FINANCE COMMITTEE

AGENDA

4th Meeting, 2004 (Session 2)

Tuesday 3 February 2004

The Committee will meet at 10.00 am in the Chamber, Assembly Hall, The Mound, Edinburgh to consider the following agenda items:

1. **Scottish Water:** The Committee will receive a briefing as part of its investigation into Scottish Water from—

   Andrew Scott, Head of Division, Water Services Unit; Janet Egdell, Team Leader, Water Services Unit; Aileen Wright, Head of Audit and Accountancy Services Division; and David Reid, Head of Development and Rural Affairs Finance Division, Scottish Executive.

   The Committee will then take evidence from—

   Allan Wilson MSP, the Acting Minister for Environment and Rural Development; Andrew Scott, Head of Division, Water Services Unit; Janet Egdell, Team Leader, Water Services Unit; and Aileen Wright, Head of Audit and Accountancy Services Division, Scottish Executive.

2. **Inquiry into Relocation Policy:** The Committee will consider an approach paper outlining proposals for developing its investigation into the Scottish Executive’s Relocation Policy into an inquiry.

3. **Budget 2004-05:** The Committee will discuss the Scottish Executive’s response to its stage 2 report on the Draft Budget 2004-05.

4. **Antisocial Behaviour etc. (Scotland) Bill (in private):** The Committee will consider its draft report on the Bill’s Financial Memorandum.

5. **Local Governance (Scotland) Bill (in private):** The Committee will consider its draft report on the Bill’s Financial Memorandum.

Susan Duffy
Clerk to the Committee
The papers for this meeting are:

**Agenda Item 1**

Correspondence from the Acting Minister for the Environment and Rural Development, dated 19 January 2004  
PRIVATE PAPER

**Agenda Item 2**

Paper by the Clerk

**Agenda Item 3**

Paper by the Clerk and SPICe and correspondence from the Minister for Finance and Public Services, dated 20 January 2004

**Agenda Item 4**

PRIVATE PAPER

**Agenda Item 5**

PRIVATE PAPER
Thank you for your letter of 3rd December to the Minister for Environment and Rural Affairs regarding the financing of Scottish Water, and in particular, the allegations made in the paper “Did Flaws in the Application of the Resource Accounting and Budgeting Distort the Strategic Review of Water Charges in Scotland” written by Jim and Margaret Cuthbert. I am replying in Mr Finnie’s absence.

As I have said previously, there was no error in the application of the public expenditure rules known as RAB (Resource Accounting and Budgeting), nor was there any misunderstanding by the Water Industry Commissioner of the levels of public expenditure available. It is the case that public expenditure rules are complicated and changed in recent years, and coincidently at the same time as a major reorganisation of the water industry in Scotland. For the former Water Authorities and subsequently Scottish Water, there was a change from a cash-based to an accruals based system in 2001-02 and then back to a cash-based system in 2003-04. This meant that from Autumn 2000, documents published by the Executive would have been shown on an accruals basis. From Autumn 2002, following further changes in the rules, all figures for the water industry will have been shown on a cash basis. You will, of course appreciate that public expenditure rules are a reserved matter.

The important point is that none of the changes in the public expenditure rules reduced the levels of borrowing available to the industry. I can therefore reassure you that charges were not adversely affected by these changes.

I note that your Committee raised the issue of the inconsistency in the levels of borrowing given by the Water Industry Commissioner in his Strategic Review of Charges 2002-06 and the Scottish Executive. Although the Water Industry Commissioner’s assessment of the borrowing required for the water industry does differ from the Executive’s budget for water, there is no inconsistency. The difference reflects the fact that Parliamentary budgets are absolute limits that cannot be breached, whilst the WIC’s figures are targets that Scottish Water needs to meet if it is, in the interests of all customers, to achieve financial sustainability. The Strategic Review of Charges 2002-06 makes quite clear that the targets will only be met if Scottish Water meet the WIC’s efficiency targets in full.

As is also clear from the Water Industry Commissioner’s Strategic Review of Charges and his comments made at your committee on 2nd December, the level of public expenditure available has not been a constraint on the industry. What is a constraint is how much it is prudent for Scottish Water to borrow in the interests of today’s and tomorrow’s customers who must pay interest on any borrowing. As was made clear at the Committee, the aim, over the four-year period of the current Review, is to place Scottish Water on a financially sustainable footing where charges are sufficient to cover the annual costs of the business – operational, maintenance, tax and interest costs – and new borrowing is for enhancing the asset value of the business.

As you know, I am keen that Scottish Water is an efficient and effective business. I therefore believe that the route to keeping water and sewerage charges to the minimum necessary is not higher levels of debt but higher levels of efficiency.

