, the budget could be constructed from the perspective of climate change and we could look at it through that prism. It would also be possible to look at it through the prism of equalities. I have avoided presenting the budget in a variety of different ways—that would confuse the debate—by undertaking an assessment of its carbon impact. The information that I have received from non-governmental organisations suggests that that is a positively regarded exercise. I do not by any means think that it is a final piece of work, but it is delivering positive information. If a committee wishes to see more information presented in a different way about climate change, I would be happy to consider that.

I wrestle often with Elaine Murray's point about the report on proposals and policies. We clearly need to evidence how we are taking steps to address those questions, but we cannot always enable that to come to the surface of a budget document, which has to be consistent with the Government's commitments to the Finance Committee on how budget information is presented and monitored. I would be happy, however, to consider propositions in that regard.

John Mason (Glasgow Shettleston) (SNP): First, I want to touch on a couple of things that have already been mentioned by colleagues. On the relationship between local government and the third sector, I liked the phrase “collaborative culture” that you used in a previous answer—I am enthusiastic about that. There has often been a collaborative culture between different groups in the third sector, but is that well understood by local government?

Mark McDonald used the example of Glasgow and the citizens advice bureaux; the council put advice out to tender, thereby setting one part of the third sector against another. Unsurprisingly, one part won and another lost. The winning part then wanted to subcontract to the losing part, which made the situation difficult. It appears that we will have the same service and that the council will pay more next year than it did this year, because it has had to try to keep everybody happy. That suggests that the relationship between local government and the third sector, certainly in Glasgow, is not quite right.

10:30

John Swinney: I am not familiar with all the details, but John Mason's dispassionate presentation suggests that it is not a good story. As I have said, the third sector's involvement in, and integration with, public sector decision making in some parts of the country is of high quality and high order, but it is not so good in other parts.

We have tried to support the interfaces, essentially to strengthen that representation, but ultimately it comes down to people and whether they are willing and prepared to work effectively together. There is a lot of very good evidence on joint working at local level, with different aspects of the public sector linking with the private sector and the third sector. That is powerfully encouraged by the Government's response to the Christie commission and its emphasis on collaboration.

In the dialogue that I have on public sector reform, I advance the argument that people should view the Government's agenda of collaboration as being a clear policy statement of how we want to proceed. Other models of public sector reform could be considered—a competition model, for example, but the Government is not persuaded by it about that. I would simply marshal the two models in front of anyone who thinks that the Government does not prefer a particular model and say, "You could have a collaborative or a competition model, but we have actively and definitively chosen a collaboration model." That is a signal to people that we expect them to work together. Through my responsibilities, I—with Mr Mackay—encourage local government to do that and I encourage the third sector to do it. The Deputy First Minister and Cabinet Secretary for Health, Wellbeing and Cities Strategy encourages the health service to do that—indeed, she mandates it to do that, as she has the ability to do so. That should be clearly understood as being how the Government wishes to proceed in the design of public services.

John Mason: That is helpful. Thank you.

The Hutton report has already been mentioned. I admit that I was a little bit disappointed that Hutton moved away from the idea of the top person in an organisation being paid no more than 20 times what the bottom person is paid, although I completely accept that that is less of an issue in Scotland. The Government talks about the issue in its response to paragraph 37 of the committee's report.

On inequalities, we are trying to bring people at the bottom up with the living wage, but do we also need to have a cap at the top?

John Swinney: I have spent a lot of my time looking at senior pay, as it has clearly been an issue of considerable political angst. I do not have

the key table in front of me that would allow me to give the committee definitive answers, so I will give it safe answers that I will not have to correct afterwards.

If we discount from the numbers hospital consultants, general practitioners and other medical professionals, we find that not many people in the public sector in Scotland earn more than £120,000 a year. For people who earn more than £150,000—we are excepting health, for which there is a UK remuneration framework—we are talking about only a handful of people, so there are not the massive disparities that have been talked about. I should stress that I am talking about those pay remits over which I have control. I do not have control over some pay remits—for example, I cannot set the pay for university principals.

Mr Mason's point of substance is whether I am concerned about the relationship between average earnings and top people's pay in general, to which my response is yes, I am. I think that that is the root of many of the current difficulties in our society. It is clear that there must be a differential between average pay and senior pay, but some senior pay is indefensible.

