



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# FINANCE COMMITTEE

Monday 5 November 2012

Session 4

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**Monday 5 November 2012**

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**FINANCE COMMITTEE**  
**28<sup>th</sup> Meeting 2012, Session 4**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Gavin Brown (Lothian) (Con)

\*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

Michael McMahon (Uddingston and Bellshill) (Lab)

\*Elaine Murray (Dumfriesshire) (Lab)

\*Jean Urquhart (Highlands and Islands) (Ind)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Terry Holmes (Scottish Government)

Graham Owenson (Scottish Government)

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

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Tower Mill, Hawick



# Scottish Parliament

## Finance Committee

*Monday 5 November 2012*

[The Convener *opened the meeting at 11:45*]

### Draft Budget Scrutiny 2013-14

**The Convener (Kenneth Gibson):** Good morning and welcome to the first part of the 28th meeting in 2012 of the Finance Committee of the Scottish Parliament in its fourth session. Before we proceed, I remind everyone to switch off any mobile phones, BlackBerrys and pagers.

In opening this formal part of the meeting, let me thank all those who participated in this morning's workshop sessions. We found the discussions interesting, informative and constructive. The Finance Committee is of course delighted to be here in Hawick. Our purpose today is to continue the committee's examination of the Scottish Government's future spending plans as set out in the draft budget for 2013-14. This morning's workshop sessions sought to explore the impact of the Scottish Government's spending decisions on the local community and, in particular, how the draft budget supports economic growth, which includes job creation and tackling unemployment.

Agenda item 1 is a report back on those discussions. We had three groups, so I will ask each group in turn to report back. Group 1, whose MSP members were deputy convener John Mason and Elaine Murray, will go first. Once John Mason has concluded his feedback, I will ask Elaine Murray to add any further comments.

**John Mason (Glasgow Shettleston) (SNP):** We had a very helpful and good group, with many people participating. As well as Elaine Murray and me, our group included representatives from Berwickshire Housing Association, Hawick Knitware, the Federation of Small Businesses, the national health service, Scottish Borders Exporters Association, Scottish Enterprise and the Scottish Borders Social Enterprise Chamber—I think that that was about it.

We covered quite a lot of areas. Although the questions were divided among the groups, I think that our comments overlapped the different groups. Starting off with the economic circumstances, I think that there was an emphasis on the need for construction and on the fact that the banks are not lending very much. We touched on welfare reform—we did not really get into that too much, but people are obviously looking for mitigation there. We also heard some good things about what the housing associations are doing.

We touched a bit on the whole question of NHS funding. There was a suggestion that NHS funding has been protected, whereas other areas have suffered cuts. However, the counterargument to that is that need within the NHS is growing faster than is perhaps the case in other sectors.

The private sector representatives made the point that there is not enough funding to support the sector in taking on new employees or apprentices. We touched on universal services—I will come back to that later—but a particular point that was made was that it might be better if money went into construction. Indeed, a theme in our discussions was the importance of putting money into construction, especially of housing and other buildings. There was an acceptance that the money that the United Kingdom Government has put into the banks is not feeding through.

We also touched on transport. Coming from Glasgow, I found it interesting to hear about some of the transport issues in the Borders. Reference was made to SEStran—the south east of Scotland transport partnership—and to the fact that money is now more under the control of the councils and may not be feeding through to transport in the way that it did previously.

The relationship between the third sector and other sectors, which is an issue that we have kept an eye on at Holyrood, seems to me to be good. There is room for improvement, but it seems to be better than in some other places that I have been to.

On employability, a point that we have also heard elsewhere is that some young people are certainly not ready for work. There was discussion about whether schools should do more to tell, or perhaps show, young people what work is like, either by inviting businesspeople in or by giving young people more useful work placements. At present, young people often get a placement that lasts just one week—although even that does not seem to happen for everybody—which may not be very meaningful. We talked about the need for equal respect between the academic and vocational paths that young people might take.

An extremely good example was given by the housing association, which talked about mentoring 12 young people one to one. That has produced a big change in some of the most needy of those young people. It has built self-confidence and, hopefully, will mean that they avoid homelessness.

Skills Development Scotland was not a member of our group—although I think that it was meant to be—and it came in for a bit of criticism. We may hear about that from one of the other groups. For example, we heard that 13 weeks of training—or input or whatever—is really not enough, and there was a feeling that 26 weeks would be better.

The thought was expressed that we should concentrate on both ends of the workforce—we should try to get young people into the workforce, but we should also focus on older people who are towards the end of their working lives. We talked a bit about schools and about people doing part-time work when they want to do full-time work. There was discussion of the taper, through which if somebody earns a pound, sometimes almost all of it is taken back, whereas if they could at least keep 50p, that would be a real incentive to work. An interesting issue was raised about not knowing when old people will retire, which makes it difficult to take on young people, because it is not known when they will be needed.

We also talked about workforce planning. The NHS has made progress on that, although there is a bit of uncertainty. The NHS feeds figures to the Government, but we were not sure whether those necessarily feed through to universities. The idea of a baccalaureate was mentioned. We also mentioned the question of taxes and costs on employers.

We touched briefly on universal benefits. Some people questioned measures such as free prescriptions for everybody and free bus passes, although the counterargument was that bus passes improve people's health by allowing them to get out and about, so people have a better way of life. We did not really reach a conclusion on that.

The final main area that we talked about was growth and exports. There was perhaps a feeling that Scottish Enterprise is too focused on a few companies, and there was a bit of dissatisfaction with the business gateway, perhaps because it has moved around a lot between sectors. Examples were given of big companies that have come to Scotland, been given a lot of money and not done very much, whereas Scottish companies do not seem to get so much.

I do not know whether this is controversial, but there was a discussion about the fact that at least some people would prefer a dual carriageway to the Borders rather than a railway. Clearly, there would be different views on that.

We also talked about tourism. The state of the roads can put off tourists. There was a bit of dissatisfaction with VisitScotland. We touched briefly on the Scottish Investment Bank—there was a feeling that it is a bit complex and that people cannot access it.

Those are some of the main points that were raised.

**Elaine Murray (Dumfriesshire) (Lab):** John Mason has given a good summary of what we discussed. My overall impression was that, in the Borders, there is a feeling that some national

schemes and bodies do not necessarily reflect the needs of the local economy. For example, there was a feeling that we need more support for training. If private sector companies got more support for training, they would be able to take on more trainees and plan for the future.

As John Mason said, there was a bit of dissatisfaction with the business gateway, Skills Development Scotland, Scottish Enterprise and VisitScotland. It was felt that they perhaps do not reflect the needs of small enterprises in the Borders. For example, perhaps VisitScotland does not market the Borders well enough, and a lot more could be done to market the area and to bring tourists and visitors to stay in the area rather than for them just to come down from Edinburgh to visit.

It was also felt that more could be done on growth and exports. What we heard conflicts with the evidence that we have had from other people. We heard that, rather than focus on the high-growth areas, a lot could be done to support small businesses in exporting, particularly with niche products.

**The Convener:** Jamie Hepburn was the only MSP in the second workshop group, so it is down to him to report back on that.

**Jamie Hepburn (Cumbernauld and Kilsyth) (SNP):** The discussion was similar to that of group 1, but I will go through my notes and try to keep with the chronology of the discussion.

We started off with a general discussion about how the Government might support the area through its budget. That focused primarily on capital spend. It was suggested that there should be more support for the housing sector through support for new build. Eildon Housing Association pointed out that it frequently gets 50 applications for one vacant property, so perhaps there should be better support for the construction of new social housing. Another issue was that, because the council housing stock has been transferred, the local authority cannot access funding for council housing.

It was suggested that an innovative approach needed to be adopted to leverage in other forms of investment in housing. The fact that rents provide a steady revenue stream might make investment to assist with house building an attractive prospect.

We discussed roads. It was suggested that the quality of the roads that run from east to west was not great in comparison with the quality of those that run from north to south, which was not too bad. We also discussed the quality of the public transport that runs on those roads. We had an extensive discussion about the Borders rail link, for which there was general support, although

there was some discussion about whether it would bring people into the area or just help people to get out of it more easily. The project was supported to the extent that the hope was expressed that the line would be extended all the way to Carlisle in future.

There was also a discussion about subsidised transport in the context not just of public transport more generally, but of transport to Tweedbank station when it opens as part of the rail link, so that people from across the area can access the new service.

Moving on to other capital issues, we discussed broadband, and it was suggested that good broadband provision was patchy across the area. Some parts do not have broadband at all but still rely on dial-up. There was a sense that support is needed for better broadband provision, because the commercial sector will have limited reach and will not be able to cover the whole area.

There was support for the overarching issue of the Government's priority of switching revenue to capital, but not necessarily great support for doing it to any greater extent than is happening at present.

On improving employability for young people, it was suggested that we need to look at apprenticeships. The observation was made that the people who apply for apprenticeships are older than used to be the case. Scottish Borders Housing Association said that it had 250 applications for just four places. That was an issue.

In the context of further education, Borders College reported that this year more people had applied who could not get a place than was the case last year. Other issues for the college included that of connectivity. Its main campus is in Galashiels, but it has a secondary campus in Hawick. How students travel to and from college is an issue that relates back to public transport. Part of the college's response has been to encourage remote learning, but if people are to take advantage of remote learning, they need to have the internet connectivity that allows them to do so.

There was also a discussion about the local economy. It was suggested that because agriculture having a bad season affects wider economic activity and reduces spend in the towns in the Borders, efforts need to be made on economic diversification. Tourism was identified as being important in that regard, but it was felt that perhaps the area is not being marketed adequately and that it could be marketed better as a tourist destination. That is perhaps an issue for the council as well as the Scottish Tourist Board.

There were two other issues that we were asked to discuss. There was general support for the

concept of preventative spend, but it was felt that we need a better definition of what we mean by preventative spend. In addition, there was concern that there could be institutional blockage in the form of interests that might work against the preventative spend agenda.

