



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Monday 4 November 2013

Session 4

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FINANCE COMMITTEE
27th Meeting 2013, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

- *Gavin Brown (Lothian) (Con)
- *Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)
- *Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)
- *Michael McMahon (Uddingston and Bellshill) (Lab)
- *Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Terry Holmes (Scottish Government)
John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Webster Memorial Theatre, Arbroath

Scottish Parliament

Finance Committee

Monday 4 November 2013

[The Convener *opened the meeting at 12:00*]

Draft Budget Scrutiny 2014-15

The Convener (Kenneth Gibson): Good afternoon and welcome to the Scottish Parliament Finance Committee's 27th meeting in 2013. We have received apologies from committee member Michael McMahon MSP. I ask everyone present to turn off any mobile phones or any other electronic devices that they have with them.

The purpose of our business today is to continue the committee's examination of the Scottish Government's future spending plans as set out in the draft budget 2014-15. Our workshop sessions this morning sought to explore the impact of the Scottish Government's spending decisions on Angus communities and, in particular, how the draft budget relates to the outcomes for employment opportunities and sustainable places as detailed in the national performance framework.

The first item on our agenda is to report back on those discussions. I will ask one MSP from each of the three groups to feed back to the rest of the committee and everyone else present. The first person to feed back is the deputy convener, John Mason.

John Mason (Glasgow Shettleston) (SNP): I was the only MSP in our group, so I was trying to co-ordinate and take notes at the same time. I hope that I have covered most of what was said.

We have held such workshops for the past three years, and I felt that we had an extremely good group this morning. There was quite a range of participants from Angus Council, small businesses, the Prince's Trust, Enable and others.

It was clear that one or two organisations had looked at the national performance framework and were a bit familiar with it. Others had had absolutely no contact with it. That confirms what we have heard at the committee from previous witnesses, who have said that there is a lot of good content in the framework but not broad familiarity with it. To be frank, there is not even broad familiarity with it in the Parliament, but I am picking up again that the same is true in the wider community.

We did not spend a lot of time on that, and we went on to talk about business issues, such as the small business bonus. We talked about ways of doing something a bit different with the same pot

of money. For instance, we could have conditions that small businesses have to take on young people. There was a suggestion that, with costs rising generally for businesses, it is more difficult for a business to take on a young person than it used to be. There was a bit of input from the voluntary sector that it was not under quite so much pressure in that regard.

We talked about partnership between the public sector and the private and voluntary sectors, and there was a feeling that there is room for improvement. Nationally, many people say the right things about partnership, but my impression is that it varies around the country. That has been confirmed for me today. What we heard today is slightly different from what we heard in Hawick last year or even in Largs the year before. Different people feel left out. In some cases, the private sector said that it felt left out.

We are in a smaller town and I am from a city, so it has been useful for me to get more of an angle on towns such as Arbroath—we talked about the other Angus towns as well. We considered the need for town centre regeneration, the fact that many things close at half past 4 and how there is a lack of life after that. We discussed competition, with people going to Dundee to shop or even going to shops on the edge of Arbroath but not coming into the town centre. However, there was also some positive stuff about the business gateway.

We talked about how social enterprises could move forward in the future. People are positive about social enterprise, but there is perhaps a lack of familiarity with them, especially in the private sector. We also considered the issue of the two sectors appearing to compete and whether it is unfair on the private sector if the social enterprise side gets public support.

We also discussed the fact that the council, rightly, considers its role to be not to restrict business, move people into particular businesses or distort the market but to support and encourage.

We then considered employability and skills. We did not have anyone from the college sector in our group, but we talked about some of the good things that were happening in that sector. Hospitality seems to be quite a strength, as is engineering, which clearly has jobs. However, even local businesses in Angus that need engineers can lose them to Aberdeen because of salary differentials and things like that.

We talked a little bit about encouraging young people to go in a particular direction, if that is appropriate. We talked a bit about getting young people into work and we heard about the coffee shop that is helping people with learning

disabilities and moving them on to employment, which is encouraging. We also talked about early intervention involving whole families, not just the individual, who might be a bit away from the labour market. It was about trying to get the involvement of the whole family—or “significant individuals”, which was the term used.

We talked about preventative spending. I had not picked up on this before, but one or two people in our group said that they thought that the term “preventative spending”, which we have been using a lot in Parliament, is a little negative and that perhaps the phrase “investing in the future” would be more positive. I am not sure that there was unanimity on that, but it was an interesting thought.

Some other points were thrown in, not all of which are relevant to the Finance Committee, but they affect businesses and life in Angus. For example, there was discussion of connectivity, mobile phone signals, broadband, wind farms—I said that that issue was not relevant to the Finance Committee—and bank borrowing, which I said was something that we hear about nationally. I certainly hear in Glasgow about the difficulty of businesses borrowing from banks.

The Convener: Thank you very much, John. That was great. Jamie Hepburn is next.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): Thank you, convener. Our experience was similar to the deputy convener’s, in that we had a very fruitful and useful discussion about the budget in our group, which had representatives from Citizens Advice Scotland, Angus Housing Association, Skills Development Scotland and Angus Soft Fruits.

In considering skills and employment, we first focused on a discussion on the issue of apprenticeship. There was some discussion about the difficulties for key sectors of the local economy in Angus in benefiting from the modern apprenticeship programme. For example, an individual farm might take on only one apprentice, whereas the modern apprenticeship programme is looking for volume. There are also difficulties for a single farmer in going through the bureaucracy involved.

Angus Housing remarked on the fear of bureaucracy being an issue in applying to the apprenticeship programme, and it said that it had noticed a decline in the number of small businesses taking on apprentices for that reason. Angus Housing had suggested to some of the small businesses that it had been working with that they should try to work collectively and have a common back-of-house function to deal with that issue, but apparently none of the businesses has proceeded along that route.

SDS mentioned that, of the 25,000 modern apprenticeships that have been awarded, some 650 have been in the Angus area, which was felt to be a good proportion. SDS indicated that the vast majority of apprentices go through small and medium-sized enterprises.

We then had a discussion about employment conditions generally. We discussed issues of retention in the local area and how part of the problem locally might be that employers train up their workers who then leave Angus. It was said that Aberdeen, because of its strong energy sector, has taken a number of workers out of the area. It was felt that local employers are fairly philosophical about that and still recognise the benefit of training their employees even though some of them will move on to other areas of economic activity.

Citizens Advice spoke about seeing a lot of people on very flexible employment terms, including zero-hours contracts. There is also a general lack of awareness of employment rights, such as the right to have a contract. There was also discussion about better supporting the long-term unemployed. It was felt that a lot of the support to help those who are out of work is geared towards those who have recently found themselves out of work, whereas those who have been out of work for a longer period of time are not necessarily getting the same level of support.

That issue led us on to a discussion about welfare reform and the impact that it is having on trying to support people back into employment. Citizens Advice spoke of a local organisation that is meant to be teaching literacy and numeracy but is increasingly finding that its time is taken up in trying to help prevent people from falling out of the welfare system. For example, if a client suddenly turns up and says that they have been sanctioned, the organisation deals with that issue rather than trying to equip them with the key skills of literacy and numeracy, which of course would better support them to get back into employment.

There was a discussion about organisations that work to support people and how their funding can sometimes be a bit short term, which can cause them problems. One area of interest was the support that could be provided for people with children who are seeking a job, and there was some discussion about tax breaks that could be used for that. Obviously, that area is outwith the control of the Scottish Parliament, but we have some responsibility for childcare, so it is perhaps worth while reflecting on that.

We then had a discussion about business support. It was remarked that local businesses that have set up have a good chance of sustaining themselves ahead of the Scottish average but that there is a below-average start-up rate. People in

the group were unclear as to what could be driving that, but it was suggested that perhaps the geographical position might not be suited to accessing other markets.

There is a strong economy in Dundee, so there is again the issue of people leaving the local area. In addition, the population appears to have a higher than average number of retired individuals, who may not be inclined to set up businesses. The broadband position reflects what we heard about in Hawick last year and was said to be not the best. The infrastructure more generally—roads and public transport—was referred to and the disconnection between the towns in Angus was remarked on.

We then moved on to the sustainable places part of our work, looking at public services. There was a discussion about preventative spend—although not from the perspective of whether it was a negative or positive term. SDS was clear that it does not doubt that money is being transferred to preventative spend, but it made the point that until its effects filter through—there was discussion about whether that might be a decade away—we must remember the challenges of today and ensure that the response to them is properly resourced.

One of the group made the point that it can be challenging to get some parts of the public sector to commit to share resources for the preventative spend agenda, which can lead to delay in preventative spend in particular situations and therefore to delay in preventing negative outcomes.

On regeneration and development, there was some discussion on the issues of deprivation in Angus. It was felt that, as is common in rural Scotland, deprivation is not necessarily concentrated in particular areas and that a lot of rural poverty is not necessarily visible. However, there was discussion about some areas of towns such as Arbroath having deprivation and the problems that come with that.

SDS said that there is dialogue between organisations on how to respond to such challenges, although it was felt by some that that does not necessarily always lead to any action. They felt that there can be dialogue about what to do but that nothing necessarily happens. Angus Housing commented on the cuts that are coming down the line from Westminster. Obviously, that situation could get worse over the next few years.

12:15

We had a short discussion on the built and natural environment and on what the priorities could be for regeneration. To link back to the issue of supporting business, I note that part of that was

felt to be about supporting town centres and ensuring that premises in them are ready to take small businesses when they want to use them, because otherwise those businesses will go to an out-of-town site that is already equipped. There was discussion about smaller independent retailers struggling and disappearing from town centres, which, sadly, is probably something that this area has in common with areas across the country.

We spoke about the bureaucracy that is involved in apprenticeships, and concern was also expressed about the bureaucracy that is sometimes involved in applying for pockets of funding to take forward regeneration projects in town centres. Sometimes, it might be more effective not to take pockets of funding because the bureaucracy that is involved means that it is not cost effective.

We ended with one good example of regeneration. Apparently, a very good cycle path has been created in Angus. There was discussion of how that type of thing could be encouraged, fostered and perhaps taken across the local authority area. That could be a good economic driver through tourism.

The Convener: Thank you, Jamie—that was comprehensive. I ask Malcolm Chisholm whether he has anything to add.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): No—Jamie has covered it very comprehensively indeed.

The Convener: Gavin Brown is next.

Gavin Brown (Lothian) (Con): Jean Urquhart is going to feedback for us, convener.

The Convener: Right. I was told that it was you, but that is okay.

Jean Urquhart (Highlands and Islands) (Ind): We had an interesting discussion with John Preston from DEAP, who is involved with employment and training; Paul Grant from Mackays jam, who was famously referred to at last night's reception; Martin Fair from St Andrew's parish church, who runs the Havilah project, which is concerned with drug and alcohol addiction; Kevin Bazley from Scottish Enterprise, who is involved with sectoral development of groups of businesses; and Nick Bradford from Augment Scotland, which deals with people with mental health problems and employment.

Some of the issues that were touched on in the other groups came into our discussion, too, but we spoke for quite a time at the beginning about skills shortage. In this area, that relates particularly to the oil and gas industry and a shortage of engineers. We had a good discussion about the fact that, although places all down the coastline

from Aberdeen are taking advantage of the oil and gas industry, somehow more attention needs to be paid to that. We were given evidence of companies moving further south to use skills elsewhere. We need to be aware of that.

We heard about Montrose Port Authority and the difficulty of trying to engage young men. For the best jobs, people have to go to college and not just learn on the job. There are opportunities, but we need to find a way of engaging people and getting them to up their game so that, rather than take a job sweeping a pier, they take a job managing the pier. I guess that that is true of other ports on the coast.

We also heard about a lack of work experience in schools. I understand from our conversation that there is usually a week of work experience from high school in fifth or sixth year, but I know that, in other areas, the programme starts in first year. There is a question about that.