However, I stress that, in Scotland, the number of cases of high-level pay is very small and, as I explained to Dr Murray, even in those areas we are actively taking steps to contain some of the elements of that pay bracket.

John Mason: My third and final question is about the collaborative culture. Going back to our recommendations concerning the Christie commission, paragraph 62 of our report refers to

"a new set of statutory powers and duties, common to all public service bodies, focused on improving outcomes and which include a presumption in favour of preventative action and tackling inequalities".

The committee is certainly committed to

"preventative action and tackling inequalities",

but the question is the balance between how much we do through statute and how much we do through the concordat. Personally, I am very enthusiastic about the concordat and the fact that, instead of the top-down approach that was taken previously, we are now collaborating and working with local government. However, the committee's fear—which I share—is whether the preventative agenda can move forward without a real kick.

John Swinney: I think that it has had a real kick. The Government has nailed its colours very firmly to the mast on that agenda, which we formulated jointly with local government. I stress that we have not done this to local government; local government is actually queuing up to be active in preventative spending and, in fact, has

taken many good approaches before we have even got anywhere near the Government's agenda.

I think that we have a very good framework for taking the agenda forward, but the proof of the pudding will be in the eating. We will see what it all amounts to—the work will certainly be subject to plenty of evaluation. I am confident about the approaches that have been taken so far and do not think that there is a necessity for statutory action; that said, we should not rule out taking such action if we think that progress is too slow. The creation of that collaborative climate is very important in getting all public sector organisations to focus together on achieving the preventative approach.

The Convener: That appears to be all the questions that committee members have. However, I have one or two left.

Last week, we took evidence from Jim and Margaret Cuthbert, whom I know you know very well and who expressed a number of concerns about Government policy. Although we all accept that capital investment is key to economic recovery and to maximising employment where possible, Jim and Margaret Cuthbert were concerned that the Scottish Government was not doing all that it could in that area, citing certain policies that were being enacted in Germany and France to ensure that, even under European law, more jobs stay in those countries than would otherwise be the case.

The Cuthberts also expressed concern about the fact that a number of small to medium-sized enterprises classed as Scottish are not Scottish and that, although the European Union definition of an SME is a company with 250 employees or fewer, some larger companies have a number of branches whose workforces come in below that level but, when taken collectively, come to a significantly higher figure. I am sure that the Scottish Government has communicated with the Cuthberts on the issue. Are you thinking about making any changes to ensure that we optimise employment through our capital investment programme and that Scotland-based SMEs have the access to procurement portals that they should have and which we all want them to have?

John Swinney: The best answer that I can give is to point out that Mr Neil has met Jim and Margaret Cuthbert along with Barry White of the SFT and officials from the Scottish Government's procurement team and has had a very full discussion about the points that the Cuthberts have made. They are now considering steps to address the various issues.

The Government has done a lot to enable SMEs to access public sector work. Perhaps the best—

and easiest—intervention has been the creation of the public contracts Scotland portal, which, in marshalling public sector contracts available for tender at one end and expressions of interest from SMEs at the other, saves those companies a massive amount of hassle. I encourage SMEs across the country to register on the portal, which certainly has a very high level of participation. However, it is only one of the initiatives that the Government has introduced to support this area of activity. After all, we have as much interest as Jim and Margaret Cuthbert in using public sector procurement to stimulate the economy.

As I have said, discussions on the issue are under way and I am sure that Mr Neil will report to Parliament on the steps that he is taking. He has also commissioned a review of procurement issues and is working towards the introduction of a sustainable procurement bill, which will be laid before Parliament when the preparatory process is complete.

The Convener: Thank you, cabinet secretary.

At this point, I suspend the meeting until 10:50 to allow for a changeover of witnesses and to give members and certain witnesses a natural break.

10:42

Meeting suspended.

10:50

On resuming—

Subordinate Legislation

Budget (Scotland) Act 2011 Amendment Order 2012 [Draft]

The Convener: Item 3 is to take evidence from the cabinet secretary on the draft Budget (Scotland) Act 2011 Amendment Order 2012. The draft order is subject to the affirmative procedure, which means that Parliament must approve it before it can be made and come into force. The cabinet secretary has lodged a motion inviting the committee to recommend to Parliament that the draft order be approved.