12:00

Lastly, we touched on welfare reform. Some issues that came up were low awareness among those likely to be affected and the likely impact on housing associations of the so-called bedroom tax—the underoccupancy penalty—and issues to do with direct payments. The committee discussed those issues at its previous meeting and they were certainly reflected by the housing associations in group 2.

It was recognised that the Scottish Government is probably limited in its ability to ameliorate all the effects of the UK Government's welfare reform, but that led on to a discussion about the universal provision of some benefits.

That is a synopsis of our discussion.

**The Convener:** Thank you. Jean Urquhart will report back on group 3.

**Jean Urquhart (Highlands and Islands) (Ind):** Our group included representatives from Kelso Graphics, Roxburgh and Berwickshire Citizens Advice Bureau, Scottish Borders Council, the Borders area tourism partnership, Scottish Enterprise, the Bridge and Waverley Housing.

Group 3 could probably identify with a number of the issues that have already been mentioned. There was recognition that the decision to move finance from revenue to capital was really important. I think that there was agreement that the housing sector presses an awful lot of buttons when it comes to addressing some of the big issues, such as creating jobs and apprenticeships and dealing with carbon emissions, energy targets, fuel poverty and, of course, homelessness.

On properties that are for sale, there was a suggestion that a great deal could be achieved if housing voids were retrofitted. An issue was raised about the forthcoming changes to welfare in relation to housing, with the suggestion made that it may not be easy to find tenants for three-bedroom houses because of the bedroom tax. We perhaps need to look at that issue across Scotland.

I think that it would be fair to say that the development of information technology and internet access was perhaps one of the issues given the highest priority in the discussion. It could have an impact on accessibility, in that it could enable some people to access services.

Accessibility through IT would be really good, given the lack of public transport and the lack of easy accessibility across the Borders.

We all generally accepted that agencies such as Scottish Water and BT should somehow get together to lay fibre optic cable when they put in pipelines. There is frustration that that is not happening, because there is a belief that it could work—it appears to work in other places, and the Borders would benefit from it.

People were quite keen to make the case that rather than some areas getting superfast broadband, the priority in the rural Borders is for people to get access to the internet first.

Transport was raised as an issue. There was, of course, support for the Borders railway—the message was that people wanted to see it happen. It was suggested that opportunities that arise from the reopening of the railway might address some concerns relating to the promotion of tourism and that it would be possible to look at creating a comprehensive transport system based around the railway.

On the economy, a group of businesses—in particular, those that export—seem to be doing reasonably well. However, domestic businesses are struggling and doing less well as a result of the recession and the fact that less money is available locally. The construction industry is having a tough time.

The sectors that are recognised as doing quite well nationally—for example, food and drink and oil and gas—also seem to be doing well in the Borders. Tourism is still recognised as being a very important industry locally but has had a tough year. The Olympics and the recession generally were cited as being among the causes of that. Questions were raised about VisitScotland. There is a general desire to see the area promoted more comprehensively through tourism—that would be seen as an attractive step.

The cost of living in the Borders has remained generally higher because of transport costs and fuel prices. The third sector is involved in community transport, but we heard some of the frustrations around the fact that companies in the third sector receive annual funding and do not know even now how much money will be available to them next year. That seems to make life very difficult, and there is support for going back to three-year funding for the third sector.

That is most of what I made a note of. A lot of the problems are the same in the Highlands and Islands. We should perhaps recognise that the Highlands and Islands and the Borders share a lot of the same issues and priorities.

**The Convener:** Does Gavin Brown want to add anything?

**Gavin Brown (Lothian) (Con):** Jean Urquhart has captured the bulk of the issues well. The three dominant themes were transport—which every group has talked about—particularly in relation to moving from east to west or west to east; internet provision; and construction and housing.

When we discussed internet provision, I was reminded of the evidence that we took from Professor John Kay a couple of weeks ago. He said that it is critical that we ensure that everybody has access to at least some form of internet provision as opposed to focusing on being number 1 or number 2 in the world. One of our contributors said that she does not have access to the internet at home because she cannot even get dial-up in the area in which she lives. If a business or a person in that area cannot even get dial-up, they are at a serious competitive disadvantage.

Construction was talked about a lot, but particularly housing—the other groups mentioned that, too. Although people recognise that it is a priority area, they feel that it should be moved up the Government's list to become a bigger priority than it currently is, in terms of both new housing and retrofitting. As Jean Urquhart said, retrofitting ticks many boxes: it creates apprenticeships and jobs and reduces fuel poverty and carbon emissions all in one go.

Broadband or internet access, transport and construction were the three big themes that we discussed, but there was one other theme that we touched on, which Jean Urquhart did not delve into. From an employer's point of view, especially among smaller businesses, there are too many players out there and too many initiatives that are just unclear. The point was made that a small business owner is not only a director of the business, but is head of human resources, head of legal services, head of marketing and head of maintenance—basically, they are in charge of everything and do not have time to read through screeds of paper or look through several websites to find out what is going on. There needs to be some kind of one-stop shop or easy solution where a small business owner can find out exactly what is going on and take advantage of any initiatives that are running.

**The Convener:** Thank you, colleagues.

Jean Urquhart wants to add something.

**Jean Urquhart:** I just wanted to say that we had someone from Skills Development Scotland at our table but I did not mention them in my list. I would like to correct that.

**The Convener:** Thank you. As colleagues have nothing further that they want to say on anything



that they have heard, I once again thank everyone who contributed to the workshops. I am sure that members will raise some of those issues directly with the cabinet secretary when he gives evidence at 2 pm.

12:10

*Meeting suspended.*

14:00

*On resuming—*

**The Convener:** I reconvene the 20th meeting in 2012 of the Finance Committee of the Scottish Parliament. This morning we held some useful and informative workshops and spoke to representatives of local organisations; I am glad that some participants have been able to stay for the afternoon meeting.

I welcome pupils from Earlston high school, Hawick high school, and Kelso high school to the gallery.

The first item on our agenda this afternoon—item 2—is to take evidence on the Scottish Government's draft budget for 2013-14. I welcome to the committee John Swinney, who is the Cabinet Secretary for Finance, Employment and Sustainable Growth, and two Scottish Government officials, Andrew Watson and Graham Owenson. Before the cabinet secretary makes an opening statement, I pass on the apologies of committee member Michael McMahon MSP.

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** I am grateful for the opportunity to appear before the committee and to continue the important commitment from Parliament that meetings of this nature be held away from the Parliament campus. I am delighted to be here in Hawick.

The Scottish Government has published its draft budget at a time when public finances continue to be under severe pressure. As the committee is aware, the settlement that we received in the UK spending review is the toughest since devolution. Over the four-year period between 2010-11 and 2014-15, our budget will have been reduced by more than 11 per cent in real terms and, within that, our capital budget will have been reduced by a third. The position in 2013-14 is particularly challenging, with a cash-terms decrease in the total departmental expenditure limit budget compared with the previous year. It represents the fourth consecutive year for which there has been a real-terms reduction in the Scottish DEL budget.

I published indicative spending plans for 2013-14 in last year's spending review and much of the

draft budget that we have published conforms to those plans. However, in considering the budget, the Government has scrutinised its plans against the background of the continuing economic challenges that we face. That scrutiny has concluded that the strategic course that we set in the spending review and in the economic strategy remains the correct course. However, we have introduced some changes that we feel will have a positive impact, including substantial investment in construction, skills and the green economy. We are funding those changes through a range of measures—through reprofiling of our lending to Scottish Water, through use of resources that have been freed up by the delivery of key milestones on the Forth crossing project, through use of some modest consequentials and through use of the budget exchange mechanism.

Global economic conditions continue to impact on economic confidence and business investment remains considerably below pre-recession levels, while household incomes remain under pressure. We are therefore continuing to focus on enhancing confidence in order to encourage private sector investment and growth, and to help households where we can. Infrastructure investment is, of course, a central component of our economic strategy. The draft budget maintains funding for core priorities—for example, the new Forth crossing, the new south Glasgow hospitals project and the schools building programme. We have set out in the spending review the proposals around a £2.5 billion non-profit-distributing pipeline of infrastructure investments, and around use of innovative funding mechanisms such as the National Housing Trust to lever in additional resources. We are switching over £700 million from resource budgets to support capital investment over the spending review period.

In the draft budget, I announced a further £40 million of investment in affordable housing, and we are also accelerating some £80 million of NPD investment to assist in earlier delivery of the schools for the future building programme. The draft budget also confirms the major projects that are being taken forward as part of the draw-down of fossil fuel levy resources and further capital investments.

With the aim of delivering multiple employment and environmental benefits, I have announced funding of approximately £30 million in energy efficiency measures, which will focus on supporting domestic households to improve home insulation, along with measures to increase energy efficiency in the public sector. Those measures, in combination with the further investment of £6 million in cycling infrastructure and £2.5 million in hybrid buses, are designed to support investment in the green economy.

The draft budget confirms funding for a range of other drivers of growth, including additional investment in skills. The spending review set out our approach on the opportunities for all initiative, and the budget includes funding for a record 25,000 modern apprenticeships. I have announced in the draft budget a further £70 million for college education funding, along with support for a new employer recruitment initiative and an energy skills academy.

The budget contains support for business through assistance for food and drink exports, the Scottish Investment Bank and the establishment of enterprise areas. At a time when household budgets and public finances are under pressure, the draft budget confirms the continued funding of a range of commitments to support households in Scotland and the Government's public service priorities.

The budget contains important support for the shift to preventative expenditure, and a modest relaxation of the constraints on public sector pay that the Government is taking forward. I have been able to announce today the uprating of the Scottish living wage to £7.45 per hour, in line with the findings of the Scottish living wage campaign and the Living Wage Foundation.

Members will be aware that, along with the budget document, I have published the equalities budget statement and the carbon impact assessment of our spending plans. I believe that the draft budget represents a bold and ambitious programme of investment in our people and infrastructure, in the context of the most challenging financial environment that Scotland has faced since devolution. I look forward to discussing that with the committee this afternoon.

**The Convener:** Thank you very much, cabinet secretary. We will progress to questions. I let the public know that I usually start by asking a few introductory questions and, as members catch my eye, they will ask questions of their own. Without further ado, I will begin.