ALLAN WILSON
FINANCE COMMITTEE

Scottish Water considered it may be helpful to members of the Committee to receive a short briefing on the reasons for the phasing of Scottish Water’s investment programme, and what the balance is between funding from borrowing and customer charges for 2002-06.

By April 2004 Scottish Water will have invested £750m and is on track to deliver the remaining investment within allowable funding by 2006.

1. Scottish Water was set-up in 2002 to deliver £2.3bn worth of new and rehabilitated assets over the period 2002-2006. The programme consists of 4601 projects.

2. The WIC advised that there should be a target of £1.8bn for delivery of the same outputs as the three Authorities had agreed to deliver i.e. an efficiency saving of £500m.

3. Scottish Water was given a borrowing limit of £610m from the Scottish Executive towards funding the programme over the period with the ability to flex the spend between years so to enable the efficient delivery of the programme. The balance of investment funding between borrowing and that taken from charges over 2002-2006 is broadly in line with England and Wales Plcs’ i.e. one-third borrowing, two-thirds from charges.

4. The content of the programme (the outputs) had been defined in detail by the selection of the Central Option of Q&SII (consulted on by the Scottish Executive in 2001) by Ministers. The vast majority of outputs are legal requirements placed in Scotland by EU legislation. The amount of money included in the programme for growth (development constraints) or other discretionary investment is a very small percentage. £41m is allowed for first time sewerage, first time water, sustainable urban drainage and development constraints in rural areas. Scottish Water has no discretion to move funding within the defined programme without agreement from the WIC and the other Regulators.

5. In 2002-03 Scottish Water invested £353m. In 2003-04 Scottish Water will deliver around a further £400m worth of new and improved assets.

6. It is common practice in England and Wales as shown over the last three investment periods to backend load the programme. Under normal circumstances it takes time to build up to the construction phase with such a large and diverse programme, however there were two additional reasons for Scottish Water taking these decisions to phase in the way it has done so. These are given below:

- The three investment programmes inherited from the three Authorities on merger were not prioritised on a Scotland wide basis. In order to ensure that all of the required Q&SII outputs would be delivered effectively and efficiently Scottish Water undertook a complete review of the programme. The programme had then to be agreed by the Regulators i.e. WIC, SEPA, DWQR and Scottish Executive. The 2002-03 investment programme proceeded unhindered by this activity because there were sufficient projects that were well enough advanced to start construction. To have increased this investment without a Scotland wide review would not have been good value for money for customers.
- Assessment of the mechanisms for delivery of the capital investment inherited from the three Authorities was that they were not capable of delivering the outputs for the Regulator’s target of £1.8bn i.e. they would not deliver £500m efficiency savings.

- Scottish Water took the decision to create a new delivery mechanism via a Joint Venture (Scottish Water Solutions) that would deliver the programme for the post efficiency sum.

- Scottish Water held back some projects to maximise the delivery of efficiencies through the new Scottish Water Solutions (SWS).

7. Scottish Water has now secured through SWS both the capacity and the commercial rates to deliver the agreed programme efficiently.

8. The main risks to the programme remain the ability to secure circa 500 planning permissions, 75 environmental impact assessments and purchases of the land required for construction of new assets. These factors together with unforeseen ground conditions and price escalation (for those projects procured under conventional delivery mechanisms) are the main risks to any investment programme.
FINANCE COMMITTEE REQUEST FOR INFORMATION ON MINISTERS’ POWERS OF DIRECTION OVER THE WATER INDUSTRY COMMISSIONER FOR SCOTLAND AND SCOTTISH WATER

Water Industry Commissioner for Scotland

Subsection 1(3) of the Water Industry (Scotland) Act 2002, gives the Scottish Ministers a power of direction over the Commissioner. To date, no direction has been given under this power.

Scottish Water

Section 56 of the 2002 Act provides for Scottish Ministers to give directions to Scottish Water.

Subsection 56(1) places a duty on the Scottish Ministers to give directions to Scottish Water as to the exercise of its general powers under section 25 of the Act, its internal management powers under schedule 3 of the Act, and also as to how Scottish Water is managed generally.

Subsection 56(3) gives the Scottish Ministers a general power to give directions to Scottish Water, whether general or specific.

To date, directions under section 56 have been given in relation to Scottish Water’s General Powers, Corporate Governance and Delegated Limits.

Note

As a matter of principle a power of direction, such as that at Sections 1 or 56 of the 2002 Act, must be exercised in a manner that is consistent with the purpose and intent of the legislation that confers the power to give the direction. It cannot be exercised in a manner that would negate or amend specific provisions in the legislation or that would in any other respect disregard, run counter to, or exceed Parliament’s intentions in making the legislation.