Before we come to the debate on the motion, we will have an evidence session to clarify any technical matters and allow explanation of detail. The cabinet secretary is again accompanied by Alyson Stafford, and by Stuart Dickson, financial policy adviser with the Scottish Government.

I understand that the cabinet secretary wants to make an opening statement.

John Swinney: Yes, convener.

The spring budget revision provides a final opportunity to amend the budget for 2011-12. It deals with three different types of amendments to the budget. The first type are changes of substance, through which we propose to increase the amount of money that is devoted to particular areas of spend. The second type are a number of technical adjustments that have no impact on spending power. The third type are some cash-neutral transfers of resources between portfolio budgets. The net impact of the changes will be an increase in the approved budget of approximately £259 million, from £33,958 million to £34,217 million.

Table 1.2 on page 5 of the Government's supporting document shows the approved budget following the autumn budget revision and the changes that are being sought in the spring budget revision. The substantial changes are due to the deployment of available Barnett consequential and are related to Her Majesty's Treasury transfers as a result of announcements made by the chancellor in the March 2011 budget and the November 2011 autumn budget statement. We have added £136.6 million in Barnett consequential and related Treasury transfers to our budget for 2011-12. Those Barnett consequential inject new support this financial year into housing, transport and employment programmes, helping to get people into work, to

create new jobs and to meet our ambitions for Scotland.

The main allocation of Barnett consequential includes £50 million to Scottish Water. The chancellor made £50 million available to improve the Caledonian sleeper service in 2011-12. As colleagues will be aware, it is not possible to procure new rolling stock overnight. The upgrade to the sleeper service is a significant project and, rather than lose access to the £50 million funding that has been offered by HM Treasury, the Scottish Government has worked with the UK Government to use those funds in the short term, and to deploy them in a phased way in future years to develop the Caledonian sleeper service.

We have allocated funding of £17 million to help to provide training for young people to improve their chances of future long-term employment, which is important to all parties in the Scottish Parliament and to those in the further education sector. In addition, £15 million has been made available for the college transformation fund.

We have allocated £21 million to help to alleviate pressures on police and fire pensions that have been caused by the introduction of new commutation rates on 1 April 2011. We have also allocated an additional £10 million to boost housing supply in the affordable housing programme.

The second set of changes comprises a number of technical adjustments to the budget. Technical adjustments are mainly non-cash and budget neutral, but it is necessary to reflect those adjustments to ensure that the budget is consistent with the final outturn reported in our annual accounts. The main technical adjustments in the revision are: £73 million of additional annually managed expenditure budget for non-cash provisions, impairments and depreciation to align the budget for accounting purposes; £20 million to align the international financial reporting standards-based budgets for public-private partnership and private finance initiative schemes for year-end accounting purposes; and £16 million for the impairment of student loan subsidies, which reflects the impact of low interest rates on income-contingent repayment loans.

The final part of the budget revision concerns the transfer of funds between portfolios to better align budgets with profiled spend. There are a number of internal transfers within the budget as part of the revision process. They have no impact on spending power. The main transfers between portfolios include: the transfer of £11.7 million from justice to health in respect of the prison health strategy; a one-off transfer of £6.3 million to the National Records of Scotland for funding the 2011 census; and the transfer of £7.5 million of existing budget provision from other portfolios to

parliamentary business and Government strategy to ensure the efficiency that we expect in respect of public information and social advertising campaigns and the international marketing and promotion of Scotland. As in previous years, a number of minor internal portfolio transfers will be made. They will have no effect on portfolio totals, but will ensure that internal budgets are monitored effectively.

As we approach the financial year end, we will continue, in line with our normal practice, to monitor forecast outturn against budget and, wherever possible, we will seek to use emerging underspends to ensure that we maximise the use of the resources that are available to us in 2011-12 and proactively manage the flexibility provided under the budget exchange mechanism agreed between HM Treasury and the devolved Administrations.

The Convener: Thank you for that statement. As always, I will start off the questions.

On the Caledonian sleeper services, and with regard to additional money by portfolio, I understand that that money was ring fenced but is being loaned to Scottish Water, as has been touched on. Can you give us an indication of when that money will go back into ensuring that the Caledonian sleeper service is delivered?