We heard that there are also skills gaps in accountancy. Nick Bradford, who is an accountant, referred to students graduating from university without basic accountancy skills. Perhaps there is a need to come back to essential skills and for people to be sensitive to the kind of accountancy jobs that they might get in this area, which are likely to be with small and micro businesses, and to the needs of those businesses. That was an issue.

We talked a bit about the certificate of work readiness and referred back to the previous programme—getting ready for work—and its usefulness. Gavin Brown can remind me if I am wrong, but this is linked to the fact that there are sometimes barriers to employers taking on people. Perhaps we need to identify some of those barriers so that they can be addressed when programmes are being put together.

Where did we go from there? Literacy and numeracy skills were highlighted and cited as a barrier to young people getting basic work. We also had an interesting and positive discussion about the next three to five years. There was a general optimism that we are beginning to see growth in the economy, with opportunities arising, and we discussed the need for councils, agencies and employers to network and get together to look at what the situation might be in three to five years. They need to identify the gaps that need to be filled and the skills that will be needed so that there is no mismatch.

Those groups need to speak to some of their local young people about the potential in the area and where they might want to spend their time so that they can be ready in future years to pick that up. For example, it was mentioned that jobs with, for example, the new V&A in Dundee or jobs in

tourism need not be low paid or short term. Having a career in the management of organisations such as the V&A will require new and different skills.

We talked about the manufacturing jobs that have left Scotland and gone abroad because it is more economical, but it was encouraging to hear about the reverse and examples of some companies coming back to Scotland. Are we aware of that and ready for it? We need everybody to work together.

We discussed some practical issues that people need to be aware of. For example, someone who is suffering from a drug addiction needs practical solutions if they are getting back into work and are expected to start at 8 o'clock in the morning and finish at 5 or 6 o'clock at night at some distance from a chemist. That might seem to be a small thing, but if we are serious about helping people to deal with their problems we need to be aware of them.

We talked about a plan for Angus and the culture of self-employment as opposed to business start-ups. Because of the lack of funding or investment in people who are trying to set up a company or a business that starts off needing employees, we are seeing more people taking advantage of the encouragement to become self-employed. However, that does not allow for the kind of business growth that we might like to see, and there might be questions around that.

Clarity of funding was quite a big issue. We have heard about the short-termism of funds before. Some organisations are literally living from year to year. We wanted to question that, because we thought that there needs to be funding programmes for organisations of at least two or three years. We heard about the community alcohol free environment—or CAFE—project in Arbroath, which is clearly doing a good job but has funding issues that need to be addressed. The project is nervous about whether it will be able to go forward next year.

On funding, there seem to be really good projects that have three-year funding and get going, but then the funding comes to an end and they fall, and we have to reinvent the wheel. How do we, as a nation and as a Government, deal with the issue of really good projects that have had to reinvent themselves, perhaps in quite a different way?

Our discussion led us to realise that some organisations are competing for the same pot. When organisations are doing similar but different things in different ways for different people, that can bring its own difficulties, because the pot does not make that distinction. That issue is hard. We felt that it was difficult to get people together to talk about that because everyone will protect the work

that they are doing, as they should. There is a question mark about funding and a need for more clarity about where funding for particular things could come from.

For me, I would say that the group was made up of positive and determined people, who are optimistic about the future. If we can deal with some of the problems, the situation in Angus will only improve.

The Convener: Thank you. Gavin, is there anything that you want to add?

Gavin Brown: I would add just one thing, convener. We had a representative from DEAP, an organisation that deals with employability and that tries to help people some distance from the labour market to get to the labour market. We also had a representative from Mackays jam, which we heard so much about last night. It is a dynamic business that is looking to employ people.

Before today, those two representatives had never met each other. They met today through this committee set-up and said quite explicitly that they intend to do business at some point as a consequence. To me, that summed up the discussion, and it sums up why it is so important that the Finance Committee comes to places such as Arbroath and listens. Things flow from that.

The Convener: Thank you for that positive comment. We will take back the information that has come out today and raise it with the cabinet secretary this afternoon. More of it will also feed into our budget report, which will be debated in Parliament in December.

We could not do that without the contributions of everyone who is here today, so I thank everyone for coming along and for your contributions and observations. There were quite a few passionate contributions to this morning's deliberations. I welcome everyone to lunch on the fourth floor immediately after the suspension of the meeting.

12:28

Meeting suspended.

14:00

On resuming—

The Convener: Good afternoon, everyone. It has gone time. The second item on our agenda is evidence on the Scottish Government's draft budget for 2014-15. I welcome to the committee John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth, who is accompanied by three Scottish Government officials: Andrew Watson, deputy director for financial policy, pay and administration; Graham Owenson, head of local government finance; and

Terry Holmes, principal accountancy adviser. We have been joined by Michael McMahon MSP. I also welcome pupils and staff from Arbroath high school, Montrose academy and Dundee and Angus College.

I invite the cabinet secretary to make an opening statement.

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth): Thank you, convener. I welcome the opportunity to appear before the committee to discuss the draft budget.

The draft budget that I announced to Parliament in September is focused on delivering investment, protecting household incomes and creating employment. It values our public services, the people who work for them and what they achieve. It provides opportunities for our young people and security of care for our older people. Most of all, the draft budget demonstrates the benefits of decisions being made in Scotland by those who care most about the future of our country.

The Scottish Government's fiscal departmental expenditure limit has been reduced by 10.9 per cent in real terms over the period from 2010-11 to 2015-16, with further reductions expected for 2016-17 and 2017-18. Within that, our conventional capital budget has been reduced by 26.6 per cent. Against that challenging context, the draft budget sets out our actions on accelerating the economic recovery while creating employment and new opportunities, including through the transition to a low-carbon economy; maintaining our commitment to a social wage for the people of Scotland and addressing the implications of welfare reform; and protecting our public services by taking forward an ambitious programme of public service reform, driving a shift to more preventative approaches and delivering improved outcomes for people and communities.

Over the two years of this budget, we will secure more than £8 billion of investment in Scotland's infrastructure; we will invest in our schools and hospitals, and in affordable housing; we will deliver greater connectivity through significant investment in our broadband and transport infrastructure; and we will invest in the citizens of Scotland, particularly our younger people. We are supporting our younger people from the earliest years right through to further and higher education. We are providing more than £190 million to our partners in local government to increase early learning and childcare provision to 600 hours, which will save families around £700 a year, while continuing to fund a record number of modern apprenticeships, maintaining our commitment to opportunities for all and providing colleges with the certainty of a funding floor. We are investing in the most generous package of business rates relief in the

United Kingdom, worth £570 million this year, including the provision of support to more than 92,000 business properties through the small business bonus. That is an increase of 4 per cent on the year.

As part of our commitment to the social wage, we are delivering the council tax freeze, free personal care, free higher education and the Scottish living wage. That contrasts with the placing of burdens on the most vulnerable in our society through the welfare reform process. In response to that, we have allocated £20 million in this financial year and the next, which is the maximum that is legally allowable, to offset the worst impacts and to help those who are struggling the most with the unfair bedroom tax.

We have also used the budget to support public services. We value a national health service that is publicly owned, just as we believe that local government should be properly funded to deliver high-quality and sustainable public services. With that in mind, we have allocated funding of £120 million in 2015-16 to support NHS boards, local authorities, the third sector and other partners to deliver better integrated health and social care provision, and to fund national initiatives.

Alongside the budget document, I have published an equalities budget statement and a carbon impact assessment of our spending plans. I have also provided the committee with an evaluation of performance against the priorities that we set in the 2011 spending review in the context of Scotland performs. I have been pleased with the degree of support for the framework that has come through in the committee's previous scrutiny sessions. The purpose and the national outcomes set out the vision—a description of the Scotland that we want to see. The focus on the national outcomes has been an integral part of our approach since the national performance framework was launched alongside the spending review and the Government's economic strategy in 2007. I am convinced that our focus on strategic outcomes and the Scotland performs framework is the way to deliver the improvements in public services that we are striving for.

I was interested to read the comments made to the committee by the Carnegie UK Trust, which said that we need to recognise

“excellence on our own doorstep”

and that we have in Scotland performs

“a tool of international significance.”—[*Official Report, Finance Committee*, 9 October 2013; c 3124.]

The framework is not yet finalised. It may not be the finished article, but we are investing heavily and intensively to improve the line of sight between inputs and outcomes. We will evolve and

enhance the approach only through scrutiny and challenge, and I am very open to that challenge.

The draft budget provides evidence of the progress that is being made across the full range of Government interventions in the economy and public services. It represents a positive and ambitious programme of investment in our people and our country, and I look forward to discussing the issues with the committee.

The Convener: Thank you very much.

Before we proceed to questions, I welcome to the meeting Andrew Welsh, who was, of course, MP and MSP for this constituency for many a long year. He was also my predecessor as convener of the Finance Committee.

Cabinet secretary, you will know that the committee agreed in its meeting on 19 June 2013 that the national performance framework would be the focus of our scrutiny of this year's budget. You said that the Carnegie UK Trust stated that the NPF is

“a tool of international significance”.

However, you did not add that it also said that the framework “is not well known”. In his written evidence, Donald MacRae said that the NPF

“deserves strong support and positive endorsement”,

but

“it is not well recognised or understood in Scotland.”

Jeremy Peat, of the Royal Society of Edinburgh, said:

“It is a remarkable achievement”.—[*Official Report, Finance Committee*, 2 October 2013; c 3087.]

The questions that I will ask you are against that backdrop.

A recurring issue that has come out of the committee's budget scrutiny was the lack of any obvious linkage between spending and the outcomes in either the draft budget document or the NPF. For example, we received written evidence from Angus Council, which said:

“linkages ... are not always apparent especially at a local level”.

The Joseph Rowntree Foundation said that there is a need for

“much clearer links between the priority setting and resource allocation decisions that are made by Government and its partners in contributing to the targets and outcomes.”—[*Official Report, Finance Committee*, 2 October 2013; c 3080.]

Does the Government have any plans to move to a much more substantive approach to linking performance and resource?

John Swinney: On the development work that has been undertaken, we have created a very

strong, comprehensive and balanced set of indicators to assess performance by not just the Government, but all public authorities, the private sector and the third sector into the bargain in achieving the Scotland that we want to see. Scotland performs is not a report card on the Government; it is an assessment of Scotland's performance. Of course the Government contributes to that, but so do many other players.

Scotland performs is essentially composed of two major elements. First, it aims to provide a unifying sense of purpose and policy-making structure for all interested parties in Scotland. Secondly, it provides the opportunity for people to assess on a day-to-day basis whether satisfactory progress has been made on improving conditions in the country and opportunities for individuals.

That brings me to Donald MacRae's criticism, which was whether the framework is well known. It is probably well known in Scotland's policy-making community, but I do not think that it is well known in its citizen community.

The Convener: May I interrupt you? I do not even know whether it is particularly well known among some people in the Scottish Parliament, including MSPs.

John Swinney: I would never question what my colleagues in Parliament know about things, convener. You are in a much more privileged position to say that than I am, given that they all have a regular opportunity to ask me questions.

The framework exists essentially to provide a structure for the assessment of how the country is performing and how we are advancing, and to test whether satisfactory progress has been made. I concede that it needs to be better known, but those who are aware of it have a pretty good understanding of it.

Another exercise that I have been undertaking—in which you have helpfully participated, convener—is to take forward the discussion that has been initiated in Parliament principally by Ken Macintosh and Claudia Beamish on developing a more entrenched and embedded form of performance assessment. They have advanced in the debate a lot of the work that has been undertaken on the Oxfam humankind index. I have tried to structure a discussion that has involved all political parties in Parliament, a number of key figures from the parliamentary committees and a wider stakeholder grouping, including the Carnegie UK Trust, Oxfam and Scottish Environment LINK, to create a broad consensus that Scotland performs represents the focus that we should have in policy making.