SEERAD Water Services Division
2 February 2004
Finance Committee

4th Meeting 2004 – Tuesday 3 February 2004

Scottish Executive Relocation Policy Inquiry: Proposed Structure and Work Programme

Background
1. At its meeting on 28 October 2003, the Finance Committee appointed Dr Elaine Murray MSP and Fergus Ewing MSP as reporters to investigate issues surrounding the Executive’s relocation policy. At its meeting on 11 November 2003, the Committee agreed the following remit:

“To investigate Scottish Executive’s consistency of application of the criteria, weightings and costs by comparing the following relocations: Scottish Public Pensions Agency (175 people from Edinburgh to Galashiels), Scottish Executive Inquiry Reporters Unit (26 people from Edinburgh to Falkirk), Common Services Agency (Phase 1- 50 people to Aberdeen, 80 to Glasgow), Scottish Natural Heritage (Inverness) and the following new agency locations: Public Guardian’s Office (40 people to Falkirk) and Scottish Social Services Council and Scottish Commission for the Regulation of Care (160 people to Dundee);

To also investigate (where applicable) whether following relocation the experiences of the above organisations confirmed the initial assumptions made prior to relocation;

To seek information from the Irish Government on its relocation policy and experience to date;

To then consider the written evidence gathered, identify areas for questioning the Minister on and provide a draft report to the Committee by 10 December 2003.”

2. Following this, the reporters sought a variety of written information which provided the basis for the reporters report into relocation. This report was considered by the Finance Committee on its meeting on 13 January 2004 when it took evidence from the Deputy Minister for Finance and Public Services.

3. This paper sets out a proposed structure and work programme for an inquiry into the Executive’s relocation policy by the Finance Committee.

Structure
4. Detailed below are inquiry proposals which members are invited to consider:

- Remit: Members may wish to discuss the remit of any inquiry. As the reporters work to date has focussed on the performance of the Executive’s relocation policy to date, and PE670 on relocation of SNH in particular, the Committee may wish to focus any potential inquiry on developing the relocation strategy further. One suggested remit is detailed below:
‘To inquire into and recommend the objectives, criteria and weightings of a policy for dispersing public sector jobs and mechanisms for transparency in decision making relating to that policy’

- **Written evidence:** The Committee may wish to consider whether, given the limited number of bodies affected by the relocation policy to date, any benefit may be gained in seeking an ‘open call’ for evidence. A substantial amount of written evidence has already been gathered by the reporters and members may wish to consider whether enhancing this written evidence with specific written submissions from other relocations may be more suitable.

Members may wish to consider whether alternative methods of collecting views on relocation should be also considered. In order to gather views from staff affected by relocation, members may wish to consider whether use could be made of electronic questionnaires whereby staff could submit their views confidentially via an online questionnaire. Preliminary approaches to the Parliament’s IT web team have indicated that this would be possible, although more detailed discussions would need to take place.

The results of the questionnaires could then be analysed by the Clerks and reported back to the Committee.

- **Oral evidence sessions in Committee:** Committee members may wish to consider the range of witnesses it wishes to hear further oral evidence from such as:

  - Scottish Trades Union Congress
  - The Minister for Finance and Public Services

This, however, does not preclude the Committee from taking evidence on other areas related to relocation or on other relocation issues which may arise during the course of its inquiry.

- **Scottish Case Studies:** Rather than taking evidence from individual organisations affected by relocation during Committee meetings, case studies have proved a useful way of allowing members to focus on in relevant issues to help formulate specific recommendations for a report. It may also allow a more detailed analysis of the issues surrounding relocation rather than the usual question and answer session undertaken in Committee meetings. It is therefore proposed that Committee members undertake three case studies in Scotland, examples of which are detailed below:

  - **An agency which has experienced relocation:** Scottish Public Pensions Agency (Galashiels). This agency could provide interesting feedback on the criteria and weightings used initially to determine relocations. Members could meet with both management and staff and discuss their experiences of relocation.

  - **An agency undergoing relocation:** SEIRU (Falkirk). This agency could provide interesting feedback on the new criteria and weightings
used to determine relocations. Members could meet with both management and staff and discuss their experiences of consultation and feedback from their relocation experiences to date.

**Not relocating after consideration:** Recently the Executive announced that VisitScotland is to remain at its headquarters in Edinburgh. Members may wish to further explore the consultation procedure and criteria used in relation to this decision by meeting with Management and Staff.

It is envisaged that each of these visits would involve 2 members and one clerk so as to minimise costs.