You talked about switching approximately £700 million of resource into capital. There is strong support in the business community for that approach. For example, the Scottish Chambers of Commerce stated:

"to deliver the best long-term benefits for the Scottish economy alongside short-term boost, investment in capital infrastructure is an extremely important route."—[*Official Report, Finance Committee*, 26 September 2012; c 1617.]

However, the Scottish Building Federation suggested that

"progress is very slow in terms of projects coming out"—[*Official Report, Finance Committee*, 26 September 2012; c 1619.]

That includes projects that are being supported by the Scottish Futures Trust.

You mentioned in your opening statement that approximately £80 million would be brought forward. However, it seems from evidence that the committee has heard that there are concerns in Scotland's construction sector about the pace at which that money is being spent on the ground. Can you say a wee bit more about that?

**John Swinney:** I have seen the variety of comments to which you refer. The quickest way to undertake public expenditure on capital projects is through traditional budgeted capital expenditure. However, that budget has been essentially reduced by a third, which reduces our ability to get projects out the door as quickly as we would have liked.

I will go through the financial history. When the current United Kingdom Government was elected in 2010, it set out a programme of debt consolidation that reduced our capital budget by approximately £1 billion. I was faced with two choices; I would either have had to reduce substantially this Government's capital programme, or take the steps that I have taken to transfer some resource expenditure into capital expenditure across a range of different areas of public expenditure such as health, the enterprise bodies, the Scottish futures funds and housing, and to convert a number of projects to the non-profit-distributing model, which is administered on our behalf by the Scottish Futures Trust.

I readily acknowledge that it takes longer to establish a non-profit-distributing project than a traditionally procured capital project. When I announced in 2010 that we would move towards the NPD model, there was a lead time of 18 to 24 months to get the mechanisms in place to support the projects. That work has been done for a variety of NPD projects—for example, college construction in Glasgow, Inverness and Kilmarnock, and road developments around the M8, the M73 and the M74—which will begin construction in 2013. The programme of activity is now moving apace. We will see a substantial impact from that in the course of the next few months.

**The Convener:** Thank you. You said that some of that money would come from the health budget. The figures that we have are that some £95 million will transfer in the financial year 2012-13 and that £320 million will transfer over three years. However, it is not clear which budget lines in the health resource budget are being reduced to provide the additional capital expenditure, or how much of the planned transfer of £95 million has already been switched in 2012-13. Can you provide us with clarification in that regard?

**John Swinney:** My expectation is that, in the course of this financial year, the £95 million to which you referred will be transferred from resource to capital, which will be undertaken primarily to support health maintenance projects in the form of maintenance of the capital estate, which is fundamental and not just about bricks and mortar but about medical equipment and the essential characteristics of what delivers the quality of healthcare that we all expect. I expect the figure for 2013-14 to be approximately £105 million, as planned. The information in that respect is set out in the budget document.

**The Convener:** In its written evidence to the committee, the Scottish Council for Development and Industry referred to the

“Scottish Government’s top priority/Purpose of increasing sustainable economic growth.”

However, the SCDI questions the decision to prioritise protection of the health budget at the expense of other spending areas that directly and indirectly increase sustainable economic growth. Similarly, the centre for public policy for regions stated:

“Spending on the, already very large, NHS resource budget has again been favoured at the expense of others, securing an extra £263 million. Whilst this meets the election pledge of passing on the UK Health Barnett Consequentials, it is less clear how it helps secure faster economic growth.”

Can you tell us how increasing spending on the health service will help the Government reach its target of sustainable economic growth in Scotland?

**John Swinney:** The best way of addressing that is to set it in a general context. The Government’s overriding priority is to deliver faster and more sustainable economic growth in Scotland; a number of different elements of the budget directly support that proposition. Other priorities will have to be supported to ensure that we also deliver the quality of public services that the public expect. The budget could therefore never be exclusively described as being only about sustaining economic growth, or about increasing sustainable economic growth; the budget must meet a range of other tests and priorities that the public will have.

What we have aimed to do with the health budget is ensure that the health service is properly and fully funded for the challenges that lie ahead, by providing for the health service the best financial settlement that we can possibly deliver within the current financial context. I said earlier in response to the convener’s question that the transfer of some resources from revenue to capital was designed essentially to support some of the Government’s other capital priorities to boost the economy. There will be a range of different

elements in the budget, so money that is spent on public service delivery in the health service will have a knock-on effect on some of the wider economic priorities.

14:15

There is a more general question about whether it is justifiable to give the health service an increase in its budget when other parts of the public sector are being constrained, but that is an acknowledgement of the fact that, because the health service operates in absolutely every community of our country, there are impacts from health expenditure in all localities. There is a direct economic benefit to investment in the communities of Scotland from that expenditure within the health service, which of itself creates an economic benefit at local level. There are, of course, differences in economic impact between the allocation of resource expenditure on salaries and so on, and expenditure on capital projects, the latter of which provides a stronger economic benefit. However, it is important to acknowledge that the health service operates in such a way as to enable us to make that impact in all the localities of Scotland.

**The Convener:** My next question follows on from that. Our independent budget adviser, Professor Bell, has said:

“it is difficult to avoid the conclusion that maintaining current spending on health is currently the main priority of the Scottish Government.”

Do you agree with that comment?

**John Swinney:** I am always anxious not to clash with the independent adviser to the Finance Committee, but I respectfully say that I do not share Professor Bell’s opinion. In my earlier answer, I indicated that there are a range of different requirements that a budget has to satisfy. There is broad consensus across the communities of Scotland on one of my other priorities, which is to deliver a shift in expenditure to support preventative measures. It is welcomed. As a consequence of that, a clear body of opinion would say that that is an effective focus for part of the Government’s programme of expenditure. I contend that deployment of capital investment and activities to preserve and support capital expenditure and the Government’s approach to pay policy—which, at its heart, has been about creating sustainability in the pay bill, thereby enabling the public sector pay bill to contribute to the economic health of the country—are all elements of the Government’s trying to use public expenditure to strengthen the impact on the Scottish economy. Although I can see the point that Professor Bell has made, it is not one with which I agree.

**The Convener:** Thank you for that clarification. Professor John Kay gave evidence to the committee 12 days ago. He talked about the need for Scotland to identify and promote sectors in which we have a genuine competitive advantage, and he said in his submission that, in picking sectors of the economy,

“the emphasis should be on sectors that are winners, not on ones that we would like to be winners.”

What is the draft budget doing, and what is the Scottish Government doing through the draft budget, to develop skills and capabilities in the industries in which Scotland has a genuine competitive advantage?

**John Swinney:** One of Professor Kay’s comments was—as the convener correctly summarised—the suggestion that we should be in the business of selecting winners. However, over the years, I have read countless economic analyses that have encouraged Governments to do exactly the opposite.

I think that the Government has not strayed but has deliberately gone into this territory principally through the reforms that we undertook in Scottish Enterprise and Highlands and Islands Enterprise in 2007. Prior to 2007, those organisations had pretty broad and general remits. The Government, in its review of the enterprise bodies in 2007, focused those bodies on being business development agencies, with the exception that HIE was required to retain its wider social responsibility remit for regeneration of the wider economy and social fabric of the Highlands and Islands.

As a consequence of our providing that focus for the remits of Scottish Enterprise and Highlands and Islands Enterprise, those organisations have translated that into practice by identifying about 4,000 companies in Scotland that they consider have growth potential. Essentially, they target their resources at supporting and enhancing the work of those companies. It is not a static list of 4,000 companies; it changes in that companies are added to it and companies come off it. Fundamentally, a choice has been made by public sector organisations about which organisations we consider have the greatest growth potential. Not all those companies will necessarily be large companies—some of them are very small. I frequently visit relatively small companies that are account managed and which get the full support of HIE and Scottish Enterprise in their business development activities. In that respect, we have pursued a strategy that is about identifying businesses that have winning capability and potential.

The other aspect of that approach that resonates with the point that Professor Kay made is that, in its economic strategy in 2007, the

Government selected seven key sectors of the Scottish economy in which we would intensify our efforts. Those sectors span a range of areas and include renewables and the wider energy sector, food and drink, life sciences, the universities and financial services. Some of those sectors are established in the Scottish economy, whereas some are fledgling sectors. I accept a large part of Professor Kay’s analysis—I accept that we should be focusing our efforts and intensifying what we can do in key discrete areas—but I disagree with him in that I think we must also look at some prospecting activity.

One reason why the renewable energy sector is performing so strongly in Scotland today is the fact that the Government gave absolute policy clarity, in 2007, that it would be interested in pursuing the development of the renewable energy sector in Scotland. Of all the things that the First Minister could be criticised for, he could certainly not be criticised for showing a lack of leadership on the renewable energy sector and the opportunity that it presents. There are areas of strength in the economy in which we need to intensify our efforts, but we must also look ahead to identify where the prospects of new economic opportunity lie, and I think that the Government’s economic strategy provides that balance.

**The Convener:** Thank you very much. Interestingly, Professor MacRae of Lloyds Banking Group said that we should be targeting support at high-growth firms more than we are at the moment. I take on board what has been said.

The second part of my question—I alert members of the committee to the fact that I will let them in shortly—was about what we are doing to develop skills in our economy to a greater extent. Earlier, in a question-and-answer session, I highlighted the skills shortage in Scotland. As you know, many companies that are growing rapidly are concerned that we do not have enough skills, or the right type of skills, in our workforce to enable rapid growth in some sectors. How will the policies that the Scottish Government is taking forward through the draft budget help with development of those skills?

**John Swinney:** That is a live issue for me and one that I would describe as “persistent”. We are spending about £2.5 billion per annum on skills training and development and on education beyond the schools system, yet I have much the same experience as the committee has had this morning of meeting employers who express concern about not being able to access all the skilled personnel whom they require. That leads me to a point of challenge: if we are spending a substantial amount of public money, how on earth can we have employers saying to us that they cannot get the skills that they require?