I do not for one moment suggest that there are not changes, improvements or refinements that could be made to Scotland performs in order for it

to fulfil the purpose that I am setting out for the framework today. The Government is very much open to that conversation, which is why I held that structured round-table discussion with various interested parties. As part of that exercise, we are looking at awareness raising and at how to embed Scotland performs more deeply in the policy-making community in Scotland. We will continue with such discussions.

On Angus Council's comments about people's difficulty in being able to see the application of the work at the local level, when we designed Scotland performs back in autumn 2007, we did so in partnership with local government. At the time, one of my objectives was to tell local government that I recognise that the Government cannot achieve on its own much of what Scotland performs is required to do, and that we must have the willing and active participation and support of local government in helping us to achieve the objectives. Indeed, when we constructed Scotland performs, we did so on a transparent and open basis with local government. The then president of the Convention of Scottish Local Authorities, Pat Watters, signed up COSLA to the national performance framework. The national outcomes were co-produced with local government, so that policy making by national Government and local government would follow relatively complementary approaches. That is important in relation to my point that, at the local level, we need local authorities to focus on many of these questions to enable us to achieve our objectives.

The Convener: Thank you very much. I want us to move on within this sphere. A number of our witnesses asked why the indicators appear to be afforded equal status. They want to develop a more strategic approach, to enable the NPF to act as a mechanism through which choices between priority areas can be made readily and objectively.

John Swinney: There is a hierarchy in Scotland performs in which we identify what I consider to be strategic factors that relate to growth and participation in the economy and the cohesion of our society. An indicator that troubles me is the fact that the extremities of economic performance in Scotland are becoming wider—in other words, the successful are becoming more successful and the least well performing are becoming poorer performers. That disparity is a matter of real concern to ministers and is why we took certain decisions. In your previous question, you raised the link between budget decisions and the focus on outcomes. If you look at some of our decision making on the distribution of youth employment funds, for example, we concentrated those funds—we did not give an across-the-board allocation to every authority—on areas with a particularly acute youth employment problem. The funding was allocated to a limited number of

authorities—if memory serves me right, six authorities received the funding. That gives you a sense of what happens when we see an outcome that is troubling us—in this case, the disparity in the economic performance between very successful and less successful areas of the economy. We act to tackle the poorer performing areas in the country. I cite a direct linkage between budget decisions and outcomes.

A range of strategic considerations are part of the national performance framework, which operates at different levels. On the strategic level, it relates to questions of solidarity, cohesion, growth, population and sustainability. It operates at the level of national outcomes and through individual indicators.

14:15

With regard to people's understanding of Scotland performs, I want to encourage them to look not simply at small compartments of information but at what the whole exercise is telling us. The exercise is designed to be a balanced scorecard of how the country is performing, and it creates a platform for us to address issues of concern in that respect.

The Convener: Thank you. I will move on to the issue of preventative spend, which—as you know—has been a priority for the committee over the past two years. Indeed, it was a priority for our predecessor committee before it went into abeyance just before the 2011 election.

We had a round-table discussion with a number of local authorities and health boards, and I have to say that I was quite impressed by a lot of the evidence that we received on the progress that is being made on preventative spend.

However, other evidence has not been quite so positive. For example, the Health and Social Care Alliance Scotland and Voluntary Action Scotland argued in written evidence that the

“move to preventative spend has not yet been significant enough.”

They raised concerns about change funds being used to a certain extent to

“prop up existing service provision so that it is maintained rather than driving the change agenda.”

Our budget adviser looked into the matter and stated:

“it is still unclear whether improvements have been able to unlock resources and the cost associated with the achievement of improvement is not clear.”

What evidence is there that resources are being unlocked as a result of the change funds?

John Swinney: First, I am certainly pleased at the level of focus that has been delivered in the

public service on preventative intervention. I use the phrase “public service”, rather than “public sector”, advisedly, because involvement in preventative spending goes much wider than the public sector. The third sector is a fundamental player in realising the agenda.

We must have open minds about what may constitute preventative expenditure. The fact that individuals may decide to go out for a walk every day of the week is perhaps one of the best preventative interventions that they can make in managing their own health and wellbeing. It would be impossible to calculate the success of that intervention, although we try to do so to some extent by trying to capture in Scotland performs the degree of leisure and outdoor activity in which individuals become involved. That will assist us in improving general wellbeing and healthy living for individuals in Scotland. The message is becoming much more comprehensively accepted and understood in the country.

Secondly, on the point about whether change funds are being used to prop up services, change fund allocations to individual projects were made only if those projects involved a degree of joint development between different public service sectors to produce a change to the way in which a service was being delivered. A project that involved simply taking an allocation of money and saying “We'll use this to prop up a service that we don't have the money for” would not have passed the test that the joint improvement teams applied.

Thirdly, on the question of unlocking resources, there is an accounting challenge in trying to identify the consequences of a preventative measure or service that has been put in place and whether it has directly saved us money in some other part of the service. There will be numerous good examples of redesign of a service leading to the delivery of the same or better outcomes or more clients or patients receiving the service. A service may now be delivered more efficiently, which will have saved the public purse money.

There will also be examples where, essentially, increased demand will have been met and dealt with as a consequence of service changes and redesign. Trying to account for that will be a much more comprehensive exercise.

The Convener: You will be aware that the committee produced an extensive report on demographic change and Scotland's ageing population. One of the concerns that was highlighted was that roughly 5 per cent of the Government's entire budget is spent on unplanned emergency admissions of older people to hospital. The Joseph Rowntree Foundation raised concerns about that, and asked whether the reshaping care for older people policy

“is strong enough, fast enough and being delivered with the right degree of urgency for that indicator to start to go in the right direction.”

The rate of admissions appears to have levelled out, but progress seems to have stalled.

John Swinney: You raise a valid issue in relation to the focus of preventative expenditure. If we, as a public sector, assemble in the right way the data and information that we hold and retain on a variety of questions, we can begin to predict which individuals will be more likely to be at risk of emergency admission to hospital. Take, for example, individuals who have chronic obstructive pulmonary disease. The best approach to minimising their unplanned admission to hospital is to ensure that they properly manage their condition day to day. When such individuals have unplanned admissions to hospital, the costs for the public sector rise very significantly indeed.

The challenge is to put in place services that will allow us to interpret and interrogate the information that we have at our disposal in order to avoid unplanned admissions. I think the policy is strong enough; I am very confident of that. Do I believe that it is all happening fast enough? No, I do not—which is why Mr Neil is applying such pressure in advancing the arguments around integration of adult health and social care, which is a major legislative and policy priority for the Government. That has been reinforced by resources that we have put in place for 2015-16 to intensify the process of integration of health and social care for the key group of elderly citizens to whom the convener referred.

The Convener: Colleagues want to ask questions, too, and I do not want to hog the meeting, but there are two more subjects on which I want to ask questions. The first is the McClelland review of information and communication technology infrastructure. You will recall that the Government stated in its response to the review that it assumed that savings of between £230 million and £300 million will be made in the ICT budgets of the public sector. It does not seem to be clear whether the suggested savings have been accounted for in the draft budget.

John Swinney: Essentially, what I set out in the spending review in 2011 was a set of factors that I believed would, if they were followed by public sector bodies, provide them with the tools to manage, through greater efficiency, the financial pressures that we face. One of those tools is the route map that the McClelland review gave public bodies, which is about the extent to which they can make their ICT expenditure, and their application of ICT approaches to wider delivery of public services, more sustainable within the financial context in which we are operating. There is no separate accounting for the savings that are

being made. What I essentially identified for public bodies was a toolbox that could be used to deliver against the more demanding financial climate for the public services.

The Convener: Before I let colleagues in, I have a question on the non-profit-distributing model. You will be aware that, last week, we met for just over 80 minutes representatives of the Scottish Futures Trust. I would like to ask you one of the questions that we asked them about the ethos of the Scottish Futures Trust.

For me, there is an element of frustration. The SFT representatives said that there has been £503 million of savings to the public purse, which is excellent news, but as I said to them last week, that seems to be overshadowed by the fact that, every single year, they appear to overestimate what they will be able to deliver in a given financial year. For example, in the financial year 2014-15, they project £809 million, which is £164 million lower than was anticipated in last year's draft budget statement. Of course, we interrogated them on the reasons for that. What concerns do you have that, year on year, we seem to have an overestimation in the draft budget of what is going to be delivered under NPD?

The SFT said that some projects are taking longer to be prepared and planned and some are being concluded at lower cost, but they were unable to say which, and they were not sure of the breakdown in terms of savings. What concerns do you have about that?

John Swinney: One of the key factors about NPD—I have not made any secret of this—is that NPD projects that are revenue financed take longer to prepare. That is partly why I have been banging on about the inappropriateness of cuts in capital expenditure of the magnitude that we have faced.

With capital expenditure, we get a budget allocation in a given financial year, and we have to spend it in that year. That allows us to deploy the resources to support particular projects; the money is available to us and we can spend it. With NPD, we have to construct a project architecture and try to secure the money from the marketplace. The process takes a great deal longer than our deciding, as a public sector, that we are going to build a particular school, at a cost of £X million, and going ahead and doing it.

Some projects have taken longer than we anticipated to come to fruition. That is partly because of factors that are outwith the control of the SFT or policy makers, relating to planning issues or other wider considerations, and some will be accounted for by the way in which other public sector bodies get their planning

infrastructure and arrangements in place to take developments forward.

I do not think that there is anything inherently wrong with the estimates that are being set out. I read the committee's exchanges with the SFT about the project list being ambitious in its timescale. I do not want to construct a programme on the basis of giving people all the time in the world to work out projects—

The Convener: I fully accept that. I did say that there is nothing wrong with being ambitious, but we have to be realistic. If, year on year, we are going to see delivery of less than was expected, surely there is an issue about what can be delivered. There has to be a much more realistic assessment.

You will know from the *Official Report* that I said last week that, if the SFT says that it is going to deliver £400 million and it delivers £500 million, that is a great success, but if it says that it is going to deliver £400 million and it delivers £300 million, it is a failure. It is about perception. The SFT has made £503 million of savings for the public purse, but every year, as you know, when we have the budget debates, the savings are overshadowed by the fact that the delivery that was predicted for the year never seems to be met. We know that such projects take time, but surely that should be factored in to ensure that the figures in the draft budget are much more deliverable and realistic year to year.

John Swinney: I think that the SFT dealt with some of that ground in your discussions, in that it made the point that nobody wants to be underambitious about all this. In the comparisons that you have made, the SFT gave a line of argument that I entirely support, which is that it is better to set an ambitious target and not reach it than it is to set an underambitious target purely and simply for the device of passing it. Let us try to put in place an approach that stretches as far as possible the capability of organisations to deliver. That is the thinking that has gone into the estimates.

The Convener: I think that we just want the figures for delivery to be as close as possible to the original estimates.

14:30

John Swinney: It is important to look at what is going on at the moment: the City of Glasgow College and Inverness College are under construction; the community health and care village in Aberdeen is under construction; a range of healthcare projects in the Highlands are under way; there is the Kilmarnock campus of Ayrshire College; there are the M8, M70 and M74 motorway improvement projects; and a range of

schools and community health projects will be under way during this financial year. Another stream of projects is in procurement.

I understand the points that you are raising, convener, but it is important to remember that significant projects are being delivered that could not have been delivered had we accepted the capital constraints that I talked about earlier, with the 26 per cent reduction in capital spending. The projects that I have just talked about could not have happened without the NPD structure.

The Convener: Thank you. I open out the questioning to colleagues.