- **Overseas Case Studies:** It is also proposed that an additional case study be undertaken. This would facilitate the investigation of relocation policy in another country and provide valuable feedback on differing government approaches to relocation, including consultation, recruitment and retention as well as the longer term impacts of relocation. Such a case study could also identify lessons which could be applied to the relocation policy in Scotland:

  **Ireland:** A considerable amount of information has already been gathered by the reporters on the Irish experience of relocation. Given that the policy has been in operation for some years, is based on volunteers and is about to be extended further to include Ministers and their departments, members may wish to consider whether a fact finding visit to Dublin would enable closer scrutiny of the Irish experience as well as investigating the practicalities of its relocation policy. As well as seeking a meeting with relevant Ministers and Officials, members may also wish to meet with the Irish Civil Service Trade Unions to discuss consultation and their experiences of relocation. Members may also find it beneficial to visit a recently relocated agency/department to seek the views of staff and management on their experiences of relocation.

  It is envisaged that this case study would involve two members and one clerk over two days to minimise costs.

- **Research:** The Committee may wish to also seek further background research from the Scottish Parliament Information Centre (SPICe). Of particular use to the Committee may be broader research into the relocation policies of other countries. Such research would enhance the evidence gathered in Dublin as well as providing alternative relocation options for the Committee’s consideration.

**Petition PE670**

5. PE670 by the Public and Commercial Services Trade Union called for the Scottish Parliament to investigate the decision by the Scottish Executive to relocate the headquarters of Scottish Natural Heritage to Inverness. Following its referral to the Finance Committee, the Committee appointed two reporters to investigate the Executive’s relocation policy including the SNH decision. As a
result of the reporters work a paper was produced highlighting issues which the Deputy Minister for Finance and Public Service was then questioned on. The Committee may wish to now conclude its consideration of PE670 and inform the petitioner that the Committee will take no further action. The Committee may also wish to draw to the petitioner’s attention the Committee’s ongoing work into relocation.

Work Schedule
6. A proposed inquiry timetable is attached below. Points to note include:
   a. Slots have been left open in the schedule to allow additional evidence to be taken. This would allow the Committee to seek oral evidence in one-off areas of interest or ad-hoc issues that arise during the inquiry.
   b. Given that the Committee meets weekly, it is proposed that the Committee consider relocation agenda items on a fortnightly basis so as to enable the Committee’s other work in scrutinising Financial Memoranda, considering the budget, conducting a cross cutting inquiry into Economic Development and further work on Scottish Water to also run concurrently.
   c. It is proposed that the final report be published in early June with a view to seeking a debate on the report’s findings by the whole Parliament at a later date.

<table>
<thead>
<tr>
<th>Date</th>
<th>Chamber</th>
<th>Relocation Inquiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuesday 3 February</td>
<td>Chamber</td>
<td>Relocation Inquiry – consider an approach paper setting out the work programme for the inquiry</td>
</tr>
<tr>
<td>24 February</td>
<td>CR1</td>
<td>Relocation Inquiry – 1st evidence session</td>
</tr>
<tr>
<td>2 March</td>
<td>CR2</td>
<td>Relocation Inquiry - member nomination for case studies and consideration of SPICe research</td>
</tr>
<tr>
<td>Mid – late March</td>
<td></td>
<td>Relocation Inquiry - Case Study Visits?</td>
</tr>
<tr>
<td>23 March</td>
<td>Chamber</td>
<td>Relocation Inquiry – Additional evidence session if required</td>
</tr>
<tr>
<td>30 March</td>
<td>CR1</td>
<td>Relocation Inquiry – consideration of feedback from electronic questionnaires</td>
</tr>
<tr>
<td>Recess (3 – 18 April)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 April</td>
<td>Chamber</td>
<td>Relocation Inquiry – case study report back</td>
</tr>
<tr>
<td>11 May</td>
<td>CR1</td>
<td>Relocation Inquiry – consideration of initial draft report</td>
</tr>
<tr>
<td>17 – 21 May</td>
<td></td>
<td>Meetings of Parliament - all Day Tuesday, Wednesday and Thursday, The Hub</td>
</tr>
<tr>
<td>1 June</td>
<td>Chamber</td>
<td>Relocation Inquiry – final draft report consideration</td>
</tr>
</tbody>
</table>

Recommendations
7. The Committee is invited to:
• accept the general methodology and schedule outlined in this paper for the implementation of the inquiry;
• consider potential witnesses and give the clerks direction regarding oral evidence;
• agree that the Report, once agreed by the Committee, be given full publicity via press briefings;
• agree to conduct three Scottish case studies and one overseas case study;
• agree to conclude its consideration of PE670, whilst drawing the petitioner’s attention to the Committee’s ongoing work into relocation.