Therefore, the steps that we have taken to address that have taken a number of forms. I have asked the industry leadership groups across a range of sectors—primarily those that feed into the work of Scottish Enterprise and HIE—to broaden their responsibilities so that when agencies are having discussions with, for example, the engineering sector we are directly discussing what the skills needs are today, what we are likely to need in the future, and what we can do to try to ensure that the conversation with employers is somewhat different to the ones that I just described.

That dialogue is now taking place much more actively than has been the case and in a much more focused way. We are beginning to get feedback from employers that the position is improving somewhat as a consequence of the dialogue being clearer. To be effective, institutions must adjust what work they undertake in order to meet the needs of the industry leadership groups. There would be no point in having this conversation if we were to just go away and deliver the same training as we delivered last year because we delivered it last year. The needs of the economy change; that has to be reflected in the whole system.

Specifically in relation to the budget, concern has emerged from the dialogue with industry leadership groups about the availability of skills to the fast-growing energy sector, both in terms of oil and gas and in terms of the renewable energy sector. As a consequence, I included in the budget the energy skills academy proposal, which is designed to address shortages in those skills and to address the needs of the industry. I acknowledge that this remains a very serious and significant issue and one that the Government is engaged constantly in addressing.

**The Convener:** Thank you, cabinet secretary. I will now take questions from the committee.

**Jamie Hepburn:** Thank you, convener. You will be aware that I have not been involved in the budget deliberations, as I am a new member of the committee. With your indulgence, I will stick to an area that I have been looking at with my other committee—the Welfare Reform Committee—which is how the budget interacts with the welfare reform process that the Westminster Government is taking forward.

The various estimates about the amount of money that will be withdrawn from the Scottish economy have been well rehearsed. The Fraser of Allander institute estimates that £2 billion will be withdrawn from the Scottish economy by 2014-15 and Citizens Advice Scotland suggested that £2.5 billion will be withdrawn over the spending review period through the welfare reform changes. How does the Scottish Government's budget respond

to that obvious challenge to the Scottish economy?

**John Swinney:** Mr Hepburn will not be surprised to hear what I will say, given his experience on the Welfare Reform Committee, because my colleagues, particularly the Deputy First Minister, have made this point to that committee. The first thing to acknowledge is that the Scottish Government, which is operating within its devolved areas of responsibility and within its fixed financial settlement, cannot mitigate all the effects of welfare reform within Scotland. Quite simply, you cannot take out the estimated £2.5 billion through welfare reform and consider that a Scottish Government that is operating under its devolved competence can address all that. Experience of that issue leads me to my own political conclusions, with which the committee will be familiar: I think that it would be better for us to resolve those questions within the Parliament with a full range of responsibilities.

Regarding the Scottish Government's direct areas of responsibility, we are able to take a number of steps to support those who are affected by welfare reform. First, by negotiation and agreement with local government, we have agreed an approach to mitigate some of the financial effects of the reduction in council tax benefit, which of course will be abolished and a more limited sum—in essence, a sum that involves a 10 per cent cut—will be devolved to the Scottish Government. We have agreed with local government the basis for making up the financial difference that will be lost as a consequence of that measure. The statutory instruments to support that will be introduced to Parliament shortly—I expect to sign some of them later this week.

14:30

The second area relates to the social fund, through which ministers have allocated additional resources to try to meet some of the financial shortfalls that will exist in the area.

The third point is that one important characteristic of the way in which we intend to deliver public services is that we will try to focus them as effectively as possible on supporting some of the most vulnerable in our society. Therefore, my expectation is that public authorities will have a great deal of work to undertake to provide what I describe as a more joined-up service to members of the public to meet their needs. That work will be done as part of the public service reform agenda over which the Government is presiding.

**Jamie Hepburn:** Citizens Advice Scotland estimates that about half of the money will be lost to disabled people and their families. We might

therefore expect that those families will call on other parts of the public sector for which the Scottish Government has responsibility for funding, which will perhaps have an impact on those areas. Will the possible impact of welfare reform be considered as part of the budget-setting process?

**John Swinney:** One point that I have discussed with the Welfare Reform Committee is the necessity to undertake a rolling assessment of the financial effect of the welfare reform proposals. At this stage, we can make an assessment of what we think the likely impact will be, but there are bound to be other implications and considerations that will have to be taken into account. The Government remains committed to undertaking that assessment on an on-going basis and to using the information to shape and reflect the Government's priorities.

**Jamie Hepburn:** One sector that is likely to be impacted is social housing. Last week, we had evidence from the Scottish Federation of Housing Associations and this morning we met housing associations from the Borders. There is concern about the impact of the underoccupancy penalty that the UK Government is implementing, which will increase the need for single-bedroomed properties. Housing associations are understandably concerned about building more such properties because, obviously, they do not give the degree of flexibility in housing allocation that other types of property provide. That said, given the changes, it is likely that there will be a need for more single-bedroom accommodation. Will the budget facilitate the creation of such properties?

**John Swinney:** The budget is equipped to fulfil the Government's commitment to build 30,000 affordable homes during the five years of the current parliamentary session. We are on track to deliver that commitment. Indeed, as things stand, the resources that will be deployed over the five years of the parliamentary session to support the construction of that housing will total approximately £760 million. At the time of the 2011 election, Shelter estimated that the construction of the 30,000 homes would require about £610 million. Therefore, I am confident that the funding arrangements that we have in place will enable us to fulfil our commitments on the construction of 30,000 affordable homes.

Mr Hepburn asked about a more challenging issue, which is whether the housing stock is configured to deal with the consequences of the single-person occupancy provisions under housing benefit regulations. They will, undoubtedly, create more difficulties for local authorities and housing providers because they cannot just magic up single-bedroomed properties from nowhere. It

takes a great deal of planning and preparation to provide those properties. I am concerned that, in the short term, local authorities and RSLs face significant challenges as a result of the likely impact of the changes to financial support for housing.

**Jamie Hepburn:** The evidence that has been provided this morning and other evidence that I have taken on this issue show that there is concern that those who are in the welfare system are not aware of the looming changes, although they are the very people who are likely to be affected. Last week, Citizens Advice Scotland and the Scottish Federation of Housing Associations set out for the committee how the changes will impact on advice services. How will the budget be set up to support the provision of advice bodies?

**John Swinney:** Provision exists within the budget to support the provision of advice to individuals; in essence, it will be channelled through local authority expenditure. The Deputy First Minister is in discussion with Citizens Advice Scotland about some of the wider questions of financial preparedness for the welfare reforms, and further discussions between Citizens Advice Scotland and the Deputy First Minister will take place shortly.

**The Convener:** Jean Urquhart has a supplementary on that point.

**Jean Urquhart:** On the point about the bedroom tax, as it were, and welfare reform, do we have local authority figures showing how many people are likely to be affected and how many could be made homeless by requesting a transfer to a smaller house? I guess that Scotland's council housing has always compared favourably with that south of the border. From the 1960s onwards, we built more two-bedroomed, three-bedroomed and four-bedroomed houses, so we could have an even bigger problem.

**John Swinney:** The only figure that I can offer Ms Urquhart today is that 95,000 households in the social rented sector in Scotland could be affected by the measure to penalise underoccupancy of the social housing stock. I stress the words "could be affected"; I am not in any way suggesting that that will be the number. Rather than offer that figure to the committee today, I would prefer to narrow it down to a sharper estimate, if we can do that, rather than talk about the pool of individuals that might be affected. I would prefer to take that issue away and write to the convener about it.

**The Convener:** Thank you; I would appreciate that.

**Elaine Murray:** I have a couple of questions about infrastructure investment, the first of which is on housing. We have heard evidence this

morning, and previously, about some of the problems that housing associations have with raising finance. Banks are unwilling to lend, interests rates are high, and loans have been reprofiled, so it is becoming increasingly difficult for some housing associations to build at the level of subsidy that is being provided. This morning, it was suggested that some housing associations might be stepping back from applying for available funding. If there is evidence of that, will the Scottish Government reconsider the level of subsidy to local authorities and housing associations if it looks as though the funding that is allocated for housing is not being taken up?

**John Swinney:** I have a number of points to make in response to that question. First, in the context of a bank considering a lending proposition, I think that it would be hard pressed to find a project with a more robust financial architecture than a social housing project, where there is the likelihood—if not the near certainty—of a revenue stream arising out of the rental income that will be paid by tenants that could support and finance such developments. From the point of view of a financial institution making an assessment on whether a project is a decent proposition to take forward and support, I find it hard to imagine that a housing development project in the affordable housing sector would not pass that test.

Of course, there are issues in the welfare reform agenda that could undermine that. In particular, I am thinking of the proposal that housing benefit be paid to the tenant, which I think is an absurd proposition. The existing arrangement, whereby the housing benefit is paid to the landlord, strikes me as a most dependable way. In the context of Dr Murray's question about how such investment propositions could look more attractive, maintaining the practice of paying housing benefit to the landlord would be a very helpful step in enhancing those propositions. With the exception of that change in the housing benefit payment arrangements, I cannot see how an investment by a private institution in a housing project could in any way be considered to be an uncertain transaction.

Secondly, on the question of the effectiveness of public expenditure, I think that Dr Murray will be familiar with some statistics that I have put on the parliamentary record before relating to the total amount of money that we have made available for housing investment and what that can achieve. For example—these are the statistics that I have previously put on record—in the year before this Government came into office, £562 million was spent building 4,832 affordable homes; in 2011-12, £352 million was spent building 6,882 homes. I use that to illustrate the fact that improving the efficiency of the affordable housing transactions

that are undertaken has delivered a greater outcome from a more constrained amount of available money. Clearly, there has been a value gain to be achieved in that process.

The Government is actively involved in dialogue with housing providers and local authorities about those questions. There has been a very strong uptake to the invitation for local authorities to become involved in affordable housing construction, and the Government will of course maintain a dialogue in this area. However, a key point that I make to the committee is that the Government has successfully delivered more value from our investment in housing, and we intend to continue to do so.

**Elaine Murray:** I think that the argument being made now is that any reserves that housing associations had have been used up and they face paying a high level of interest. If they are able to get loans, the level of interest is such that they cannot construct new homes at what would be an affordable rate of rent. That is the problem that has been flagged up to us.