Jamie Hepburn: I want to run through a few of the areas that have been touched on already, and bring the discussion back to the national performance framework and how well it is known. I suppose that that begets a question: is it important that the NPF is well known, or is how it is used by Government or Parliament more important?

John Swinney: It is fundamental that the NPF is known in the policy-making community, the public sector, the third sector and, ideally, among key private sector players. I am not sure that it is vital that it is understood by members of the public because what they are interested in is whether the services that are available to them and the opportunities that exist for them and their families meet their expectations. Those are by far the most important considerations, from the perspective of the public.

Jamie Hepburn: Do you get a sense that the relevant stakeholders are aware of the NPF?

John Swinney: I think that there is growing awareness. At public sector leadership level, the national performance framework is pretty well known. There is a job of work to do to ensure that at all levels of the policy-making community, decisions are being taken based on understanding of the NPF and how it can structure the decisions that are taken by different public sector bodies.

Jamie Hepburn: It is odd that the very people who told us that people do not know about the NPF were the people who knew about it and were there to talk to us about it.

One of the questions that was asked about the national performance framework was whether the correct indicators are being used. It is interesting that you mentioned increasing physical activity. One witness questioned whether that indicator should be used, while another witness—I cannot remember which organisation she represented—was very enthusiastic about it and said that it is the most important indicator. I give that by way of example. Are the indicators subject to review? Can they be changed? If so, what would the process involve?

John Swinney: They can certainly be changed. When we constructed the national performance framework in autumn 2007, we did it as an internal process of Government. I rather curtailed a discussion that I thought would see us creating a national performance framework probably in 20 years, given the rate at which it was all going internally within Government, in order to draw a line under it and apply it to the spending review in 2007. In the internal process we made our best judgment, as ministers, about what indicators should be included.

I concede at the outset that there was almost no public consultation or dialogue about what was in the first round of indicators. We did a bit more of that in 2011; the exercise that I referred to in my earlier response to the convener was designed to show that we are now looking much more actively at whether the indicators provide the right balance of information for us to consider. We will review that as part of an open consultation process that will arise out of the round-table discussions that I am having on the question.

Of course, indicators can be changed; this is not a perfect science, and I would be the first to admit that. We are forming a judgment based on a selection of information from the massive number of sources from which the Government collects information. Those indicators are designed to give us a balanced scorecard.

The example of increased physical activity is a very good one, because if the chief medical officer was sitting here, he would tell the committee that the best thing that folk can do to look after themselves is go for a half-hour walk every day, so he would judge that it is absolutely correct to have that physical activity indicator in there. However, I stress that it is not a perfect science, so the Government is open to reviewing and revising indicators, based on discussion.

Jamie Hepburn: There is also an issue about the number of indicators. It has been suggested that if more indicators were added, the process would become unwieldy and, possibly, useless. I cannot remember off the top of my head how many indicators there are, but how was the number of indicators decided on and is that the highest number of indicators that there will be? If one new indicator comes in, will another one go out?

John Swinney: The number of indicators was arrived at because we judged that that number was at the reasonable end of the scale and would avoid tipping into being unable to be followed or being not valuable. If we had many more indicators than we have just now, I think that the whole process would become a bit unwieldy.

Jamie Hepburn: I will move on to preventative spending. The Government is providing some £500 million for the change funds over the period of the spending review. Clearly, we are at too early a stage to review the outcome, so how will the outcome of that investment be reviewed to see whether anything has changed?

John Swinney: That review will be undertaken at a couple of different levels. The first level will be on the impact of our preventative spending measures, and of greater encouragement of focusing on prevention percolating through into the Scotland performs framework and into improvement in key indicators within that.

Secondly, there will be periodic reporting on, and assessment of, individual programmes. I have seen some of the early work that has been done to assess effectiveness of programmes in each of the different compartments—under health and social care, early years activity and reducing reoffending—and the Government will study and consider those points.

Jamie Hepburn: It has been suggested that we need to change the very nature of how public services will be delivered in the long run. NHS Highland and Glasgow City Council have talked about culture change within their organisations and how such change is sometimes resisted because of the “It’s aye been that way” tendency. Will assessment look at how the workforce is embracing culture change?

John Swinney: A few established attitudes will have to be challenged. “It’s aye been that way” is one of them. Other established attitudes that will have to be changed are, “We’ve always done this work—we can’t have anyone else doing it”, “We don’t speak to health”, and “We don’t speak to local government.” We have made very significant progress in all those areas.

The cultural challenges are being addressed by work on two levels. First, there is the national community planning group, which Pat Watters chairs from his perspective as a former leader of local government and as a very experienced public servant. His current responsibility is for a national integrated public service—he is chair of the Scottish Fire and Rescue Service. The national community planning group brings together ministers from a wide variety of areas with the leadership of COSLA and health boards, national public bodies and the third sector to drive culture and attitude change, which I recognise is one of the significant challenges in tackling the existing culture and attitudes.

There will also be specific measures to encourage focus on the different approaches that can be taken to preventative action and to breaking down compartments in public services.

One of the best examples that I have seen recently was the early years collaborative event that was convened by the Minister for Children and Young People, Aileen Campbell. It brought together about 800 people from the public sector, the third sector and the private sector at the Scottish exhibition and conference centre in Glasgow. There were individuals from each of the 32 community planning areas in Scotland who all had stories to tell about how they are taking forward the reform agenda to improve outcomes for our youngest citizens. If any event has given me confidence that the process is becoming more deeply entrenched in public policy, it was that event, which demonstrated that public servants at the coalface are thinking about how they can interpret the agenda and apply it to the work that they do in their localities.

Jamie Hepburn: I have two quick questions about capital investment. I will pick up on the convener's exchange with you about NPD investment. In evidence last week, the Scottish Futures Trust was pretty clear that the figures are different for the reasons that you have set out, which are that there were lower costs for projects and they are taking longer to prepare. I suppose the ultimate question that people out there might want to know the answer to is this: has the number of projects changed?

John Swinney: The projects that we said were part of the plan, which involves a total of £2.5 billion of capital expenditure under the NPD banner, will be taken forward.

Jamie Hepburn: So, the projects might take longer than was planned, but are still going ahead.

John Swinney: Yes.

Jamie Hepburn: I have a final question. The Government has switched money from resource to capital over the spending period. Can you remind us why you took that decision, what benefits you consider will accrue from it and what might have happened if you had not done that?

John Swinney: The rationale behind the switch was that we wanted to ensure that we would be able, where possible, to use resource to supplement capital expenditure, because of the significant reduction in capital expenditure that had taken place.

When I was at the committee last year for the budget debates, I probably said to you that our capital budget had reduced by 33 per cent. However, it has reduced by only 26 per cent because of changes that were delivered by the UK Government that increased the level of direct capital that we had available. The increase was not as much as I would have liked, but there is was certainly more than we had when I was here 12 months ago.

As a consequence, we have moderated the degree to which we have transferred resource to capital, because as the UK Government inflated the amount of capital expenditure that we had available within the cuts programme, we suffered at the same time resource reductions in the budget. My expectation for 2014-15 when I came here last year was that we would transfer £270 million of resource to capital, but the draft budget is predicated on the transfer of £165 million from resource to capital. The other factor that played into that was the different increase in the DEL that came from the UK Government compared with what I expected 12 months ago.

Jamie Hepburn: Thank you.

John Mason: We have covered quite a range of issues already. An issue that you mentioned in your opening statement was the £20 million for the bedroom tax, as it is commonly known. Will you explain for us why that is the legal limit, as I think you said it was? Constituents come to me and say, "We understood that the gap was £50 million." What is the logic of the £20 million?

14:45

John Swinney: The logic is roughly as follows. The bedroom tax is part of the benefits infrastructure and a reserved function. If we want to spend money in a reserved area, we must have a legitimate basis for doing so. If we just try to replace a benefit that the UK Government is taking away without any legal basis for doing so, we will be unable to sustain that expenditure.

In the bedroom tax arrangements, there is provision within UK legislation that enables local authorities to provide discretionary housing payments to a maximum that is set by the Department for Work and Pensions. In essence, the resources that we are making available to local authorities equip them with the maximum amount of resources with which it is possible for them to supplement the discretionary housing payments. That totals £20 million.

John Mason: That is helpful. It clarifies things a bit. Somebody to whom we spoke this morning suggested that, in some areas, the councils are not even using all the discretionary housing payments. If need exists, they are not even able to find it. I do not know whether it has been your experience that some have enough resources to meet the need already.

John Swinney: Within local authorities?

John Mason: Yes.

John Swinney: That is not a message that ever reaches me loud and clear, I have to say.

John Mason: Perhaps it was a one-off comment.

John Swinney: Raising awareness and ensuring that people's needs are properly addressed are a challenge. Some of the discussion that there has been about underspends in the Scottish welfare fund is more than a little bit premature. The fund was started in April. I monitor financial information all the time, but I will watch that stream of resources to determine whether it is adequate for the scale of demand that might crystallise once people begin to become aware of the issues that are involved.

John Mason: It is still early days for all of the issues.

John Swinney: It is very early days in the process. There is undoubtedly an issue with awareness raising. The Minister for Housing and Welfare, Margaret Burgess, has been making a great deal of effort to improve awareness. However, a real issue exists in that respect.

John Mason: While we are on awareness raising, Scotland performs came up in our workshops this morning with local businesspeople, the council and the voluntary sector. My impression was that a number of people at the workshops, which were extremely good, were not aware of the whole picture, although some certainly were. You have had some questions on that already.

It was suggested that you should do a bit more on income in Scotland performs, such as showing median income as one of the measures. Would you be open to that?

John Swinney: As I said in my response to Mr Hepburn, I would be the first to accept that measuring performance is not a perfect science and that there will be judgments on points and areas of emphasis.

I saw in the evidence that the committee took from Stephen Boyd of the Scottish Trades Union Congress some points on the emphasis and focus of indicators. I would be open to that. That is the reason why, in the round-table discussion that I have created, I have tried to get as broad a perspective as I can round the table, including the convener to represent the Finance Committee. I have also invited the convener of the Economy, Energy and Tourism Committee, as well as representatives from across the political spectrum, and I hope that the group will channel concerns.

I appreciate the decisions that the Finance Committee has taken in its budget scrutiny this year. This exercise alone has applied greater scrutiny to the national performance framework than it has had in the previous five years combined. The committee has done Parliament a

service by focusing on those questions, so I am very open to considering them.

John Mason: Could you engage the public in such scrutiny, or is that not possible?

John Swinney: I am not sure. To return to my point to Mr Hepburn, the public want to see the fruits of the framework, and to know whether the quality of life for people in Scotland and the quality of services and the environment are improving. That is what the public are interested in; I am not sure that people are particularly exercised about whether a relevant indicator is in the framework—

John Mason: Is that because the public were not involved in setting the indicators in the first place, or is it just inevitable?

John Swinney: I think that the public expect us just to get on with our job, which is to make things better. That is what the public think that we and public servants are here to do, and they just say, "Get on with it."

I am trying to put in place a framework to deliver that degree of progress on an all-encompassing basis that involves public, private and third sector organisations to provide some focus.

John Mason: I am probably on weak ground, as I am an accountant—we produce accounts and nobody reads them. I accept that the problem exists.

The Government has other targets such as the one for 1,000 extra police officers, which everyone knows about and which is frequently referred to. Would it be possible to raise awareness of the performance measures to which we are constantly referring? In debates, we very seldom refer—although Malcolm Chisholm has done so once or twice recently—to how the Government is doing against the national performance framework. That is where we should be going, but I do not know how we get there.

John Swinney: The framework is there as a speech-making opportunity for any member of Parliament who is following Mr Mason's exhortations.

John Mason: I will make an effort myself.