8. Agree to seek appropriate authorisations to:

• enable to up to two members to go on three separate Scottish case studies in March 2004;
• enable members to go on an additional Irish case study in March 2004.

Jane Sutherland
Senior Assistant Clerk
Finance Committee
Finance Committee

4th meeting 2004 - 3 February 2004

Executive Response to the Finance Committee 4th Report 2003, Stage 2 of the 2004-05 Budget Process

1. This briefing outlines some issues that the Finance Committee may want to consider in light of the Executive’s response to the Committee’s Stage 2 Budget report. It also suggests that the proposed seminar, discussed below, may provide a fitting platform to advance some of the Stage 2 report recommendations.

2. The Executive response to the Finance Committee Stage 2 report is noticeable for its sparsity of detail. One pressing omission is that it offers little insight into how the Executive plans to take forward the revised Stage 1 of the Budget process in March this year. Overall, the response ensures that the Committee will be required to closely monitor the progress of each of its recommendations in the coming year.

3. Some issues for the Committee to monitor include:

   • The Minister states that “we think that the announcement on September 11 [on End Year Flexibility] provided a clear explanation of the level of EYF in 2002-03.” However, the Committee report did not take that view, stating that “greater clarity in future EYF announcements” was required. The Committee should ensure that next year’s EYF statement acts on this Committee recommendation, and also that the Executive acts on its pledge to “provide the committee with a more timely supplementary briefing…than was the case in September 2003.”

   • In response to the Committee recommendation that “the Executive reconsider the relative priority being given to the operating over capital expenditure in the Spending Review 2004,” the Minister states that “our decisions in the Spending Review will….take full account of the importance of capital expenditure.” The Committee will need to monitor that this is the case. It may also be helpful for the Committee to ask the Executive what criteria are being adopted to choose between capital and current expenditure.

   • The Committee will want to monitor the Executive’s progress on the provision of ten year time series data on budgetary trends.

   • In response to the Committee recommendation that the Executive produce a comprehensive assessment of capital expenditure to permit a rational appraisal of Executive performance on capital spend since devolution, the Minister states “we will look at the presentation of long term information on capital expenditure in the context of ten year trend data, and at the issue of providing information on capital spending more generally.” The Committee should monitor progress on that matter. The Executive go on to state that the Budget Bill will include tables which
“provide broader and clearer information on capital spending as an initial response to this.” Having looked at the Budget Bill the Committee may want to assess the usefulness of this information.

- It is important the Committee discover the proposed content of the reconstituted AER as soon as possible, as this will inform the content of the Finance Committee guidance to the subject committees. Members will be informed of any developments in this area as soon as possible.

- The Minister states in his response that we will “work to further improve our use of targets during SR 2004.” The Committee will want to consider whether it is content with the Executive’s use of targets in the SR budget documents.

- Responding to the Committee recommendation that the Executive reports performance on spending on cross-cutting themes, in the new performance report section proposed for the revised AER, the Minister promises that we will “aim to improve the information provided on cross-cutting themes in future budget documents.” The Committee will need to consider whether it is satisfied with the improvements the Executive “aims” to make in this area, and whether the recommendation, that the “Closing the Opportunity Gap” and “Sustainable Development” sections of the portfolio chapters of the Draft Budget adopt the model used in the “Equality” section, is acted upon.

- Replying to the Committee recommendation that the policy and financial assumptions underpinning the Health and Local Government budgets and grant formulae be made explicit in the Draft Budget, the Minister states that they “will not necessarily be incorporated in the Draft Budget, but…might appear in separate documents or on the Executive’s website.” The Committee may like to seek clarification as to why the requested information on the policy and financial assumptions underpinning these budgets can not be incorporated into the Draft Budget.

- The Minister states that he is happy to consider the recommendation that the term “Annual Expenditure Review” be changed into something “more descriptive of the process.” No alternative name has yet been mentioned and while seeking further information about what the revised AER document will contain, the Committee may also want to consider its position on a revised title.

- The Minister accepts the Committee recommendation that the “revised Stage 1 of the process should also include an assessment of progress with spending priorities.” The Committee will wish to consider its satisfaction with any such assessment when the revised document is produced.
The Committee also recommends that the revised documents at Stage 1 “should include a discussion of the financial prospects for the next Spending Review to allow committee deliberations to be set in a realistic budgetary context.” In reply, the Minister states he will consider how far he can provide “meaningful indication of the likely financial prospects” and that “it will be difficult for us to give very detailed or precise figures at this early stage of the Spending Review cycle.” Is the Committee satisfied with this response?