**John Swinney:** I would certainly be very happy to consider the evidence that comes forward about rates of interest. We are operating in a consistently low interest rate economy. Given the current context of propositions that have a dependability for investment and return—as I said in my first point in response to Dr Murray—the fact that those models can be constructed in a fashion that does not enable RSLs to take them forward merits some questions about the way in which they were put together.

If the committee wants to put some questions to me and to ministers, I can give you a commitment that we will consider those issues and think about what we can do in our dialogue with financial institutions to try to strengthen the approach that is taken.

14:45

**Elaine Murray:** I am sure that the housing associations would be able to give you some of the information that we have heard.

I have a genuine question about rail investment, because I do not understand how it is reflected in the Scottish budget. Obviously, we have some major infrastructure projects, such as the improvements to the Edinburgh to Glasgow line and the Borders railway, which is of considerable interest in this area. Those projects are being financed by Network Rail. How is that reflected in the Scottish budget?

**John Swinney:** It is reflected in the payments that we make under the rail infrastructure budget line, which is in table 9.08 on page 124 of the

budget document. We split the rail budget lines principally between the rail franchise line, which involves the operational payments that are made to First ScotRail for the operation of the rail network, and the rail infrastructure line, which basically involves the payments that are made to Network Rail for the operation of the infrastructure; some of that, of course, comes under the regulated asset base system, which gives us the ability, through the financial arrangements of Network Rail, to pay for capital investments over a longer period of time. Those sums will be contained in the rail infrastructure line.

**Elaine Murray:** Is there any way in which you can see how much the individual projects cost on an annual basis? Is it possible to break down the figures in that way?

**John Swinney:** At an operational level within Transport Scotland, there will be a breakdown of the individual components of that rail infrastructure budget line. I cannot quite recall the level of detail that will be provided to the committee through the level 4 analysis. If I think that more information can be provided to the committee, I will do so.

**Jamie Hepburn:** On the provision of finance for new-build housing, a suggestion was made this morning about leveraging in innovative forms of funding for housing associations, including pension funds. Has that been considered? Has it been ruled out, ruled in or not considered at all?

**John Swinney:** The pension funds of Scotland—and, for that matter, the United Kingdom—have not been as closely involved in infrastructure projects as they could have been. Going back to my first answer to Dr Murray, I cannot conceive of a model of investment that would be more suitable to the pension fund sector. There is a dependable use for those assets once they are constructed, because people have to live in those houses, and those people will pay rent—sometimes from their own resources and sometimes through benefits arrangements. That means that there is a clear financial opportunity to make a return on an investment.

When Mr Neil was the Cabinet Secretary for Infrastructure and Capital Investment, he opened up a sustained discussion with pension funds. A number of us have been involved in that discussion, which has been taken forward by the Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities. We are very optimistic that pension funds have the potential to be a substantial source of investment in infrastructure in the housing sector.

**John Mason:** In their evidence to the committee, witnesses have made a number of comments on universal services. I accept that there is a spectrum of universal services. At one

end of the spectrum, the state pays for more than is currently provided here, and at the other end it pays for less than is currently provided here. The question has been asked whether we are in the right position and whether we should move in one direction or the other.

For example, it has been suggested that prescriptions, which were relatively recently made free, should be charged for. I assume that the people who argue for that would then want to charge for prescriptions in hospitals and might want to go down the route of charging for care in hospitals, which I would be reluctant to go down. Similarly, there is the idea that students might pay fees. My fear would again be that if students were to pay fees at college and university, the same people would argue for sixth-form pupils at schools to pay fees.

It is obvious that there is a range of options. Are we in the right place on universal services? Can we look to expand them in the long term? Alternatively, do we have to draw back on such provision?

**John Swinney:** I firmly take the view that the commitments that we have made are sustainable. I have made financial provision for them to date within my budget settlements and I remind the committee that they have all been balanced budget settlements. There is again provision in place in the budget settlement for 2013-14 to provide for these commitments.

I think that the arrangements that the Government has put in place are the appropriate ones and we can see some of the benefits. For example, free personal care for the elderly has resulted in a lower requirement for geriatric stays in acute hospitals and the cost savings from that make an enormous difference to the public purse. It costs £82,000 to support a geriatric patient in an acute hospital for a year, whereas the average free personal care package that is delivered in the home costs about £5,000 to £6,000. That is not to mention the fact that, before we get near the cost issues, the outcomes for individuals are better if they are supported in their own homes.

The idea that there would not be any consequences were you to abolish some of these benefits is to ignore the consequences for the public purse. Some folk who comment on these issues take the very cavalier attitude that we could just remove free personal care for the elderly and things would take care of themselves. That is rubbish.

**John Mason:** If we charged more for people staying at home, could that have the effect of pushing people back into hospital and increasing hospital costs?



**John Swinney:** When it comes to free personal care for the elderly, there is an inextricable link between the support that we provide to individuals in their own homes and the provision of care for those individuals in an acute hospital setting. If we do not provide care for somebody in their home in an orderly, organised and effective way, there will be a crisis and, as a result, that person will be in an acute hospital and costs will increase dramatically. There is a clear relationship between the two.

The Government has a range of commitments that are not just commitments of this Government but commitments that have been established by Administrations of different characters. They have also received broad support across the political spectrum. The Government remains committed to delivering those services and approaches.

When the Government considered the issue of free prescriptions, we found that, of the total number of prescriptions that were being written in Scotland, 12 per cent were being paid for. At that time, the Government was under pressure to extend eligibility for free prescriptions to people with long-term conditions. We explored the range of long-term conditions, but it is very difficult—I think impossible—to tell people that we will pay for prescriptions for one long-term condition but not for another. Previously, eligibility for free prescriptions for long-term conditions related to age or other fairly generic and easily identifiable categories such as senior citizens, children and pregnant women. In considering long-term conditions, we would have had to select which long-term conditions would entitle someone to free prescriptions, which I think would have been an invidious and unfair position. When we got down to the total percentage of scripts that were being paid for, it was 4 per cent. We then had to consider where the bureaucracy of trying to charge for 4 per cent would have got us, and we came to the conclusion that the most effective action was to ensure that all prescriptions were available free.

At the heart of that point is also a philosophical point. People consider one of the strengths of our society to be the fact that we have a healthcare system that is free at the point of need. In that context, prescriptions should be free.

**John Mason:** Another area that you have not touched on is the bus pass scheme. We had some discussion of that at our workshop this morning with people from the Borders. That was helpful, as I realised that transport is a big issue here. On the one hand, some people argue that bus passes should be means tested or restricted in some other way. On the other hand, there are fears that, if the subsidy for bus passes were taken away, some bus routes—especially in areas such as the

Borders—would be lost completely. It is also a boost to many older people's health if they can get out. The NHS representative said that people's health probably benefits from the fact that they get out and about instead of being trapped in their homes. On that scale, do you think that we stand in about the right place at the moment?

**John Swinney:** I feel that we are in the right place. The evidence is compelling that maintaining mental and physical activity is a massive contributor to people's wellbeing.

About 10 days ago, I was involved in a discussion with the national community planning group, which heard a presentation from the chief medical officer, Sir Harry Burns. At the heart of Sir Harry's presentation was an acknowledgement that maintaining physical and mental activity is vital to increasing people's longevity and improving the quality of their lives. That manifests itself through the concessionary travel scheme. We all meet individuals—I meet them frequently in my constituency as well as when I travel around the country—who feel motivated by the concessionary travel scheme to get out and about. There is no financial consideration when they think about getting on a bus. In areas such as the Borders, the cost of travel can be significant even if a person is making a modest journey from Hawick to Selkirk. If people do not spend money on that, they can spend money on, for example, a cup of tea when they get to Selkirk.

15:00

A balance has been created that acknowledges that it is an advantage to keep people active and motivated. A key part of that is an obligation on Scotland's public services to find ways of ensuring that we contribute as much as we can towards enhancing the physical and mental wellbeing of members of the public. In my constituency, the local authority and NHS Tayside jointly undertake a piece of health collaborative work that disburses relatively small grants to volunteer groups and third sector organisations in Perthshire to put together small projects that are low cost and heavily dependent on volunteer activity and which provide a focus for many older people.

I visited one such project recently, which is a lunch club in the town of Alyth that has a very small grant from the public sector but provides a fortnightly lunch-club gathering from which walking clubs, befriending groups and advice sections have been constructed that have enhanced the quality of life of members of the public. The bus pass can help people who are involved in such things to get out and about from their towns.

We must be careful in the debate about universal services that we do not think in absolute

terms but think about the possible consequences of removing some of the provisions and the impact that such decisions would have on members of the public who depend on the services.

**Gavin Brown:** What has the Scottish Government's Council of Economic Advisers said to you about the budget?

**John Swinney:** The Council of Economic Advisers has been briefed on the formulation of the Government's budget priorities throughout the period of the spending review. As I said at the outset of my remarks, the framework that we set in 2011 when I published the spending review was a three-year funding arrangement that had at its heart a focus on boosting the Scottish economy. As a consequence, our budget provisions for 2012-13 and 2013-14 are a subset of the direction of travel that we established in autumn 2011.

**Gavin Brown:** But has the council commented formally or informally to you since the publication of the draft budget two months ago?

**John Swinney:** I have briefed the Council of Economic Advisers about the budget and have engaged in discussion with it about the budget. The council has certainly not issued a formal opinion to me about the content of the budget, but we have discussed it.

**Gavin Brown:** The convener asked you earlier about the switch from revenue to capital, which took place in 2012-13 and is projected for 2013-14 and 2014-15. As you indicated, a large slice of that is in the health budget—I think that you said that it was £95 million for the current financial year and £105 million for the next financial year. How much of the £95 million for this financial year has been transferred across to capital so far, now that we are seven months into the financial year? You said that it is used for health maintenance, but can you be more specific about what the money has been spent on, if it has, indeed, been spent?