John Swinney: The proposals that we agreed with the Treasury involve the Treasury contributing £50 million to the enhancement of the Caledonian sleeper service and the Scottish Government contributing about £80 million. Between the two Governments, there will be an investment of about £130 million. That will be focused on improving the rolling stock and on taking forward a range of other propositions to enhance station infrastructure, station facilities and some of the lines that are used by the Caledonian sleeper. My estimation is that the improvements will probably roll out over a four-year period.

Some of those propositions will be factored into our investment programme for the rail industry in Scotland. We will be able to do that in a fashion that is complementary to the existing programmes that we are undertaking with the additional resources that we have obtained.

The Convener: When will the four-year programme commence?

John Swinney: I expect some activity to be undertaken in 2012-13, but I imagine that the bulk of it will commence in 2013-14.

The Convener: On the technical adjustments, the health, wellbeing and cities strategy has received a £58.3 million adjustment upwards. However, the supporting document for the budget revision is not clear about how that figure is

reached. The NHS and special health boards budget receives a net adjustment, for the purposes of IFRS, of £13.8 million, and there is additional funding for NHS provisions of £39.5 million. However, there is no explanation of whether that is due to the technical changes in the portfolio or something else that might be specified. Will you provide a wee bit of clarification on that?

John Swinney: The £58.3 million figure comprises, first, £39.5 million of additional annually managed expenditure funding for depreciation factors and impairments. There is also a £5 million factor on the depreciation that is required on donated assets, which again is under annually managed expenditure. The final element that you referred to is a £13.8 million adjustment for IFRS purposes for special health boards and the NHS as a whole. Those three items are shown on page 18 of the document.

The Convener: I was specifically interested in how the £13.8 million breaks down.

John Swinney: We have to regularly review the provisions that we make in order to ensure that our financial reporting is consistent with the international financial reporting standards. That will be done in relation to the way in which we tabulate PFI and PPP costs, which will come within the operations of NHS boards and special health boards.

The Convener: Professor Bell is not with us today and cannot ask questions in any case, but I want to ask about an issue that he raised in a paper that he has given us. The paper refers to the funding of about £12 million for youth unemployment measures, in addition to the £126 million scheme that was recently announced by the Deputy Prime Minister, which will be focused on those not in employment, education or training. How will the additional money in Scotland be targeted, and how will it align with the money that is being spent in Scotland by the United Kingdom Government?

11:00

John Swinney: That money will be deployed as part of the Government's opportunities for all commitment, which guarantees every 16 to 19-year-old who is not in employment, education or training access to a suitable learning or training opportunity. Support will go in to maintain college places at the necessary level. The way in which that relates to the United Kingdom Government's proposals for young people who are trying to enter the labour market is important. We must work closely with the UK Government to ensure that a complementary approach is taken.

The UK Government has set out its UK-wide work programme, of which the youth contract is an

essential part. I have agreed with UK Government ministers that we will respect the focus and approach of their programme, and complement it with our employment offering in Scotland. We will not seek to duplicate the UK programme—that would be completely inappropriate—nor to compete with it, but we will put in place complementary interventions.

All that hinges on the degree of co-operation that exists on the ground. In that respect, we encourage—as do the UK Government ministers—very close working in localities between Skills Development Scotland, Jobcentre Plus and local government to avoid overlap at a local level.

One illustration of that co-operation is that the Minister for Youth Employment and I will take part in a United Kingdom Government-organised seminar on youth employment in Dundee tomorrow morning with the Secretary of State for Work and Pensions and the Secretary of State for Scotland. I agreed with the Secretary of State for Scotland that we would participate at that level to reinforce politically the point that the convener makes about the need to ensure that the schemes and initiatives work hand in hand.

The Convener: Thank you. I now open the session to questions from committee members. Elaine Murray will go first, followed by Gavin Brown.

Elaine Murray: I return to the £50 million that has been transferred from the Caledonian sleeper service to Scottish Water. I appreciate that one cannot just go to a shop and buy rolling stock. Can Scottish Water use that money within the next two or three weeks?

John Swinney: The transfer gives Scottish Water an advance on its capital programme, which allows it more resources in the short term than we had planned in order to support that programme. We will draw that resource out of Scottish Water by adjusting the investment commitments that we plan to make in it in the next three to four years, and use that money to support investment in the Caledonian sleeper service.

Elaine Murray: So it is not the case that Scottish Water will have to commence and pay for projects by the end of the financial year to use up the money.