I return to the NPD targets against what has actually been happening. We have gone over that previously and had quite a good discussion with the people from the Scottish Futures Trust. We all want to set tight targets and timescales for individual projects, or a whole bundle of them, and we do not want people slipping, but is there a way in which, when we put it all together, we could say that, although all those projects add up to £500 million, we would in practice expect £400 million? Could we say things such as, "There is a 20 per

cent risk that the cost will be £350 million”, or could some kind of scale apply?

I accept that there is a lot of uncertainty around the figures, but people read them as definite figures and then we do not match them. I do not know whether we could manage expectations, or whether the information could perhaps be presented in some other way.

John Swinney: There is a difference between a project in preparation and a project in delivery; I am very firm in my mind that those are two different categories.

During the preparation period, we give our best estimate of what we think that a project will cost. We may then find factors that deliver a lower cost—for example, we might get a cheaper interest rate or someone who is hungry for the work might submit a very competitive offer. We may also get situations in which the cost increases, because we might, in developing a project, discover old mine workings—an inevitable cause of real difficulty for projects—or whatever it happens to be.

When a project is in preparation, there will inevitably be differences between the best desk estimate that we can make of its cost and the amount for which it is eventually procured. Once procured, when the project goes on to delivery, I have a completely different view of it. If we have said to the public that a project will cost £100 million, in my book it will cost £100 million or less; it cannot cost £100 million or more.

Increasingly, we are moving to fixed-price contracts. The Queensferry crossing is a very good example of that, because there is a core fixed price for that project. Alongside that is what I would call a risk reserve that can address a limited number of risks, particularly those from general prices within the economy. A five-year project must take account of the fact that inflation, steel prices and oil prices might change substantially within that period. All that has to be taken account of. We have a core price and the bridge must be delivered against that price, but as we go through each period in the development of the contract, and as we pass particular milestones of risk, if that risk reserve has not been used it goes back into the public purse. We are seeing the fruits of that, and that is what I was able to announce at budget time.

Once the project moves into delivery, I believe that it is in a different place. We have given a commitment on what the price must be and we must deliver against that commitment. That means that we must properly agree the architecture of projects. The risk transfer between the public and private sectors on the Queensferry crossing is absolutely crystal clear. The risk transfer between

the public and private sectors was not crystal clear for the Edinburgh trams or for the Scottish Parliament building, and that is what led to all the trouble.

John Mason: In NPD projects, the figures that are mentioned at the early stage are really the maximum. In practice, we might come up with figures that are lower as we move through the project. In traditional capital expenditure, if we did not spend £50 million this year on, for example, the sleeper service, it could be spent on something else; the money could be moved around. We do not have the flexibility with NPD because the money is for a specific project.

John Swinney: I have one caveat on what Mr Mason says. I would not want to accept that, during project planning, the outline estimate of what a project might cost will be the maximum cost, because we might not be able to deliver against that. I am talking about project preparation, because once the project has been procured, the price is fixed; I accept that. I am talking about our best estimates of what a project is likely to cost, but I would not want to be held to an absolute maximum figure for the project while it is in preparation. The Aberdeen western peripheral route, for example, will cost us more than was originally projected, and several years of all our lives have gone since that number was first decided on.

Mr Mason is correct about the difference between NPD and traditional capital. If we get a windfall because a project comes in cheaper in a given year or finishes early, with traditional capital we can redeploy that £10 million, £15 million or £20 million on something else. NPD is project-based finance, so when we raise the £100 million for a particular project, that project is what it is raised for. If the estimate happens to be £150 million, all we are is ahead of the estimate. We do not have any surplus cash to show for it.

John Mason: The final area that I want to touch on concerns the predictability of your budget. All that the Scottish Parliament does, on the whole, is spend money, apart from non-domestic rates and so on. In the past, you have experienced some changes in what you expected to get from Westminster compared with what you actually got. Also, periodically, and naturally enough, Westminster changes something during the year and we get a share of that. How do we cope with those changes, if the system is the best that it can be at the moment? If extra money comes from Westminster, is it always completely clear what we are entitled to?

15:00

John Swinney: We have had two negative within-spending-review changes to our budgets—in 2013-14 and 2014-15. We had to wrestle with a reduction of about £39 million in 2013-14 and a reduction of about £125 million in 2014-15 in our resource budgets—there were capital uplifts that went with those. As I said in my response to Mr Hepburn a moment ago, we vary other factors in relation to resource-to-capital transfer and try to do whatever we can to minimise impact. Crucially, what I have not done in either case is pass on any reduction in resource budgets to local government; local government has had no restatement down of the plans that I made previously. On how we handle and address that, we simply try to manage resources as tightly and in as focused a way as possible to ensure that we are able to operate within the budgets that are set for us.

Gavin Brown: Cabinet secretary, you recently completed a half marathon and the First Minister is on something called the bikini diet. Is that preventative spend in action?

John Swinney: Of all the questions that I prepared for, I did not prepare for that one. Mr Brown has the accolade of outclassing my preparations. Let me just say that I feel the better for completing not just one but two half marathons in the past two months.

Gavin Brown: I believe that you completed them in very good time as well.

I turn to a more serious issue. We have heard a lot about NPD so far, on which I have a couple of follow-up questions. In last year's draft budget, the prediction for NPD in 2014-15 was £973 million. The current prediction for 2014-15 is £809 million, according to this year's draft budget. Two reasons are given for the reduction. One is reduced costs, where savings have been found. The other is delays to the projects. Are you able to give us either an exact or an approximate breakdown as to how much of the change has resulted from delays and how much has resulted from a reduction in costs?

John Swinney: I cannot give an approximation for it, but the balance will be more to do with delay than with savings.

Gavin Brown: I think the convener described the initial figures as optimistic. Did the Scottish Futures Trust put forward such optimistic figures over a period of years of its own volition, or was it encouraged to do so by ministers?

John Swinney: My recollection is that on the design of the first information that was put into the public domain in 2011—I am being very careful in what I say here—the overwhelming direction of designing what we were going to do in that

programme came from ministers, not the Scottish Futures Trust. The Scottish Futures Trust would have been involved, but, essentially, on the strategic decision about what we were going to do about £2.5 billion of capital projects—we were facing a decision either to cancel because of the UK Government's changes to the capital programme or to find some other way of delivering—the overwhelming majority of that debate and discussion and estimation of how we would go forward was undertaken by ministers.

Gavin Brown: Okay. Thank you.

The Government states in the budget document that in 2015-16 it intends to borrow approximately £296 million over a 25-year period. Can you expand on how that decision was taken and how you managed to secure a 25-year period for the borrowing?

John Swinney: The decision was taken because we judged that there was a necessity to provide confidence about the pipeline of activity in Scotland in the construction sector. Far be it from me to talk about what other commentators are saying, but I pick up a lot of commentary of a positive nature about the way in which the Government's focus on creating a pipeline through NPD projects and other projects has greatly assisted the construction sector in Scotland.

The decision to borrow £296 million in 2015-16 was designed to ensure that we were able to give the marketplace a clear forward look on the likely level of construction activity that would be undertaken in Scotland. That has been a beneficial element of how the Government has handled the situation. I think that we are seeing the level of economic performance that we are because we made absolutely clear how we intended to deal with the economic situation post-2010. That gives a clear steer to industry.

The 25-year terms are essentially driven by the command paper, which says that borrowing should be according to the asset life. For most capital assets, 25 years is more appropriate than 10 years.

Gavin Brown: My understanding from the command paper is that 10 years would be the default position but a longer period could be negotiated depending on the project. Has it been agreed that the borrowing of the £296 million to which you refer in the budget will be for 25 years?

John Swinney: That is the assumption that I am operating on because of the categorisation in the command paper and the relationship to asset life. I will use the resource to fund asset growth and asset development in Scotland, so it fits into that category.

Gavin Brown: A couple of questions have been asked about the switch from resource to capital. For the budget that we are discussing, which is 2014-15, I think that the original estimate was that the switch would be £270 million. The most recent estimate would appear to be that the switch will be £165 million in the next financial year. By my calculation, the figure has therefore changed from £270 million to £165 million. Is that calculation correct? Is £165 million the new figure as far as you are concerned? Can you explain why the figure is £165 million instead of what was initially projected?

John Swinney: Yes, those figures are correct. My original proposition was £270 million and the figure in the 2014-15 budget is £165 million. The reason for that relates to the point that I have just made. In 2014-15, we had to wrestle with a reduction of £125 million in our resource budget, which I was not expecting, and an increase—from a low base—in the capital budget.

I took decisions to shift resource into capital to boost the capital budget, but I ended up getting my capital budget boosted and my resource budget cut. I thought that the best way in which to act was to protect the plans that I had already set out to the Parliament, which involved me scaling back the resource-to-capital transfers and meeting commitments out of traditional capital.

Gavin Brown: Which capital projects will be affected by that decision?

John Swinney: They will principally be in the fields of enterprise and housing.

Gavin Brown: Do you know what the split will be between the two?

John Swinney: I do not think that I have that in front of me today, but I am happy to give the committee what further information we have on that.

Gavin Brown: Thank you.

John Swinney: However, I make the point that that step was designed to protect the plans that I had already set out to the Parliament.

Gavin Brown: I move on to non-domestic rates income. There is an increase from £2.435 billion in 2013-14 to a projected £2.688 billion to be collected for 2014-15, which is described by the Scottish Parliament information centre as a 10.4 per cent cash increase. What level of growth would we need in the economy to collect £2.688 billion for 2014-15?

John Swinney: The assumptions that underpin the estimates for economic buoyancy for 2014-15, which is what Mr Brown refers to, are part of the calculation and how we arrive at the numbers. From my recollection, the estimation of that

buoyancy level in 2014-15 is lower than what was actually delivered in 2010-11. In shorthand, we are in much better economic conditions but, for the purposes of the estimates, I am assuming a lower buoyancy level than was delivered in 2010-11, when the economy was in a poorer state.

Gavin Brown: On the specifics, though, I presume that the buoyancy level is based on the predicted growth. What is the predicted growth figure that underpins your buoyancy assumptions?

John Swinney: The buoyancy assumption is what I use to drive the numbers. That is the factor that is implicit in the calculation here, and that is the comparison year by year. The buoyancy assumption is the relevant factor.

Gavin Brown: Okay, but the projected growth of the economy must feature somewhere in the mix.

John Swinney: It will feature in amongst the buoyancy assumptions. The point that I am making is that the buoyancy assumption is the key indicator and what makes the judgment about economic performance. I am trying to help the committee by saying that the level of that buoyancy assumption in 2014-15 is lower than it was in 2010-11.

Gavin Brown: Okay. You have told us that, but is it possible for you to give us in black and white the buoyancy assumptions for 2010-11 and 2014-15?

John Swinney: I have to be careful here, because we could get into the territory around business rates. If I set out all the assumptions that make up my calculations, it might be possible for people to surmise my assumption on appeals losses, which is commercially sensitive. I cannot possibly—and I do not think that the committee would expect me to—disclose the estimations that I make about appeals losses, which I suspect could be deduced if I gave all that information to the committee.

I will take the matter away and look at what is possible. However, let me be absolutely clear: I am not prepared to disclose the appeal loss assumptions that I am making. The information on business rate statistics is sensitive in those significant cases that we fight with the assessors.

15:15

Gavin Brown: For the avoidance of doubt, I would not ask the cabinet secretary to give us any commercially sensitive information. However, if there is a way to give us more data than we currently get, that would be helpful, and that is what the cabinet secretary has undertaken to consider.

Another part of non-domestic rates is the public health supplement. My understanding is that that comes to an end at the end of 2014-15. Is that correct?

John Swinney: That is correct.

Gavin Brown: There are no plans to replace the supplement or to put in place something similar.

John Swinney: I have no plans to do that.

Jean Urquhart: I have a wee supplementary to Mr Brown's question on business rates. Will the business rates be re-evaluated as part of the business bonus scheme review?