**John Swinney:** The health capital budget will in essence have two major elements. One will be about estate maintenance—buildings, vehicles, plant and other things of that nature. The budget will also deal with equipment enhancement, to ensure that the necessary equipment is in place to support the work of the health service. That is what the budget will be spent on. There is already an allocation of health capital activity in the budget settlement. Obviously, the transfer of resources enhances that, so I think that it would be impossible to extricate for Mr Brown an analysis that shows what has been paid for through resource to capital transfer. In essence, because of the resource to capital transfer, the health service has a larger capital budget than I would ordinarily have been able to allocate it from traditional capital funds. I do not think that the

identification of items could be taken beyond what I have said in any meaningful way.

On the progress to date, my expectation is that, during the current financial year, the full transfer will be made as part of the budget arrangements. At this stage, from my on-going monitoring of the budget in the current financial year, nothing makes me suspect that that will not be achieved.

**Gavin Brown:** You used the phrase “impossible to extricate”. If it is impossible to do that, how can the Finance Committee and the Government measure the economic benefit of switching the £95 million from revenue to capital?

**John Swinney:** It is important that I make clear what I mean by “impossible to extricate”. It is not impossible to extricate, in that I am sure that I could give the committee a list of things that totalled £95 million. My point is that we are supplementing an existing health capital budget. If we were to disaggregate that to draw out the £95 million, I would be concerned about the methodology that would be applied to show that we can do a range of further things because we have an extra £95 million. That would be purely and simply a technical assessment.

Mr Brown asked about how we measure the effect. The effect is helpfully measured by the analysis that the Office for Budget Responsibility has undertaken, which estimates that resource spending has a fiscal multiplier of 0.6, while capital spending has a fiscal multiplier of 1. That tells me that a higher fiscal multiplier arises from the deployment of expenditure as capital than from resource spending. That is perhaps the most helpful advice that I can give the committee.

**Gavin Brown:** The other large segment in the move from resource to capital falls under the heading of the enterprise agencies, which means Scottish Enterprise and Highlands and Islands Enterprise. What will that money achieve in 2012-13 and what is it likely to achieve in 2013-14?

**John Swinney:** For Scottish Enterprise and Highlands and Islands Enterprise, there will be a range of transfers to support activity. That will substantively be around renewable energy development in Scotland and will involve some of the projects that are envisaged under the national renewables infrastructure plan. There will also be particular physical works programmes in which Scottish Enterprise or Highlands and Islands Enterprise will try to enhance the investment opportunities and possibilities that arise out of their capital contribution to particular land and building developments. If it would help the committee, I would be happy to provide a broader listing of projects that have been secured in that respect.

**Gavin Brown:** That would be helpful.

The convener has asked about the procurement process, so I will not rehearse the arguments that were made by Michael Levack or those that the convener mentioned. However, you talked about the £2.5 billion for NPD spend that was announced in November 2010. How much of that spend will happen in the next financial year, 2013-14?

**John Swinney:** There will be £338 million in NPD activity in 2013-14.

**Gavin Brown:** Do you have the same figure for 2012-13?

**John Swinney:** The figure is £20 million. Essentially, that puts numbers on the point that I made to the convener earlier.

I readily acknowledge that the NPD programme requires a great deal more preparatory work because it requires the preparation of two substantive work streams. First, there is a need to plan the pieces of infrastructure—to design the school or, in the case of a road, map the route and introduce the road orders and everything else that goes with those. That is a substantive proposition that has to be developed. Secondly, a separate and complex financial work stream has to be constructed. The first part can delay things—as we have found with the Aberdeen western peripheral route—but the funding construction also takes longer than under traditional capital.

However, those two figures represent the kind of shift that I would expect. If it is helpful for the committee, my estimate of the sum for that programme for 2014-15 is £973 million.

**Gavin Brown:** Thank you.

I want to ask a couple of questions on business rates. At the time of the spending review just over a year ago, you made predictions for business rates for each of the next three years, which were roughly £2.2 billion for the current year, £2.4 billion for 2013-14 and £2.6 billion for 2014-15—I know that those are not exact totals. At the time, those were acknowledged to be quite big increases in the amount that is anticipated to be collected. Since last year, regrettably, the economic projections from most organisations have been scaled down quite substantially—for the next couple of years anyway—but your projections have not shifted by terribly much. Do you still think that the projections that you made a year ago are likely to be accurate?

**John Swinney:** I do. The estimates of non-domestic rates income are the product of a number of different factors. Mr Brown mentioned that there will be a rise in the tax take, but a large proportion of that is a product of the application of the inflation multiplier. If we look at the period from 2007-08 to the end of this spending review period,

we see that the level of increase in projected business rate take in Scotland is virtually identical to the increase projected in England, except that our numbers are slightly higher because of the public health supplement that I applied.

Secondly, in addition to that inflation multiplier, an assessment is made of buoyancy in the economy, whereby we assess what the effect of economic activity will be on non-domestic rates income. I can say to Mr Brown that that has delivered an outcome that has been lower than I expected.

That is followed by the application of an assessment of the uptake of reliefs, which it is clear can vary. The uptake of reliefs is broadly where I would have expected it to be.

The other variable is the assessment that I have made for appeal losses as a consequence of revaluation. I am talking midway through a valuation period, so this is a moveable feast, but I think that my assessment of appeal losses may have been higher than the level of appeal losses that we appear to be on course to sustain. Balancing up all those factors, I remain confident in the assumptions that I have made.

15:15

**Gavin Brown:** As the appeal losses will turn out to be lower than you initially predicted and there is not as much buoyancy as you had hoped for, is it your view that those two factors cancel each other out?

**John Swinney:** The numbers that I am seeing and the mid-year estimates that I have for 2012-13 tend to make me of that view.

In summary, I would say that we are dealing with a number of variables. As I have confirmed in parliamentary answers to Mr Brown and to other colleagues, we endeavour to predict, in consultation with local government, the expected non-domestic rates income. It is not a precise science, but I can certainly confirm to the committee that I am confident in the assumptions that I have made.

**Gavin Brown:** I accept that there are many variables and that it is not a precise science, but the issue is extremely important to the committee. You have mid-year estimates that you have been looking at and basing judgments on. Would you be willing to share them with the committee so that we can scrutinise what is happening on the ground? At the moment, as you know, we get only an annual update, which makes it difficult to judge the situation.

**John Swinney:** If it would help, I can inform the committee that the mid-year estimate for 2012-13

that I have at my disposal is £2.362 billion. As we stand, that is the estimated position.

**Gavin Brown:** Okay, but would you be willing to share the underlying data with the committee? Is there a reason for not sharing it?

**John Swinney:** I am not sure about that. Mr Owenson can give some detail on that area.

**Graham Owenson (Scottish Government):** We publish annually—after the end of the financial year—all the mid-year estimates and all the transactions and other things that we take into account in setting the distributable amount. In addition, a white paper account is published each year. Audited by Audit Scotland, it sets out the key assumptions that we made and how they compare with the outturns. That information is already published.

**Gavin Brown:** But it is published after the event, presumably.

**Graham Owenson:** Yes.

**John Swinney:** I want to be as helpful to the committee as I can be, but I think that the committee will accept that I require a certain amount of space to make judgments about the data I have at my disposal and the assumptions that are made on the basis of that data. As Mr Owenson has said, a range of information is published in that respect. If there is more that I can do by confirming the mid-year estimate, I will certainly be happy to do so in future.

**Jean Urquhart:** I want to ask about the third sector and social enterprises. First, a point was made in this morning's discussions here in Hawick about the instability that one-year funding can cause.

Secondly, it seems that this is a growing sector, in which some of the most extraordinary and exciting developments are taking place. For example, small enterprises are building houses and employing young folk who are difficult to employ. They seem to be achieving an extraordinary amount. Are such enterprises eligible for the kind of account management support that we might expect a small business to be eligible for—an approach that provides an almost more professional advocacy function in relation to development? I am not saying that every social enterprise fits the bill or meets the criteria, but how do we develop those enterprises and offer them more security?

A parallel issue is one that involves small business, or what we like to call microbusinesses. Someone who is self-employed or perhaps has one or two employees has difficulty finding time because they wear all the hats themselves and often therefore miss opportunities such as the Government's small business bonus scheme. I

suspect that there are still people who are not aware that their business is eligible for that scheme. I think that the website went live on Friday—I have not had a chance to look at it yet—but how do we engage fully with such people so that we can assure them that they are eligible for Government assistance through some of the schemes that we have established? How will you assess success in that regard?

**John Swinney:** Jean Urquhart raised several points for me to tackle.

On one-year versus three-year funding, I see no justifiable reason for public authorities not to provide three-year funding settlements to organisations that they fully intend to fund for three years. As I said at the outset this afternoon, I have set out a spending review allocation for a three-year period that is broadly being implemented. I ask the committee to look at some of the large blocks of expenditure that I am allocating. Members will see that the local government block has pretty much been delivered as I set out, although it has been enhanced to support welfare reform, and that the health budget block has broadly been allocated. The one area where there has been substantive institutional change—a change from what I set out in the spending review—is the college sector, where I have allocated more money than I originally allocated.

I really do not understand why authorities feel that they are unable to give three-year settlements to third sector organisations. Authorities need to put the necessary protections in place to guarantee the effective use of public money. For example, it would be possible to design contractual arrangements in a way that would test performance so that resources could be claimed back if they were not allocated properly. I really do not see the obstacle to authorities giving that degree of clarity, and I would prefer it if they did so.

When Jean Urquhart raised a point about the account management model, I thought that that was an exciting way of looking at general business development work. However, the more I think about it, the more I realise that we are moving in that direction. Last year, we let the contracts for just enterprise and the enterprise growth fund. Those measures are exclusively for third sector organisations and, happily, they were let to third sector consortia through the procurement process. I am happy to say that third sector organisations passed that procurement test. I have probably jeopardised the procurement process by saying that—nonetheless, I have said it.

Those programmes are designed to boost the capability of social enterprises: to improve their performance, and to build on their functioning capability. I am very interested in that model

because a long-term objective of the Government and a personal objective of mine as the finance secretary has been to ensure that the social enterprise sector becomes a much more substantial part of our economy than it was when we came to office in 2007. I am pleased to tell the committee that that is happening. The social enterprise movement is manifesting itself in a number of novel ways. Devices such as just enterprise and the enterprise growth fund are helping in that respect.