John Swinney: No—it has a rolling five-year investment programme that we support financially and which is managed within the overall financial arrangements for Scottish Water.

Elaine Murray: Is the Caledonian sleeper service the one that goes north of Edinburgh? Does it include the sleepers to Aberdeen, Dundee and so on?

John Swinney: Yes. The Caledonian sleeper service is the generic marketing term for all the sleeper services that come to Scotland. It refers to the services to Edinburgh and Glasgow as well as to Aberdeen, Fort William and Inverness.

Elaine Murray: Part of the “Rail 2014” consultation focuses on the future of the sleeper service north of Edinburgh and Glasgow. I am aware that a lot of the consultation responses are enthusiastic about keeping the service, but if the decision was taken not to continue with it in the post-2014 franchise, what would happen to the money from the UK Government? Would that be paid over a certain period?

John Swinney: The “Rail 2014” consultation paper contains many propositions, suggestions and ideas. The Government has been unequivocally committed to the maintenance of the Caledonian sleeper service. That has been a key part of our commitments and will be so in future, so the circumstances that you describe do not arise.

Elaine Murray: Do you envisage the sleeper service remaining as it is at the moment?

John Swinney: We have been entirely committed to the Caledonian sleeper service. Although there are many options in the consultation, the Government has always maintained its belief that the sleeper service is an essential part of the transport infrastructure of Scotland—and that will continue in the period going forward.

Gavin Brown: In relation to the £50 million that went to Scottish Water, were other options examined? Was there a plausible alternative, which would accelerate funding to housing or other capital projects that were shovel ready?

John Swinney: The mechanism that I chose for deploying the resources enabled me to have the flexibility to draw the resources back out, given the overall financial commitments that the Government has given to Scottish Water over a five-year period. The mechanism enables me to ensure, without question, that the resources can be deployed for the Caledonian sleeper service when they are required.

Gavin Brown: Were other options examined?

John Swinney: No.

Gavin Brown: Okay. I seek clarification on a few other points. In relation to police and fire pensions, £21 million has been allocated to offset the need for additional funding. Is that a one-off? Was there an initial miscalculation? How did the position come about?

John Swinney: In the preparation of the budget, we calculate the demand for police and

fire pensions that we consider to be likely. For the financial year 2011-12, we were making that judgment in the run-up to the publication of the draft budget in November 2010; we settled on the budget in February 2011. On 1 April, the commutation rates changed to reflect the lower interest rates that are prevailing. As a consequence, during the financial year we found that there was a much larger demand for lump-sum payments from retiring police and fire officers than had been planned for, which required to be met during the financial year. Resources had to be found to match the demand.

Of course, the consequence of having paid those lump sums is that the longer-term, annuity-type requirements will be lower. In essence, there is a financial peak, which crystallised in this financial year. It might well crystallise in 2012-13, but in the budget documents for 2012-13 we have a set of assumptions about how the issue will take its course. Demand clearly exceeded our original expectations, but in essence, the factors that drove the change arose after the settlement of the budget.

Gavin Brown: Thank you, that was helpful.

In relation to the census, there is a one-off transfer of £6.3 million to National Records of Scotland. Was the census more expensive than was anticipated, or did something extraordinary happen?

John Swinney: We simply decided to utilise a mechanism whereby we applied the strongest financial controls to the census that we could apply. The census is a one-in-10-years enterprise, so I was not particularly keen to allocate resources in advance, because these things can often stretch to fill the space—I say that delicately. I gave a commitment to fund the census, but I wanted to exercise as much financial control as possible over the sum total. The census came in at a cost that was consistent with our expectations.

Gavin Brown: Stretching to fill the space is classic Matherism—Matherism at its best.

John Swinney: I have learned much from Mr Mather over the years.

Gavin Brown: As have I and many other people.

The table on page 30 of the spring budget revision document shows a transfer of £7.5 million into the “Parliamentary Business and Government Strategy” portfolio. If I understand it correctly, the money goes into “Strategic Communications”. In your paper to the committee, you explain that the transfer is

“to ensure optimum efficiency”.

In one of your speeches on the 2011-12 budget—I cannot remember whether it was at stage 1 or stage 3—you said that that budget had been cut from about £10 million to about £5 million, for reasons of efficiency. I think you said that the Government must cut its own cloth and so on. If it was right to cut the budget at that stage, why are you adding £7.5 million now, which I think takes the budget above the level of previous years?