The Committee will want to ensure that the next edition of BABS and the Draft Budget “contain a short narrative which sets out the Executive’s rationale for the strategic budget decisions” The Minister responded to this by stating that “we will seek to make the introduction more helpful in this regard.”

The recommendation that the Draft Budget “make clear how the Executive responds to the spending recommendations made at Stage 1” is accepted by the Minister. The Committee will want to monitor the Executive response to any recommendations when it comes to consider future Draft Budgets.

Issues for the Committee Budget Seminar

4. At its meeting on 16 December 2003, the Committee agreed that it would like to hold a seminar on the budget process. The Committee agreed that such an event should probably take place in April and that a final decision on the format would be taken once the Committee received the Executive’s response to its Stage 2 report on the 2004-05 Budget Process.

5. In the paper which was discussed on 16 December, the number of targets and the nature of block allocations were identified as issues that the Committee may want to discuss at a seminar. It was further suggested that attendees could include members of FIAG, an expert who would be able to speak on block allocations and an individual who has been involved with the Balancing of Funding Review to discuss targets. Having these experts present could allow for a more focused discussion.

6. On the basis of the response that the Committee has now received, the Committee may wish to consider whether it would like to expand the number of subjects for debate. In particular, given there would still appear to be uncertainty over the precise format of a revised Stage 1 process, the Committee may wish to consider broadening its discussion to look at the budget process in its entirety. This could include considering how an amended Stage 1 would interact with the other Stages in the process and whether those stages may need amending, particularly in light of a biennial Spending Review at UK level.

7. The Conveners’ Group has approved funding for the Committee to hold a seminar. The date which has been provisionally set aside is 27 April.
8. The Committee is invited to consider the format that such a seminar would take and whether or not the date above is suitable.

Ross Burnside  
Senior Research Specialist  
Scottish Parliament Information Centre (SPICe)

Susan Duffy  
Clerk to the Committee
Dear Des,

At the Parliamentary debate on 17 December on the Finance Committee's report on the 2004-05 Draft Budget, Tavish Scott indicated that the Executive would respond to the recommendations in the Committee's report before the Stage 1 debate in late January.

The Executive's response to the Finance Committee's report is attached at Annex A. If you have any questions about the response, or require any additional information, then you are, of course, very welcome to contact me. I look forward to continuing to work with you on the budget process.

Yours,

Andy

ANDY KERR
The Committee recognises the difficulties over the agreed timetable for scrutiny and will take account of this problem in its ongoing discussions with the Executive over rationalising the budget process (paragraph 13).

We are happy to take account of this issue in our discussions with the Committee. The timetable for publishing the Draft Budget will be problematic again next year as a result of the Spending Review process - in 2002, the 2003-04 Draft Budget was not published until 30 October. This makes it important that we discuss with the Committee when the 2005-06 Draft Budget can be published, and how this will affect next year’s budget process. This issue will, of course, have an impact on subject committees’ work programmes in Autumn 2004.

The Committee would wish to see greater clarity in future EYF announcements (paragraph 20).

There is always a balance to be struck, in Parliamentary announcements, between providing as much detailed information as possible, while remaining relatively clear and concise. We think that the announcement on September 11 provided a clear explanation of the level of EYF in 2002-03, and that it also provided a clear description of new spending as a result of the Partnership Agreement. We have however noted the Committee’s view that the sources of funding for the Partnership Agreement could have been made clearer. On a related point, we will aim to provide the committee with more timely supplementary briefing for future announcements than was the case in September 2003.

Spending Plans to 2005-06

The Committee recommends that the Executive reconsiders the relative priority being given to operating over capital expenditure in the Spending Review 2004 (paragraph 23).

We are very aware of the importance of capital expenditure, and we believe that our existing spending programmes will do much to improve Scotland’s infrastructure – particularly in crucial areas such as transport, health and education. Our decisions in the Spending Review will also take full account of the importance of capital expenditure.

Spending priorities

The Committee recommends that the Executive reconsider its approach to setting priorities and funding them, and that it considers the concerns put forward in this report in that review (paragraph 31).

We believe that considerable progress has already been made in setting priorities, and linking priorities and targets to spending allocations. We constantly seek to improve our work in this area, however, and we are therefore looking at this issue as part of our work on the 2004 Spending Review, which will take forward the priorities set out in the Partnership Agreement.

Transparency in Budget Documentation

As last year the Committee welcomes the continuing improvement in the provision of financial information in the budget documents (paragraph 34)
We look forward to working with the committee to further improve the presentation of financial information in future documents.

The Committee recommends that the Executive should produce time series data on budgetary trends to permit appraisal of financial performance prior to the Spending Review 2004 for a ten year period. Further, to progress the matter, the Minister should continue the dialogue with the Committee as to the feasibility of different formats, timescales and levels of details for such data (paragraph 41).