That said, I will take away the issue to do with wrapping everything into an account management service. I will think about how the Government might most effectively take the approach forward and whether enhancement is required.

Of course, certain social enterprises are account managed by Scottish Enterprise and Highlands and Islands Enterprise. That is absolutely right, because, as I think that I said to the convener, account management support is available to not just the huge companies but the microbusinesses of Scotland. The crucial test is whether a business has growth potential. Whether a company is the biggest in the land or the smallest social enterprise in the land, it must pass that test.

I see no good reason why organisations would not be aware of their eligibility for support under the small business bonus scheme. In many if not all parts of the country there is automatic enrolment into the scheme, through the valuation authority and the local authority. Of course, if there are ways in which we can increase awareness, we will consider them. On 24 October, Mr Mackay, the local government minister, confirmed that 89,087 premises have reduced or no liability for business rates as a consequence of the small business bonus scheme. That represents an increase of 4,000 on last year's figure, so we are encouraged by that.

The Government takes forward a range of interventions and will continue to do so. A couple of weeks ago I announced encouraging dynamic growth entrepreneurs—EDGE—funding, which is about creating flexible resources to encourage and motivate entrepreneurial activity, whether it is in the small business sector or the social enterprise sector.

**Jean Urquhart:** Funding must meet Government tests on equality and so on. It seems to me that the growth of social enterprises in rural areas probably meets criteria on preventative spending. How is that assessed? How does the Scottish Government know whether the preventative spend element of investments is effective?

**John Swinney:** The challenge of shifting resources into preventative expenditure has two

aspects. The first, formal aspect is the change funds that have been established in relation to reshaping care, the early years and reducing reoffending. I expect the reducing reoffending change fund work to be substantively if not exclusively delivered through the third sector, where we are looking for new players who have innovative approaches to tackling reoffending. Tremendously imaginative work is emerging in that respect. The area of preventative spend is best placed to absorb the type of thinking that you are talking about, and the third sector characterises the approach, because it is inventive and because it disrespects boundaries and thinks about all an individual's circumstances. Many projects will reach fruition in that regard.

The second aspect is more general and is about giving encouragement, as I was doing last Thursday at the Scottish leaders forum, which is a gathering of professional leaders in the public sector. I was encouraging leaders to absorb more significantly the Government's response to the Christie commission on the future delivery of public services, whereby we encourage greater collaboration at the local level on the integration of public services.

15:30

When health boards and local authorities come together to look at who is best placed to deliver a service that will deliver a certain outcome that straddles the boundary between the health service and local authorities, I would be very surprised if they did not end up concluding that a third sector provider would be best placed to do that. We are actively encouraging the completion of that process through all the instruments of community planning.

**The Convener:** Thank you very much. That has exhausted the committee's questions, but I have one or two further questions that I would like to ask, so you can open up your folder again.

**John Swinney:** Forgive me—I was reaching for my other folder, but we are still in round 1.

**The Convener:** I want to cover one or two areas that we have not covered in any depth. Indeed, my first question relates to an issue that we have not touched on at all—the national performance framework.

In its submission, the SCDI said that it had

“not seen much evidence that the National Performance Framework is integrated with the spending plans of the Scottish public sector including the Scottish Government.”

It argued that it should be

“clearer how the Scottish Government is prioritising in its spending decisions between the 50 indicators currently in Scotland Performs.”

The Scottish Chambers of Commerce suggested that Government policies, including the draft budget, should be measured against the Government's purpose. In contrast, the Scottish Council for Voluntary Organisations said that the NPF

"should be reconfigured to encompass wellbeing, social inequality and environmental impact",

and that

"progress against the NPF needs to be more open and transparent, being regularly reported on and scrutinised, particularly in Parliament."

How will the NPF evolve in relation to the budget in the coming year?

**John Swinney:** On the suggestion that the national performance framework should be more transparent and more able to be scrutinised, I am at a bit of a loss to think of how it could be more transparent. The NPF is available on the Government's website every minute of the day. Whenever a piece of data changes, the website is changed. Whether I like it or not, the statisticians deal with it—that is just life. Even when performance against the indicators is going in the opposite direction to the one that I would like it to be going in, the statisticians change the website to indicate what is happening; there is nothing that I can do about it. The NPF is freely and openly available for people to access at any time of the day so that anyone can make a judgment about how the Government is performing.

That leads me on to how we are scrutinised on the NPF. I contend that, essentially, the Government's priorities follow what the framework tries to deliver. The NPF paints a picture of the factors that we consider, in the round, to be the appropriate factors for Government and society to be delivering against. If we are not managing to get the indicators to move in the right direction, we must look at that and test whether there is more that we can do. Performance against some of the economic indicators in the NPF is poorer than I would like it to be. Therefore, the Government highlights that our budget is strongly focused on taking forward economic interventions to support the Scottish economy. I contend that we respond extremely directly to the performance that the NPF highlights.

I am very happy to be scrutinised on the Government's performance against the NPF by the Finance Committee, as it takes a generic view of such matters during the financial year, or by other committees, because I think that that is an important element of assessing how the country is performing against our expectations.

My final point on the NPF is about the nature of what it seeks to tell us. Some weeks ago, Ken Macintosh MSP led a members' business debate

on the humankind index, which is a proposition that has emerged from a stable of thinking that involves organisations such as Oxfam and the WWF. That was a helpful debate in which Mr Macintosh and other members advanced the argument for the humankind index. I suggested—it is for Parliament to decide how successfully—that the national performance framework already contains that analysis.

The framework does not involve a narrow analysis that is only about economic growth, but covers all manner of factors such as the life chances of children, assessments of our natural environment and the number of distinctive species in Scotland, reoffending levels and public health rates. It is a broad assessment of how we are performing against some of the major challenges that we face in our society.

As I indicated in that members' business debate, I would be happy to engage with members of Parliament on how we can further strengthen the national performance framework. It is a pretty comprehensive analytical tool, but the Government would be happy to consider any way in which it could be strengthened.

**The Convener:** Jean Urquhart touched on the change funds. My constituency of Cunninghame North is part of the North Ayrshire Council area. The council states in its submission that £920,000 of new funding has been committed to a preventative spending approach in the current financial year, but that it is concerned that

"this will be difficult to maintain as our funding gap widens."

It states that it has

"welcomed the announcement of the Children's Change Fund but so far it has not been as successful as the Older People's one in terms of shifting the balance of funding and responses."

It has effectively asked for an

"Allocation of new money at partnership level"

to

"help drive forward this agenda."

As I think all members of the committee realise, the £500 million was allocated over three years for preventative spend. However, this year, as other budgets in local authorities decline, it is becoming more difficult for councils to direct the money, and there is a concern that they will not be able to meet their commitments in that area. What will the Scottish Government do through the budget to address that issue?

**John Swinney:** The development of the early years change fund came a year after the development of the older people's change fund. The latter fund was built on a decision-making infrastructure called the joint improvement team,

which was an established infrastructure that was chaired by ministers and was working very effectively with local authorities. It has therefore taken longer than we would have liked to get the early years change fund moving. However, I point out that the fund was commissioned to come into effect in the 2012-13 financial year, and we are part of the way through that year.

There has been a very strong focus on early years activity by my colleagues. Aileen Campbell in particular has progressed such projects. A number of very good projects have been established around the country to assist in early years activity. Those include family-nurse partnerships and the collaborative work that exists around innovation in supporting children and addressing their requirements.

All that work is taking a good course. I assure the committee that, in policy terms, the Government sees strong advantages in pursuing that approach, and we will maintain it strongly during the spending review period.

The feedback that the convener cited from his local experience in a sense sums up my aspiration and what I am looking for. I do not want public servants to think that the focus on prevention can happen only if change fund money is being used to support it. Obviously, £500 million over three years is a relatively small proportion of our total budget. The real gains to be made will come principally from local authorities and health boards thinking together about how they can use their resources jointly and effectively to advance the preventative agenda.

That should involve looking not just for particular projects that can bid for money out of a change fund, but at how the money can be used. Over three years, there is £500 million for the change funds, while the budget for local government and the health boards put together will be £60 billion. I leave those numbers with the committee to highlight the fact that there is a massive amount of money that, if it is properly deployed, could deliver a more aggressive plan of preventative expenditure, as opposed to people simply believing that everything can be delivered through a £500 million set of change funds.

**The Convener:** Indeed—we took evidence on that issue last week, and that suggestion was made.

I thank committee members for their questions and the cabinet secretary for answering them. I also thank the people of the Scottish Borders, and Hawick in particular, for their fortitude in sitting through the session. We will now have a five-minute break and return for item 3.

15:41

*Meeting suspended.*

15:46

*On resuming—*

## Subordinate Legislation

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

**The Convener:** I reconvene this afternoon's meeting of the Finance Committee. Item 3 is to consider the Scottish statutory instrument that provides for the 2012-13 autumn budget revision. The draft order is subject to affirmative procedure, which means that the Parliament must approve it before it can be made and come into force. We have a motion in the name of the cabinet secretary, John Swinney, inviting the committee to recommend to the Parliament that the draft order be approved. Before we come to the debate on the motion under item 4, we will have an evidence session for members to clarify any technical matters or to ask for explanation of detail.

I therefore welcome once again John Swinney MSP, the Cabinet Secretary for Finance, Employment and Sustainable Growth. On this occasion, he is accompanied by Mr Terry Holmes from the Scottish Government. I invite the cabinet secretary to make an opening statement to explain the draft order.

**John Swinney:** This is the first of two planned, routine revisions to the budget that occur year on year. The second and final revision will be the spring budget revision, which will be laid before the Parliament in late January and might reflect further deployment of available resources. Decisions will be informed by our in-year monitoring, which will take place during the next two months.

As in previous years, the pattern of authorising revisions to the budget in autumn and spring is required as the detail of our spending plans changes from when the budget act is approved. The changes that are proposed in this autumn budget revision result from an increase in the approved budget of £168.7 million, from £33,570 million to £33,739 million.