John Swinney: I am happy to go through the details on that. On 5 August 2010 I wrote to Mr Welsh, who was convener of the Finance Committee at the time, making clear to him that I had reduced the total of the Government’s budget for social advertising and public information from £13.4 million to £6.695 million. The £6.695 million figure was the one that I continued to assert for the 2011-12 financial year.

I also decided to strip out of the Government’s budget the central core marketing budget and distribute that by portfolio. That put the onus on portfolio ministers to determine whether they really, really needed to undertake particular marketing expenditure, given that the money would come not from some amorphous marketing pot but from portfolio budgets. That changed the balance of decision making, so that portfolio ministers had to be absolutely certain that they wanted to run a campaign. In total, such spending would have to come in at the generic total of £6.695 million.

I appreciate that £7.5 million is higher than £6.695 million. The figures are an amalgam of two different elements. The £6.695 million relates to social advertising and public information. That includes, for example: £1.2 million on zero waste; £0.7 million on road safety; £0.6 million on the detect cancer early initiative; £0.5 million on awareness of organ donation; £0.4 million on smoking cessation; £0.4 million on recruitment of children’s panel members; £0.3 million on alcohol behaviour change; £0.3 million on the no knives, better lives campaign; £0.2 million on the debt arrangement scheme; £0.2 million on early years activity; and £0.2 million on ready for winter. Those are all the kind of campaigns that come into the £6.695 million budget.

Within the £7.5 million is £1.4 million for marketing Scotland internationally, which relates to the work of organisations such as Scottish Development International. That is not social advertising or public information; it forms part of a completely different work stream.

The reason for all that expenditure coming under the same ambit is that I require all such spending to be done through a central purchasing function in the Scottish Government so that we have a single, highly efficient and successful

media buying outlet that gets us the best value, which, in this context, is often the lowest price.

11:15

Gavin Brown: With that in mind, what will the strategic communications budget be for 2012-13? Will it be as it was set out in the documents accompanying the Budget (Scotland) Bill, which we voted on a month or so ago? Do you anticipate money being put back into that budget in the autumn or at some future point?

John Swinney: I certainly do not intend to spend any more money on public information and social advertising in 2012-13 than was spent on it in 2011-12.

John Mason: Pages 82 and 83 of the spring budget revision deal with the pension schemes for teachers and NHS staff. One page identifies a "Reduction in Scheme Liability" of £20.5 million, while the other identifies an

"Increase in Scheme Liability and Current Service Costs"

of £29.1 million. Can you explain what that is about?

John Swinney: That is a technical adjustment of £8.6 million, which reflects changes to the income assumptions that underpinned the budget and a reduced level of receipts from NHS employers in respect of advanced funding for early retirement. It is essentially just a reshaping of the pension budget.

The money for teachers' and NHS staff pensions comes from annually managed expenditure—that is how they are funded—whereas police and fire service pensions are funded from the departmental expenditure limit budgets.

Mark McDonald: I see that £2 million is allocated to local authorities for dealing with potholes. I assume that that money will be allocated through COSLA. Do you foresee it being allocated in accordance with the redistribution formula or will individual authorities bid for it?

I am aware that, recently, some authorities have put additional moneys from their own capital plans towards road maintenance. Will an element of match funding be looked for or will it simply be a bidding process?

John Swinney: I am trying to remember what the mechanism is. We will agree the mechanism with COSLA. The last time we did this, which was in the last financial year, we agreed the mechanism, which was either the length of road or the volume of car usage in authority areas. I cannot recall which of those intricate calculations was used, but I will confirm that in writing to the committee.

The Convener: Does that mean that, in effect, you will have an agreement to ring fence the money for potholes, rather than it going into the general local government pot?

John Swinney: Mr McDonald made the point that many local authorities are already involved in filling potholes. I will certainly not be ring fencing that £2 million; I will be allocating it on the basis of the mechanism that I have alluded to, but it will be up to local authorities to decide their priorities.

Paul Wheelhouse: I have a very brief question. Cabinet secretary, you have already alluded to health, wellbeing and cities spending. I appreciate that the "Miscellaneous Minor transfers" row at the bottom of page 18 of the spring budget revision document will cover a range of things, but can you clarify what transfers might come under that heading?