We will continue to work with the Committee on this. We welcome the committee’s constructive approach to this matter, and its acknowledgement that collating the data involves difficulties. We are undertaking scoping work on this issue, and we will continue our discussions with Committee officials on how we can best meet the Committee’s requirements.

The Committee recommends that the Executive produces a comprehensive assessment of such public capital investment to provide a broader perspective than the current DEL table, which is necessary for accounting purposes, to permit rational appraisal of Executive performance on capital spend since devolution. This would obviously require a similar timescale to the time series data (paragraph 45).

We will look at the presentation of long term information on capital expenditure in the context of ten year trend data, and at the issue of providing information on capital spending more generally. The supporting documents for the 2004-05 budget bill will include tables which provide broader and clearer information on capital spending as an initial response to this.

The Committee approves in principle the broad areas of reform to the AER and recommends that the Executive continues to discuss the detail of such changes with the Committee over the intervening period (paragraph 48).

We welcome the Committee’s comments, and will continue our dialogue with the Committee on this matter.

The Committee recommends that the Executive evaluates the impact of targets in practice including assessing the delivery of improvements to public services, with a view to rationalising and simplifying the process, prior to the Spending Review 2004 (paragraph 58).

Our budgetary processes have improved substantially in recent years, and setting targets for portfolios has been an important part of this improvement. We believe that targets can be an important means of achieving improvements in public services. In terms of transparency alone, it is essential for the Executive to be able to demonstrate what outputs and outcomes it intends to secure with the resources that it spends.

We do acknowledge that our use of targets can still be improved, and we recognise the relevance of some of the concerns brought out in the PA Select Committee Report (although it is worth noting that the PA Select committee report recommends that the “measurement culture” should be improved rather than abolished). However we believe that targets are a valuable means of securing improvement in public services, and ensuring value for money. We will therefore work to further improve our use of targets during SR 2004.

The Committee recommends that the Closing the Opportunity Gap and Sustainable Development sections of the portfolio chapters in the Draft Budget should adopt the model used in the Equality section, and identify relevant activities and costs. The Committee also recommends that the Executive reports on performance on spending on cross-cutting themes,
as well as BABS targets, in the new performance report section proposed for the revised AER (paragraph 65).

We have raised with the Committee in the past the fact that there are real difficulties in providing comprehensive information about the cross-cutting themes, due to the problems of attempting to calculate what proportion of core expenditure contributes towards cross-cutting issues, and also due to the possible danger of double-counting expenditure on some areas.

We will however aim to improve the information provided on cross-cutting themes in future budget documents, including the revised AER, and we will discuss with the Committee how we do this. We have of course noted that the approach to providing information adopted in the Equality sections of the 2004-05 Draft Budget has generally been regarded as more helpful than that adopted in the sections on Closing the Opportunity Gap and Sustainable Development.

The Committee recommends that the policy and financial assumptions underpinning the Health and Local Government budgets and grant formulae, should be made explicit in the Draft Budget (paragraph 68).

We will work with Committee to provide better information. This will not necessarily be incorporated in the Draft Budget, but it might appear in separate documents or on the Executive’s website. The Minister for Health and Community Care met the Health Committee early in 2004 to discuss this issue, and I understand that further discussions with the Health Committee are due to take place. I therefore hope that we can make progress on this matter.

The Committee would welcome reforms to the AER in Stage 1 of the process but further recommends that:

As such reforms would mean that Stage 1 would involve an assessment of past performance and a discussion of strategic priorities, thought should be given to changing the term Annual Expenditure Review into something which would be more descriptive of the process;

We are happy to consider this recommendation.

The revised documents at Stage 1 of the process should also include an assessment of progress with spending priorities, including Health and Local Government budgets, in the proposed performance report on progress against targets. The report should give specific, measurable information on such progress;

We accept the principle that the revised stage 1 documents should have information about performance against priorities. We will have further discussions with the committee about the presentation of such information.

That the revised documents at Stage 1 of the process should include a discussion of the financial prospects for the next Spending Review to allow committee deliberations to be set in a realistic budgetary context;

We will consider how far we can provide a meaningful indication of the likely financial prospects, in order to aid public and parliamentary understanding of the public spending context. The Committee will understand that it will be difficult for us to give very detailed or precise figures at this early stage in the Spending Review cycle.

That the next editions of BABS and the Draft Budget should contain a short narrative which sets out the Executive’s rationale for the strategic budgetary decisions;
We will seek to make the introduction more helpful in this regard.