The material additions to budgeted expenditure in the budget act reflect the funding changes that were announced at stage 3 of the Budget (Scotland) Bill 2012 on 8 February, the impact of the announcement on 27 June 2012 of additional measures to support economic growth, and further subsequent changes as outlined to the Parliament at the draft budget 2013-14 statement on 20 September 2012. It is normal practice for the autumn budget revision to reflect the impact of the annual valuation reports from the NHS and teachers' schemes actuary in the Government

Actuary's Department. The impact of the reports that were received in June 2012 is a net decrease in the budget that is required for NHS and teachers' pensions of £52.2 million in annually managed expenditure.

The significant transfers within the overall budget are mostly due to the realignment of budgets within and between portfolios, including a net transfer of £62.2 million from health to further education for nursery and midwifery training, and £30.2 million from justice to health for drug treatment and prevention. A few significant transfers between portfolios occur annually, primarily between health and education, and between justice and health. Those budgets are initially allocated to the portfolio within which the policy lies and are then transferred to the portfolio within which the spending occurs at the in-year budget revisions.

The revisions also reflect the transfers of the responsibilities of the former parliamentary business and government strategy portfolio to the infrastructure, investment and cities portfolio following the restructuring of the Cabinet in September.

Members may wish to be reminded that, for the purposes of the budget bill, only spending that scores as capital in the Scottish Government's annual accounts, or the annual accounts of direct funded bodies, is shown as capital. That means that capital grants are shown as operating expenditure in the supporting document. The full capital picture is shown in table 1.7 of that document.

No further new announcements or initiatives appear in the figures that the committee is scrutinising today; the revisions reflect decisions or announcements that have already been made. The brief guide to the autumn budget revision that has been prepared by my officials sets out the background to, and details of, the main changes proposed. I hope that the committee found that helpful.

**The Convener:** Thank you, cabinet secretary. I will open the questioning, and colleagues can indicate if they wish to come in subsequently.

The 2012-13 budget included a planned carry-forward from 2011-12, but it is not clear whether the Scottish Government has any planned carry-forward from this year into the 2013-14 budget.

**John Swinney:** The 2013-14 budget is predicated on a carry-forward from 2012-13. The number will be reported to the Treasury in due course, but I would expect it to be in excess of £100 million, which the Government set out as part of the spending review.



**The Convener:** With regard to the transfer from health and wellbeing of £56.1 million in respect of “nursing and midwifery education”, similar transfers have taken place in ABRs in previous years. If that is a recurrent transfer, why is it not incorporated in the education and lifelong learning draft budget from the outset?

**John Swinney:** Essentially, that comes from the point that I made in my opening statement that budgets are initially allocated to the portfolio in which the policy area lies and are then transferred to the portfolio in which the spending occurs. I can see the point that the convener is driving at, but in the interests of trying to maintain some degree of linkage to the purpose and intent of the expenditure—which, in this case, is essentially in the policy area of health although it is deployed by another policy area—we have established that as a point of budget protocol. That will happen in a number of areas, such as the example from the justice portfolio that I cited earlier. We have to go for one or the other—I suppose that it could be this way or it could be the other way around—and we have simply argued for this approach for consistency’s sake. To provide a credible like-for-like comparison at budget times, having a consistent like-for-like basis helps to aid the transparency of the process, if that is not stretching things a bit.

**The Convener:** In the education and lifelong learning portfolio, £11.4 million is identified as “Additional funding for student support”, but it is not clear whether that represents an on-going commitment to increased support or a one-off addition.

**John Swinney:** As part of the agreement that was reached on the budget in February this year, I agreed that we would increase the budget for student support to maintain that budget at the level that was set in 2011-12. The ABR is required to change the funding position for 2012-13 because that was not included in the Budget (Scotland) Act 2012 that the Parliament approved in February, as it was not part of my original proposition. In the draft budget that we have just discussed, that £11.4 million has been put into the main budget provision for 2013-14. Therefore, for the purposes of that financial year, there will be no need to cover the issue in an autumn budget revision because it will be part of the bill that I will bring to the Parliament.

**The Convener:** I have just one final point before I open the discussion to members. In the infrastructure, investment and cities portfolio, there is a £20 million transfer—this was mentioned in our previous session—for “Transfer of funding from Forth Replacement Crossing budget contingency to housing”. That is given on page 57 of the supporting document. However, while the

sum is classified as capital on that page, it appears as an operating budget on page 64. Can you clear up why that is?

**John Swinney:** It all comes back to the point that I made in my opening statement that funding scores as capital only if the asset emerges on the balance sheet of the Government or a directly funded body. As that £20 million will score on the balance sheet of registered social landlords, I imagine that it will have to appear as operating expenditure for the purposes of this legislative process. We have to wrestle with the fact that numbers are presented on different bases for different accounting purposes, and the Budget (Scotland) Bill and the autumn budget revision form part of a sequence that takes us to the annual accounts, which are regulated by one set of rules. The issue that you have raised, for completely understandable reasons, is regulated by the Treasury’s management of our public finances. Unfortunately, the two things are not the same.

**The Convener:** I realise that you mentioned the issue in your opening statement, but I wanted it to be clarified in relation to a specific example to ensure that those who are following these proceedings know what sort of things we are talking about.

I open the questioning to committee members.

**Gavin Brown:** With regard to the money from the Forth crossing project, I suspect that, given the evidence that we have received, no one will object to £20 million going into housing. However, is the spending of that £20 million from the contingency fund absolutely risk free? Are there any circumstances in which it could be clawed back?

**John Swinney:** It is risk free. Under the Forth replacement crossing contract, there is a fixed price for almost everything, with the exception of some wider inflation issues. Everything is measured by specific indices. As the contract takes its course over the five years of its deployment, we will pass certain points of no return. At such points, either some contingency will be used because an index has taken us away from the expected fixed price and the cost has increased, or the possibility of that money being used as contingency will have passed.

Each stage of the contract has an allocation for contingency that is adequate to cope with any variability that might conceivably emerge at that stage, and we will regularly monitor the situation to determine whether more resources in that category could be used in a different way.

**Gavin Brown:** Under the heading “Budget Analysis” on page 70 of the autumn budget revision document, “Scottish Government staff costs” amount to £162.1 million. However, on

page 137 of the draft budget document, the same line for 2012-13 is £139.9 million. Why is the figure in the draft budget different from the figure in the autumn budget revision?

16:00

**John Swinney:** I believe that there is a difference in presentation that I have been round the houses about before. The figure you highlight does not take into account income to the Government; as a result, it is a gross not a net figure. Is that correct?

**Terry Holmes (Scottish Government):** Yes.

**John Swinney:** The figure is gross, not net, and I can furnish the committee with details of the calculation.

**Gavin Brown:** If we call it £140 million rather than £139.9 million, that gives a difference of £22 million. There is a line called “retained income-admin” of £16.5 million, but I do not know if it is the correct line. If it is, there is still a difference. Will you address that point also?

**John Swinney:** We will come back to the committee with a detailed breakdown. I suspect that there might also be some accounting for further severance packages, which will reduce our long-term administrative costs although they must be shown as a cost at some stage. I will clarify that in writing.

**The Convener:** We now have the deputy convener and accountant, John Mason.

**John Swinney:** I am sorry to interrupt, convener, but I would like to put a little more on the record, which might help to reconcile the numbers. Inflating the figures are income and the extra costs of severance, and there is also an annual transfer from Marine Scotland that arises out of some of the costs and arrangements of the amalgamation of the Scottish Fisheries Protection Agency and Fisheries Research Services. We will set that out clearly to committee.

**Gavin Brown:** Convener, could I just raise a final point for the cabinet secretary to clarify?

I have been trying to get information from the Government on that £4.4 million from Marine Scotland, and the information that I have been given is that the lion's share is for accommodation as opposed to staff. Could that be clarified when you write to us, cabinet secretary?

**John Swinney:** We will go through all that.

**John Mason:** I want to follow up on a point that the cabinet secretary made. It might just be because it is late in the day, but I am not clear about the switch of £56.1 million from health to education. If I understand it, the cabinet secretary

said that the policy lies within health but the spending lies within education and lifelong learning, so the money has been approved in one area but is switched to the other to be spent. I do not understand why there have to be two places. Can the policy and the spending not be in the same ministry, or does it not work that way?

**John Swinney:** The spending on the health in education part will be done through educational institutions that are part of the responsibilities of the Cabinet Secretary for Education and Lifelong Learning.

**John Mason:** Is health therefore unusual in that the training is done under a different cabinet secretary? I am trying to think of another similar area—I suppose that teachers are all trained under the education portfolio.

I am just thinking about what happens if something goes wrong. If there is an overspend, for example, are we clear about who is responsible for that?

**John Swinney:** We are very clear about who is responsible for it—there is no doubt about that.

This is a very important point that gets to the nub of the role of accountable officers. The purpose of the budgetary architecture is to make it absolutely clear where responsibility for financial control lies. Mr Mason is asking whether we have money floating around, and I assure Mr Mason and the committee that that is not the case. The purpose of the autumn budget revision is to nail down in statute who is responsible for the control of each element of public expenditure so that there is no doubt whatsoever about where responsibility lies.

**John Mason:** If there was an overspend or something happened in nursing or midwifery education, because the money has switched to the education and lifelong learning side it would be the responsibility of the education secretary.

**John Swinney:** Correct.

**The Convener:** There are no further questions from the committee so we move to the debate on the motion. I invite the cabinet secretary to move the motion.

*Motion moved,*

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

*Motion agreed to.*

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

**Members** *indicated agreement.*

**The Convener:** As that was the last item on our agenda, I thank everyone who came along today: those who participated in the workshops, those who came to witness our evidence session, all members and the cabinet secretary. We have enjoyed our time in Hawick.

Before we go, I will say a fond farewell to Lucy Scharbert, who is moving onwards and upwards to work in the legislation team. Sadly, this is her final Finance Committee meeting, so on behalf of the committee I wish her all the best in her future endeavours in the Parliament.

*Meeting closed at 16:06.*



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