John Swinney: The small business bonus scheme is a policy decision; it would be up to any Government to consider whether to sustain it. We have made it clear that we intend to sustain the scheme.

Other than the question whether we carry on with the policy, the issue is whether a re-evaluation throws up a set of implications that changes some of the dynamics of the scheme. In that case, I would then be in the realms of predicting what a re-evaluation might throw up, and it is conceivable that issues could arise in that regard.

Jean Urquhart: A related issue that was raised last night when I was talking to people who represent small businesses—this is ever the case when there is a dividing line—was about those who are eligible for the small business bonus scheme and those who are not. Is consideration being given to a better form of business assistance, through the enterprise companies and so on, for larger businesses that are paying greater rates but are not eligible? When we use a dividing line, those above the agreed line do not benefit. Are there other opportunities that small businesses can access?

John Swinney: Companies of different sizes and scales will be eligible for or have access to different levels of business support. Some of the account-managed companies—which will not always be large companies—are in receipt of significant and sustained support from the enterprise network.

I acknowledge the difficulty when cut-off points are reached and, ultimately, some people do not make it in under the wire, which is frustrating for them. We certainly keep under review the thresholds—which are the material issue under a re-evaluation—to ensure that we are properly reflecting those considerations in judgments about the size and extent of the scheme.

Jean Urquhart: In this morning's group discussion, we were impressed with the people we

spoke to who are running local organisations whose activities would, to my mind at least, sit comfortably with preventative spend—organisations concerned with people with mental health issues and getting some normality into the lives of both drug and alcohol addicts by helping them into employment.

At least in one case, the issue of one-year funding has come up before. That can mean that those who keep an organisation going take their eye off the ball because they are more concerned with whether their funding will continue in the following year. I thought that two or three-year funding was becoming the norm. Does that case concern you? Such grass-roots organisations are saving money because, without their services, people might have to go into rehab, hospital or prison; they also create some jobs, although they are mostly run with volunteer assistance.

The Convener: Do you have a question for the cabinet secretary?

Jean Urquhart: I would like to hear about annual funding.

John Swinney: There are a host of examples and I have come across third-sector organisations in my constituency and around the country that are, quite literally, saving people's lives by their interventions, interrupting a descent into disaster and starting people on the road to recovery, which we hope will end in employability, stable housing and all the other things that many of us take for granted. The substance of Jean Urquhart's point is absolutely correct: such organisations make a marvellous and impressive contribution.

We then move on to the question of how stable the funding is for the organisations that deliver those services. Gavin Brown has advanced the debate in Parliament by arguing, in his party's own time, for a greater emphasis on longer-term blocks of funding—funding for two or three years, as opposed to year to year—and I have significant sympathy with that point and aspiration.

As a consequence of the debate that Gavin Brown initiated, I commissioned some research from the Scottish Council for Voluntary Organisations and the Coalition of Care and Support Providers in Scotland into the extent to which one-year funding or three-year funding is the norm. We are agreed that we do not quite have all the data available to be sure which it is, but I am sufficiently concerned by the fact that I hear too many organisations talking about year-to-year funding that I think that we have to do something about it.

We then come to the question of how practical three-year funding is. I often hear public sector organisations say that they cannot get certainty about funding because they do not know what

their budget will be, but we can strip that back. In 2011, I gave a funding settlement, principally for the health service and local government in Scotland, for three years, and on no occasion have I given less money. Therefore, people have had their three-year minimum requirement and it is only reasonable that if they got that, they should share the information and detail with the organisations that they fund.

That sums up where I am on the issue. I am trying to make as much progress as I can and I have committed to go back to Gavin Brown and Parliament on the question.

Jean Urquhart: In your opening statement, you said that you were focused on delivering investment, protecting household incomes and creating jobs, and you talked about people making decisions for the Scottish economy and about the value of public services. Can we reasonably link those things to the budget to show outcomes through the national performance framework?

John Swinney: Yes. The national performance framework is not just a budget tool; it is a policy making tool and a performance management tool in Scotland. It has a presence in all our discussions about our priorities and the issues that we are addressing. I think that it is possible for what you asked about to be done—and done in a fashion that means that people will be able to see the direction of our thinking and how that translates into practical actions.

Jean Urquhart: Mr Mason talked about public awareness of the national performance framework. As you will see from the evidence that we took at a recent meeting, the framework has been hailed as being almost of international importance. People recognise the plan, which is really good. The framework is perhaps the means by which politicians can regain credibility in the public view. If we set out our stall with our policies and show our workings—the drawings, if you like—and the outcomes, we will provide the evidence that people need to have confidence in what is happening, instead of their having an image of politicians as people who say what they will do but do not do it.

John Swinney: That is right. Another objective of the national performance framework is to give the long-term continuity of policy that is required if we are to tackle some of the deep problems in Scottish society. The previous Government did not have a national performance framework, but a number of its policy interventions underpin approaches that we have taken forward in the framework. For example, the previous Government's activities on public health, such as banning smoking in public places and tackling the big killer diseases in Scotland, were driven by those being the right things to do, and we put in

place a performance framework around those good ideas.

The framework signals a positive response to the oft-heard question about how we can tackle problems when we have a Government only for one or two terms—who knows how many terms a Government will have? Scotland performs is designed to be a framework that sets out a pretty good way of proceeding, regardless of the politics of the Administration. By trying to involve all parties in the consideration of Scotland performs, I have tried to create the foundations for some continuity over what happens should the Government change hands—heaven forbid that it should.

Michael McMahon (Uddingston and Bellshill) (Lab): I will resist the temptation to comment on that.

John Mason mentioned the £20 million that has been allocated for bedroom tax mitigation. I commend the cabinet secretary for finding the money; it was hugely important that he should do so. However, it is worth exploring the technicalities. Will the £20 million be distributed under the existing COSLA formula for distributing moneys to local authorities, or will consideration be given to the demands on each local authority as a result of the bedroom tax?

John Swinney: You must forgive me. My instinct is to say that I am pretty sure that the money will have been distributed on an agreed distribution formula with COSLA. We will not have distributed it without COSLA's agreement, which makes me suspect that distribution will have been predicated on the distribution formula. However, let me put a caveat on my answer, because I am not 100 per cent sure. I had better write to the committee on that point.

Michael McMahon: That would be helpful.

Some local authorities, using the DWP criteria, have maximised the amount by which they can top up the money that is available. I think that North Lanarkshire Council, in my area, gets an allocation of around £350,000 from DWP and has maxed that out to around £900,000. However, some local authorities have not done that.

Given that you have said that there are strict rules around what a local authority or even the Scottish Government can give to ameliorate the impact through DHP, if a local authority has maxed out the amount in its current resources, how can the Scottish Government give it an additional amount of money, which would then be in breach of the DWP rules?

15:30

John Swinney: A certain finite level of support can be put in place, which essentially can be supplemented by the local authorities. The local authorities are the eligible bodies to supplement; the Scottish Government is not the eligible body. We can fund local authorities, and it is then up to them to use the allocations as they see fit.

Local authorities will be able to undertake that activity in their own locality to a level that will be specified at local authority level. In the case of North Lanarkshire Council, which Mr McMahon raised, it will have a ceiling up to which it can provide maximum resources. My assessment of the situation is that, if it reaches that ceiling, that is essentially the limit of its ability to ameliorate the effects of the bedroom tax.

Michael McMahon: Two issues come out of that. First, North Lanarkshire Council has found an additional £1.1 million above the limit that it was allocated by the DWP. That is not in the DHP budget, because the council cannot go any further than it has, which is 150 per cent of the allocation. The council has maxed that out, but it will find £1.1 million in each of the next two years from its own resources for a hardship fund that it has set up separately. Will money that you allocate from the £20 million go to North Lanarkshire Council? Can it use that money to further increase the fund that it has set up?

John Swinney: I do not know the focus and purpose of the hardship fund that North Lanarkshire Council has put in place. I am not sighted on what that involves, but I can say to the committee that there is a maximum that can be reached in the discretionary housing payment system. Obviously, the Scottish Government will make a contribution essentially to fund the local authority to enable it to deliver against that to the maximum level possible. Whatever else the local authority decides to do with its own resources is a matter for it. Without knowledge of the details and focus of the hardship fund, I cannot comment further on it.

Michael McMahon: That is absolutely fine. It is totally consistent with what the Minister for Housing and Welfare, Margaret Burgess, said at the Welfare Reform Committee meeting last week. I appreciate that and accept that that is the case. However, it is also identical to what the Chief Secretary to the Treasury, Danny Alexander, told this committee when I asked him a similar question. There might be technical restrictions on the amount of money that a local authority or even the Scottish Government can set against the criteria that have been set by the DWP, but he said that it was entirely a matter for the Scottish Government to allocate from within its block grant any additional funds that it felt necessary to

allocate, and no penalty would be involved in doing that. That is absolutely consistent with what Margaret Burgess said about a local authority finding additional money from its own resources to fund services or support for people who are affected by the welfare reform changes. If a local authority can find the money from its own resources, what technical difficulty prevents you from doing that?

John Swinney: A local authority is free to make its own choices with the resources that are available to it. That is entirely a matter for it. What I have to consider is having a legitimate and credible way of being able to support local authority expenditure for a specific purpose; if that is to ameliorate the effects of the bedroom tax, then I must have a mechanism that will enable me to do that, which is supporting the maximisation of the discretionary housing payment system. That is what we have done to the maximum that we can do. That approach enables me to provide the maximisation of resources to meet the specific problem that local authorities have identified and a mechanism that can be used to address that.

Michael McMahon: If we follow that to its logical conclusion, is there not a danger that a local authority that has taken a decision to maximise, or to extend as far as possible, the amount of money that is available to it to increase the DHP will lose out financially with regard to the £20 million, because money will go to local authorities that did not take that decision? The local authorities that did not maximise the amount of money in that respect will now have access to a pot of £20 million, but a local authority that found money because it was so concerned about the impact of the bedroom tax will not be able to access that money to the same extent.

John Swinney: We were asked whether we would do something to support discretionary housing payments as the vehicle that we can legitimately support for local authorities to take forward, and we are fulfilling that support. What individual local authorities decide to do is clearly a matter for them, but we made the offer that we did to local government, which has been accepted, because we are keen to mitigate the effects of the bedroom tax. We put the resources in place to enable that to happen.

Michael McMahon: Are those discussions still going on or have they been concluded?

John Swinney: We have regular discussions with the COSLA leadership on welfare reform implications. I would say that they probably happen formally at a very senior political level about three to four times a year, but there is constant, on-going dialogue on these questions.

Malcolm Chisholm: I will ask just a few brief questions, because I think that we are getting towards the end of our time. I will start with questions on income. I was going to ask about the non-domestic rates income, but I will not invite you to go down that road again, given that Gavin Brown explored it in detail. However, my remaining question on that is this: given that the projected increase seems to be rather large, how confident are you that that money will be delivered? What would be the consequence if there was a shortfall in local authority budgets?

John Swinney: On the last point, the Scottish Government guarantees the level of funding that is associated with non-domestic rates. If I give a commitment to a certain sum of money, that is paid to local authorities, and solving any problem in that context is my responsibility and not that of local government.

I am confident that the estimates will be realised. They are driven by a range of factors such as inflation, assessments of buoyancy, the implications of appeal losses and prior year adjustments. I am confident that they will be fulfilled.

Malcolm Chisholm: That raises the question of how much money you have in reserve. Another issue that I was going to ask you about is guarantees—for example, the unquantifiable guarantee for the Commonwealth games. What level of resources do you have in reserve for contingencies such as the two that we have just mentioned in the past couple of minutes?

John Swinney: The only reserves that I am able to hold at present are, in essence, anything that I retain in the budget exchange mechanism. However, that is an annualised exchange mechanism, so it does not roll forward into an accumulated sum, as it historically used to. If I put a certain sum of money into the budget exchange mechanism, I must spend it in the subsequent financial year or lose it. I have no other reserves that I can deploy in those circumstances. I have to keep the budget under constant control to ensure that we meet all our commitments.