That the Draft Budget should make clear how the Executive responds to the spending recommendations made at Stage 1; and

We will make clear how we have responded to the spending recommendations made at Stage 1. We will consider whether this information should be provided in the main text of the Draft Budget, or in a separate document which is made available to the Committee at the same time as the Draft Budget is published.

That as the development of outcome budgeting through targets remains problematic and a long-term prospect, the New Resources section of the Draft Budget should provide a broad assessment of the costs and service outputs this will provide. (paragraph 72).

We will do this where practical and helpful.

Scottish Parliamentary Corporate Body

The Committee impresses on the SPCB the need for further discussion should any further delay of the migration to Holyrood cause significant changes to the budget (paragraph 80).

The Committee recommends that data on trade packages is presented in a more comprehensive format (paragraph 81).

Audit Scotland

The Committee endorses the recommendation by the SCPA that Audit Scotland should develop a process of setting quantifiable targets in its corporate plan against which performance can be measured (paragraph 85).

The recommendations in paragraphs 80, 81 and 85 are not identified to the Executive, and it is therefore not appropriate for the Executive to respond formally to them.
Finance Committee

4th Meeting 2004 - 3 February 2004

Executive response to the Finance Committee’s 4th Report 2003 – A Supplementary Note by the Committee Adviser

Introduction

1. The brief note records my initial reactions to the Executive’s response to the Stage Two Budget report

2. The responses fall into three broad camps
   - Issues where the Executive accepts the recommendation
   - Issues where the Executive commits itself to improving its performance in discussion with the Committee
   - Issues where the Executive’s response is inadequate and requires further discussion.

3. These responses overall continue progress in improving budget presentation. The Committee may wish to welcome the Executive’s positive response and its commitment to continue to work together to make further progress in future.

Recommendations agreed by the Executive are:

- Rationalising the budget progress and timetabling problems (para 13)
- Importance of capital expenditure (para 31)
- Reviewing spending priorities (para 31)
- Presentation of information on capital expenditure (para 45)
- Changing the term “Annual Expenditure Report” to something which accurately reflects its status (para 72); and
- Provision of an assessment of progress with spending priorities (para 72)

Recommendations where the Executive has committed itself to improvement through discussions with the Committee are:

- Greater clarity in EYF announcements (para 20)
• Provision of time series data (para 41)
• Reform of the AER (para 48)
• The use of targets (para 58); and
• Presentation of cross-cutting data (para 65).

4. The Committee should welcome this commitment, but respond that progress requires early discussions between the Executive’s finance officers, and the Committee’s adviser, clerks and senior research specialist, so that realistic assessment can be agreed on the scope for and format of such improvement for the 2004 Spending Review.

Responses which are not adequate

5. There are a few responses which do not meet the Committee’s concerns and where further discussions are necessary. These are:

• **Policy and financial assumptions of block allocations to health and local government** (para 68)
  The Executive response is that this will be progressed, though not necessarily in the Draft Budget. If that is the case, then reference should be made in the Draft Budget to the appropriate source document; and this information must be available prior to the Committee’s consideration of these Draft Budget chapters;

• **Assessment of financial prospects** (para 72)
  Whilst the Committee recognises the tentative nature of such information, it is nevertheless crucial that committees consider the budget proposals at Stage One in a realistic budgetary context. This could be within a range of potential spending limits (eg 2 - 4%) so that priorities can be ranked accordingly to meet these budget limits. The Executive has previously committed itself to provide a financial assessment prior to Stage 1, and the Committee accepts that it cannot be precise at this stage. A best estimate however, should be possible.

• **Responses to Stage 1 Spending Recommendations** (para 72)
  The Committee recognises the merits of providing such information in a separate document, but is concerned that such information should also be explicitly set out in each chapter of the Draft Budget for the convenience of subject committees; and

• **Assessment of Costs and Service Outputs** (para 72)
  The response that the Executive will do this where “practical and helpful” is not in itself practical and helpful. Presumably the Executive requires all departments to quantify the costs and outputs so Ministers know what public services will be provided
at what costs to the public purse. The Committee believes this should be a requirement for all new resources allocated, and it acknowledges that quantifying outcomes is a much more difficult conceptual exercise. It would be helpful to add this item to the issues for improvement category as the Committee unclear in what circumstances costs/outputs cannot be quantified accurately – and this could be usefully discussed between officials in the first instance.

Budget Seminar

6. It may be that during discussion on revisions to the Stage 1 process, that its interaction with the other stages in the Budget process is discussed and any outcomes from these discussions would need to be fed into the Committee’s seminar. Also, members may want to consider including a session on equality proofing in this seminar.

Professor Arthur Midwinter
Adviser to the Committee