John Swinney: I certainly can. Without counting them all up, I think that there are about 25 different transfers coming in and going out. For example, there is a £900,000 transfer to the education portfolio for additional clinical and pre-clinical teaching places at Glasgow and Dundee dental schools and a transfer from education to Social Care and Social Work Improvement Scotland for regulatory fee income. The highest transfer is £900,000; three of them are £100,000; five of them are £200,000 and so on. They are all relatively minor and relate to payments for dental places, nursing places and whatever and costs coming back into the health portfolio for drugs-related activity and so on.

Paul Wheelhouse: So the exchanges are quite normal.

John Swinney: Yes.

The Convener: As the committee has exhausted its questions, we move to the debate on the motion. I invite the cabinet secretary to move motion S4M-02165.

Motion moved,

That the Finance Committee recommends that the Budget (Scotland) Act 2011 Amendment Order 2012 [draft] be approved.—[*John Swinney.*]

Motion agreed to.

The Convener: The committee will communicate its decision formally to the Parliament by way of a short report that provides a link to the *Official Report* of this debate. Are members content with that approach?

Members indicated agreement.

Financial Services Bill

11:23

The Convener: Our final item is consideration of the legislative consent memorandum to the Financial Services Bill. The cabinet secretary, John Swinney, stays with us; for this item, he is accompanied by Claire Orr, executive director of policy and compliance. I invite the cabinet secretary to make an opening statement explaining the LCM.

John Swinney: This LCM is required to ensure that the new functions of the Consumer Financial Education Body, as provided for by the UK Financial Services Bill, can be undertaken in Scotland. As the memorandum explains, the bill provides a new framework for financial regulation in the UK to ensure stability and confidence in the financial system.

The bill is being used to extend the functions of the CFEB, now known as the Money Advice Service, to ensure that it plays a direct role in providing debt advice; it will seek to give the body a clear role in the provision and co-ordination of debt advice and, in effect, require it to provide such advice. Its funding will be paid for through a statutory levy on the financial services industry by the Financial Services Authority.

In response to the downturn, more and more people are seeking advice about their financial difficulties and the body's purpose is to raise public understanding and knowledge of financial matters, including the financial system, and to increase people's ability to manage their financial affairs. However, an LCM is required because CFEB's work relates to providing consumer financial education to enhance the public's understanding and knowledge of financial matters and personal finance management. Given that such work is not covered by the financial services, financial markets or consumer protection reservations set out in schedule 5 to the Scotland Act 1998, it is therefore within the legislative competence of the Scottish Parliament. However, the reservations apply to the rest of the bill.

As our interests are reflected in the bill, there is no added value in having separate legislation. Indeed, the process would be complex and would require further time and resources to be spent on achieving the same policy aim.

The Convener: As I have no questions myself, I open up the questioning to committee members.

John Mason: I think that we welcome the fact that there will be financial education for the public—I am sure that most of the public, too, will welcome the move. However, I wonder whether

the need for this education has arisen because of the underlying problem of the complexity of the financial system, with interest rates totally unregulated by Westminster and other issues that other members can no doubt think of, and whether in fact it would not be needed if we had a simpler and better regulated system.

John Swinney: There is a difference between better regulation of the system and the complexity of the financial service sector. On the latter issue, Mr Mason makes an absolutely fair point. I worked in the financial services sector—my goodness, it was not yesterday; it was more than 15 years ago—before I entered Parliament. Even then the industry was complicated and, in the intervening years, it has become ever more complex. That complexity certainly does not lend itself to the public's genuine and full understanding of financial products and the financial implications that they might have to face, and we must ensure that people are properly and fully equipped with knowledge to handle these questions. Of course, one consolation might be that the service will be funded directly by those who design these complex products.

The Convener: The committee has to report to Parliament on its views on the LCM. Are members content with the LCM's terms and to report accordingly?

Members indicated agreement.

The Convener: I thank the witnesses, particularly the cabinet secretary, who has been here for a full two hours now.

On 22 February, the committee agreed to consider its draft report on the Police and Fire Reform (Scotland) Bill in private; earlier, it agreed to take item 7 in private. I therefore close the public part of the meeting.

11:28

Meeting continued in private until 12:19.

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e-format first available
ISBN 978-1-4061-8521-8

Revised e-format available
ISBN 978-1-4061-8534-8

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