Malcolm Chisholm: So there are some risks inherent in the non-domestic rates guarantee and the other guarantees that have been made. That leads to my question about the budget exchange mechanism. Have you made decisions about that for next year, or are you still considering it?

John Swinney: The budget in 2014-15 depends to an extent on the budget exchange mechanism, some of which I have already provided for. The budget incorporates the utilisation of resources in that respect.

Malcolm Chisholm: I have one last point on income. We are trying to maximise income in

every way possible. Two areas in which additional income will come through are European funding and capital receipts. Are assumptions made about that income? Is it built into the budget in any way, or is it additional?

John Swinney: The budget is predicated on capital receipts of approximately £80 million in 2014-15. That money has to materialise in order to underpin our plans, but I think that we have set a reasonable level of expectation. European funds are essentially a netted-off process. What we get in European funds goes out the door, so it is essentially a zero-sum game between what comes in and what is issued. If there were changes to the European funding regimes, that could have implications for us in handling the budget.

Malcolm Chisholm: I suppose that the issue is transparency, as there is nothing in the budget about European funds.

John Swinney: The issue with the budget and European funding is that it is a zero-sum game: the money comes in and goes back out again as part of the programmes. I suppose that we could show it the other way round, as an income and an expenditure, but we choose to show it in this fashion.

Malcolm Chisholm: We are always struggling to get a more transparent budget. One issue—it is probably relevant to the next agenda item—is why the stage 3 changes from many months ago are not incorporated in the budget document. That makes any comparisons from year to year in the budget document rather inaccurate.

John Swinney: Again, I am open to discussion on this issue, but it has been custom and practice for the budget that is set out in a draft document to be in the form that it was in when it last received parliamentary authorisation. The document in front of me contains the budget that was approved in early February 2013 as the statement for 2013-14. I understand the point that, for completeness, it would be tidier if what was shown in the document was not the last budget that had legislative cover but the current plan. That might make more sense. I am happy to explore that issue, although I am certainly not the originator of the fact that the last legislative instrument is the one that is shown in the document. It is custom and practice, but we are certainly happy to explore the matter.

Malcolm Chisholm: Another transparency issue concerns the resource-to-capital transfers of £165 million, which have been discussed. Apparently, those transfers have not been reflected in the budget document totals, so the DEL resource is overstated by £165 million and capital is understated by the same amount. Is that correct?

John Swinney: Well, that reflects my point about the budget statement. There is £165 million in the £28 billion budget that will be transferred from resource to capital. It is not in there twice—it is just in there once. It might be in one column just now, but it has to go into another column. It is perhaps not in the most obvious column just now, but it is not in two columns.

Malcolm Chisholm: Is the fact that £120 million has been transferred from health resource to health capital taken into account when you make your fundamental commitment about passing on the Barnett resource consequential for health, for example?

John Swinney: No—well, yes, it is, because the UK Government's reduction of resource expenditure did not reduce health expenditure as health is absolutely protected south of the border. If there is no change to health south of the border, the Barnett consequential is not passed on to Scotland.

Malcolm Chisholm: I will think about that answer.

John Swinney: Negative Barnett consequentials are not passed on to Scotland.

15:45

Malcolm Chisholm: In a sense, you have already addressed this question, but the issue is fundamental to our inquiries about preventative spending. What evidence is there that money is being unlocked as a result of the change programme? Incidentally, I agree entirely with your praise for the early years collaborative and other initiatives but, for areas such as health—we have had discussions about this—I suppose that there might be a question about whether resources can be unlocked, given the demographics. In those circumstances, do you still expect the change programmes to unlock resources, or will they merely mitigate the increases that would otherwise take place?

John Swinney: If they do so, I would consider that to be an achievement into the bargain, because that would enable us to deal with issues of demographic and societal pressure in a fashion that meets the needs of the public. That is the whole purpose of the budget programme.

Malcolm Chisholm: This perhaps raises the issue of the fiscal impact of legislation. It has been announced that £120 million funding will be made available for implementing the Public Bodies (Joint Working) (Scotland) Bill. To what extent is that new money, or is that just the change fund in another form?

John Swinney: The change fund was programmed to operate until 2015. With change

funds, it is a reasonable position to say that we expect some change to have been undertaken, so we then look for new devices to drive the process of development. Essentially, the fund that the Cabinet Secretary for Health and Wellbeing has announced for 2015-16 is about driving that process of integration yet further.

Malcolm Chisholm: As you know, our other main concern is to do with Scotland performs and the extent to which performance and resourcing are linked. The link certainly does not seem to be transparent in the budget documents. In the Scottish Government's budget planning, to what extent are performance and resourcing linked in any way? Does the fact that something is a key indicator or outcome in Scotland performs influence things, or does the performance from year to year influence the kinds of choices that are made in the budget? In what way does Scotland performs impact on the budget decisions?

John Swinney: Let me give the committee an example. Within Scotland performs, one of the priorities is to reduce reoffending, but we found ourselves in a position where reoffending was not dramatically reducing. The Cabinet Secretary for Justice and I discussed the issue and we introduced the reducing reoffending change fund, which is designed to create greater collaborative working between the Scottish Prison Service and external agencies, principally in the third sector. The fund aims to ensure that we prepare offenders better for release so that there is a discernible impact on reoffending, and I think that we are beginning to see the fruits of that. We took a resource decision to shift resources to make that happen, and we are now beginning to see the fruits of that materialising. We can perhaps see that link more obviously in some examples than in others.

The Convener: Cabinet secretary, that has exhausted the questions from committee members, but I just want to cover one or two wee areas that have not quite been picked up by colleagues around the table. I hope not to extend our evidence session too long.

First, do you think that the national performance framework should be placed on a statutory basis?

John Swinney: I am thinking carefully about what I can say here, but, well, here goes—I am in that moment when I cannot quite remember what I am allowed to say and what I am not allowed to say. We will consult on that point in the community empowerment and renewal bill consultation.

The Convener: You have already mentioned that capital DEL has been cut in real terms by 26.6 per cent between 2010-11 and 2015-16. However, the draft budget does not cover the potential risk of maintenance backlogs across all sectors, and

the impact that that might have on service budgets and service delivery. What assumptions have been made for backlog maintenance and what will the impact be on future capital investment?

John Swinney: When we faced the reductions in capital expenditure in 2010-11, I commissioned a new way of constructing the capital budget. Because we faced such a dramatic reduction, we had commitments that exceeded our available resources. I therefore constructed a framework for designing a capital programme that was based first on identification of priority projects such as the Forth replacement crossing, the south Glasgow hospitals, Scottish Water investment, local government finance, and the schools for the future programme. We then considered our legally binding commitments. We then added a third category, which was maintenance. Once we were satisfied that we had a credible volume of resources in place for each of those categories, we looked at other possible commitments. That model for constructing the capital programme is how we manage capital allocations now.

In this budget, we are allocating getting on for 20 per cent to maintenance issues. Some of that will be used to tackle the historical backlog, and some will be used to ensure that new assets that we have acquired can be kept in good condition. That is the approach that we are taking within the resources that we have available.

The Convener: I have one final question on rates, but it comes from a slightly different angle to the questions that have been asked already. The Government has recently consulted on a review of the business rates system and published an action plan in response to the consultation that includes a commitment to create a power to allow councils to respond better to local needs and create their own localised relief systems. Is there not a risk that there could be a strong disincentive for Scottish local authorities to adopt the new power in order to protect the council tax payer from increased spend?

John Swinney: Councils are able to make a decision based on their own choices about how they use their resources. If local authorities wish to encourage and incentivise business growth, the opportunity is made available to them, if they choose to go down that route.

The Convener: Okay, but it would obviously come out of existing budgets, which would mean that councils would have to reduce expenditure elsewhere.

John Swinney: They would have to fund it, yes.

The Convener: Thank you for that clarification. I thank the cabinet secretary for his endurance over a marathon session of two hours or so, and colleagues for their questions. The committee still

has items on the agenda, and the cabinet secretary is key to those, but I will call a brief suspension of six or seven minutes to allow members and the cabinet secretary some respite.

15:53

Meeting suspended.

16:00

On resuming—

Subordinate Legislation

Budget (Scotland) Act 2013 Amendment Order 2013 [Draft]

The Convener: The second item on our agenda is to take evidence on the Scottish Government's draft budget—*[Interruption.]* Sorry, I am having déjà vu. We nearly had another two-hour question session there.

The third item on today's agenda is to consider the draft Scottish statutory instrument that provides for the 2013-14 autumn budget revision. Before we come to the motion on approval, which is under agenda item 4, we will have an evidence session on the order. I invite the cabinet secretary to make an opening statement explaining the order. I remind him not to move the motion at this point.

John Swinney: This is the first of two planned and routine revisions to the budget that occur in-year. The second and final revision will be the spring budget revision, the order for which will be laid in the early part of 2014. As in previous years, a pattern of authorising revisions to the budget in the autumn and spring is required, as the detail of our spending plans inevitably changes from when the Budget (Scotland) Act 2013 was approved.

The changes that are proposed in the autumn budget revision result in a net increase of £0.8 million in the approved budget, from £34,698.1 million to £34,698.9 million. The material changes to budgeted expenditure in the Budget (Scotland) Act 2013 reflect the changes that were announced at stage 3 of the Budget (Scotland) (No 2) Bill on 6 February, the allocation of financial transaction consequentials flowing from the United Kingdom Government's budget in March and the deployment of available budget exchange headroom, as outlined in my provisional outturn statement on 19 June.

In addition, the autumn budget revision reflects in-year ministerial decisions, including a package of measures to assist fishermen, farmers, harbour repairs and the food and drink sector as well as capital funding for the futures information technology system, which is essential to ensure the effective delivery of the new European Union-funded common agricultural policy programme.

It is normal practice for the autumn budget revision to reflect a technical budget adjustment arising from the updated assessment of the national health service and teachers pension schemes. The latest actuarial assessments—

based on the most recent HM Treasury discount rates, increases to employee pension contributions and a reduction in interest on scheme liabilities—record a net overall reduction in annually managed expenditure of £160 million.

A few significant transfers between portfolios occur on an annual basis, primarily between health and education and between justice and health. Those budgets are initially allocated to the portfolio where the policy lies and then transferred to the portfolio where the spending occurs at the in-year budget revisions. The significant transfers of that nature are the transfer of £57.6 million from health and wellbeing to further education for nursing and midwifery training, and £30.3 million from justice to health and wellbeing in respect of drug treatment and prevention.

As announced in my draft budget 2014-15 statement on 11 September, I have taken action at the autumn budget revision to deploy additional funding of £20 million, through a budget transfer, to enable local authorities to mitigate the worst effects of the UK Government's bedroom tax.

Members might wish to be reminded that, for the purposes of the Scottish budget, only spending that scores as capital in the annual accounts of the Scottish Government or of direct-funded bodies is shown as capital, which means that capital grants are shown as "operating" in the document. The full capital picture is shown in table 1.7 of the supporting document. No further new announcements or initiatives appear in the figures that the committee is scrutinising. The revisions reflect decisions or announcements that have already been made.

The brief guide to the autumn budget revision that my officials have prepared sets out the background to and details of the main changes that are proposed. I hope that colleagues have found the guide helpful.

As I have mentioned, the 2013-14 spring budget revision will be laid in early 2014. In line with previous years, it will be informed by on-going in-year budget monitoring. That will include the recognition of the Scottish Government's share of accumulated uncommitted reserves of the former eight police forces. As outlined in my answer to a parliamentary question in May, the recognition of our share of those reserves, which are currently estimated at £27.8 million, forms part of the strategy to address the £54.8 million fiscal resource DEL budget cut that was applied by the UK Government in its March budget.

I will be happy to answer any questions on the autumn budget revision.

The Convener: Thank you, cabinet secretary. I welcome the Presiding Officer, Tricia Marwick, who has been out and about all day in Arbroath as

part of Parliament day and is now in the public gallery. Welcome, Tricia.

Cabinet secretary, you touched on the transfer of £57.6 million from health and wellbeing to further education and the transfer of £30.3 million from justice to health. In previous years, such transfers have been made through the autumn budget revision. Why were they not just incorporated into the education and lifelong learning budget and the health budget from the outset?

John Swinney: The answer is that they are historical transfers that get made every year, in order to enable us to make a like-for-like comparison of the resources that are available in individual portfolios over time. If we were to change that practice, we would essentially be making it more difficult to see such like-for-like comparisons between portfolio budgets, which I appreciate is part of the scrutiny that interests many people. It is for that simple reason alone.

The Convener: It seems a bit cumbersome to leave it there for eternity, so to speak, rather than to make the adjustment once and for all.

John Swinney: I would be happy to consider any issues that the committee wants to raise about that.

The Convener: Scottish Water's borrowing is reduced by £35 million. The guide to the autumn budget revision states that that does not impact on its investment programme, but it is not clear whether that means that those moneys must be found in future years or whether Scottish Water has made efficiencies that have reduced its borrowing requirement.

John Swinney: Essentially, the question that we continually pose to Scottish Water during the five-year period of the determination to which it operates is whether the delivery of the investment programme and the performance of the organisation require the resources that were identified at the outset of the determination period. The current determination period extends from 2010 to 2015. Based on the determination in 2010, we are asking the organisation whether, given all that has happened in the economic marketplace in the intervening years, all the resources and borrowing facilities that we are making available are required to support the investment programme. On this occasion, Scottish Water has been able to come back to us and say that it is able to sustain and deliver its investment programme as planned without the use of that £35 million, so it will not be required. That will be a product of the fact that particular projects are coming in cheaper because of competition within the marketplace, the fact that inflation is lower and other factors that have applied for a longer period

than would have been envisaged when most of the thinking around the 2010 determination was undertaken in the two years before then.

The Convener: Thank you. There are transfers from the education and lifelong learning budget to local government of about £7 million—£4 million to deliver the one-plus-two languages policy and £3 million for family support. Is that money ring fenced for the stated purposes?

John Swinney: No.

The Convener: On the budget exchange mechanism, which was touched on previously, has the Scottish Government built any planned carry-forward from 2013-14 into the 2014-15 draft budget, given that £158 million will be carried forward from 2012-13, which is already built into the 2013-14 budget plans?

John Swinney: Yes, we will be utilising budget exchange mechanism facilities to carry forward resources from 2013-14 into 2014-15. I am confident that the resources will be available to support a transfer.

The Convener: This is the last question from me before I open the discussion to the rest of the committee. It is on another subject that was touched on previously. On resource-to-capital transfers, are the planned transfers of £243 million in 2013-14, as presented in the 2014-15 draft budget, on track to be delivered within the current financial year? If so, what capital projects will they fund?

John Swinney: It is difficult for me to give a linkage, so to speak, that indicates which particular projects are funded by those transfers—that would be a contrived exercise. We are discussing with relevant areas of the public service what resources require to be transferred to fulfil their capital plans—essentially, creating the funds to support the capital programme. It is not simply a case of saying that a particular project requires a resource-to-capital transfer to make it happen. It would be difficult for me to give you a precise answer in that respect.

Our plans remain to transfer £243 million during this financial year, but I will be happy—as I have been before—to give the committee an outturn position on what has transpired as a consequence of the actions that we have taken.

Gavin Brown: My questions all relate to page 15 of the autumn budget revision document. I picked enterprise, energy and tourism because every entry appears to differ markedly from what is in the draft budget for 2014-15 at page 47—I do not know whether you have that to hand.

John Swinney: Sorry—page 40-what?

Gavin Brown: It is page 47 of the draft budget.

John Swinney: And that relates to page 15—

Gavin Brown: It relates to page 15 of the autumn budget revision document. In the bottom table on that page, we have budget lines for energy, enterprise bodies, innovation and industries—we can forget about Scottish Development International, because that is nil—and tourism. I picked that page because every line seemed to differ from what is in the draft budget itself. I seek clarification for each one.

The line for energy is £68.8 million, but the budget for 2013-14 in the draft budget document is £115.9 million. I seek an explanation of that difference.

John Swinney: Just give me that point again. It is £68.8 million—

Gavin Brown: Page 15 of the ABR says that the budget line is £68.8 million. Page 47 of the draft budget says that the 2013-14 budget is £115.9 million. I seek an explanation of the difference between the £115.9 million and the £68.8 million.

John Swinney: I will just get my sums going. The transfer in that line relates to the planned profile of the renewable energy investment fund. I think that I have been clear with Parliament that we have had slower uptake with emerging projects that would be able to command support under the renewable energy banner. Therefore, I have used resources to meet other priorities and, as part of my commitment to deliver the renewable energy infrastructure fund over a longer period, that resource will be replaced in later years.

Gavin Brown: I have heard those comments before. You explicitly refer to £15 million of reprofiling in the autumn budget revision document. That would take you from £115 million down to £100 million. I am just trying to work out how we get from £100 million down to £68.8 million. I simply cannot see the workings in the document.

John Swinney: Some of what is coming out is to do with the resources that we are making available to deal with the bedroom tax because of underspends in relation to the energy company obligation programme.

I think that that is the bulk of the detail that I can give the committee just now.

16:15

Gavin Brown: I am grateful for that and wonder whether that can be followed up. Even if you subtract the entire £22.8 million that is the proposed change to the enterprise, energy and tourism budget from the £115 million for energy, that still leaves quite a bit more than £68.8 million,

which is what we seem to end up with. I cannot get the figures to balance. If that cannot be done here and now, that is fair enough, but I seek assurance that it can be done.

John Swinney: We can give the committee a more detailed explanation of that.

Terry Holmes (Scottish Government): If it would be helpful, we can give the committee a table that shows the movement from the draft budget through the budget bill and on to the autumn budget revision.

Gavin Brown: That would be helpful. I have the same question in relation to the figure for enterprise bodies. It is £331.1 million on page 47 of the draft budget document, but it is £295.8 million on page 15 of the ABR. Is there an obvious explanation for that difference?

John Swinney: I am just looking at the interaction, some of which will be to do with the strategic forum savings, which must be netted off the total figure. That savings level is applied across all the enterprise bodies—VisitScotland, Scottish Enterprise and Highlands and Islands Enterprise. Those savings will have to come out of those bodies to make the numbers work and will contribute towards the reduction that is required.

Terry Holmes: The other change is that the figure in the draft budget is based on the resource budget, whereas the figure in the budget bill for non-departmental public bodies is based on grant in aid—it is the cash grant in aid that goes to the NDPBs. So, for Scottish Enterprise and HIE, it will be the cash that is shown in the budget bill rather than the resource budget for the bodies that is in the draft budget.

John Swinney: I referred earlier to the way in which some of the figures are presented, given the relevance to direct-funded bodies. That will have an effect on the read-across from the numbers on page 15 of the autumn budget revision to the numbers on page 47 of the budget document. We can give a comprehensive picture of how those are related. The strategic forum savings are a net figure that must come out of the enterprise bodies and tourism line, supported by other budget lines.

Gavin Brown: I have the same question on the tourism and the innovation and industries budget lines. However, rather than dwell on the matter, I think that it will be helpful if you can provide a similar breakdown for all four lines—energy, enterprise bodies, tourism and innovation.

Terry Holmes: It is important to note that there is a step between the draft budget and the budget bill, with a reconciliation in the budget bill and then a move on to the autumn budget revision. We can certainly provide that trail.

Gavin Brown: Thank you.

Malcolm Chisholm: I would like some clarity on housing. The picture becomes confusing because of all the extra tranches in housing, which we are very grateful for. Am I correct in saying that this document embodies the stage 3 figures plus the consequentials—the financial transactions that must be paid back? There was an extra housing announcement in the summer. Is that covered here, or is that for next year?

John Swinney: This document covers the Barnett consequentials that were announced on 2 May, the budget bill changes that I announced in February and the resources from the budget exchange mechanism that are flowing into that line.

Malcolm Chisholm: Are the housing resources that were announced in July for next year, or will they appear in the spring budget revision?

John Swinney: They are split over two years. There is £290.8 million going to the housing sector, some of which is for 2013-14 and 2014-15. There will be other announcements arising out of the financial transaction decisions of the UK Government about what will go into 2015-16.

Jamie Hepburn: We have details about significant inter-portfolio transfers, one of which involves over £5 million. My first question is about the £20 million for local government discretionary housing payments that came from your portfolio and from the infrastructure, investment and cities portfolio. Has there been any calculation of how much that has freed up for local government? It was potentially up to £20 million, but given that we know that not every local authority topped up to the maximum, how much is likely to be freed up for local government to dispose of elsewhere?

John Swinney: Certainly, the resources that we are making available will provide the facility for up to £20 million to be taken forward by local authorities. Obviously, we are about halfway through the financial year, so we will monitor the use of those resources, and the further monitoring will be published in due course.

Jamie Hepburn: Will we be able to see that down the line?

John Swinney: Yes.

Jamie Hepburn: There is also the £5.9 million transfer from the culture and external affairs portfolio to the education and lifelong learning portfolio to support a number of initiatives for young people. I wonder what that is all about. Are the initiatives related to culture and external affairs per se, or are they something else entirely?

John Swinney: A number of changes are for part of the young Scot fund that the Government set out in the programme for Government in 2011. They look at topics such as the young innovators

challenge and the Commonwealth games youth skills legacy programmes, and they are designed to support a range of different ventures in the field of employability and skills.

John Mason: You mentioned earlier the issue of what is capital and what is not, but I was just a bit confused. Page 58 of the ABR document has a table entitled “Schedule 3.4 Motorways and Trunk Roads”, which shows under the “Capital” column an adjustment of £3 million against an increased budget for network road strengthening and, under the “Operating” column, an adjustment of £7 million for an increased budget for network bridge strengthening. Why are the sums listed in different columns?

John Swinney: It can literally be about the nature of the repair that is being undertaken and how far they have to dig down, which can determine whether it is a resource or a capital cost. I suspect that I will fail to get my elementary road engineering qualification with these remarks, but a limited repair to the road surface will be treated as a resource cost, whereas digging down to the foundations and rebasing the road will be considered a capital cost. The sums to which you referred are, in essence, enhancements of the relevant budgets to enable the work to be undertaken.

John Mason: So there is a set rule or whatever.

John Swinney: Oh, yes! There is a set rule.

John Mason: Okay. That is fine.

John Swinney: There are many set rules.

John Mason: I am sure that there are. That is great. Thanks.

The Convener: That appears to have exhausted all the questions, you will be delighted to hear.

Agenda item 4 is on the motion to recommend approval of the order.

Motion moved,

That the Finance Committee recommends that the Budget (Scotland) Act 2013 Amendment Order 2013 [draft] be approved.—[*John Swinney.*]

Motion agreed to.

The Convener: The committee will publish a short report to the Parliament setting out our decision on the order.

As that was the last item on the agenda, I thank everyone who came along today: parliamentary staff, committee members, the cabinet secretary and, indeed, members of the public, who have sat through what has been—certainly, I would imagine, for the cabinet secretary—a fairly gruelling session this afternoon.

We have enjoyed our visit to Arbroath. It has been a lovely sunny day for those of us who were out at lunchtime enjoying the sunshine, visiting the harbour and so on. It has been a really great day. I thank the people of Arbroath for having us.

Meeting closed at 16:27.

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