The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Cross cutting expenditure review**: The Committee will consider the outcome of the external research commissioned as part of its cross cutting expenditure review on economic development.

2. **Tenements (Scotland) Bill**: The Committee will take evidence on the Bill’s Financial Memorandum from—
   
   Joyce Lugton and Hamish Goodall, Justice Department; and Edythe Murie, Legal and Parliamentary Services, Scottish Executive

3. **Spending Review 2004**: The Committee will consider a paper by the Budget Adviser on the Scottish Executive’s budget strategy.

4. **Item in private**: The Committee will decide whether to consider the draft report on the Tenements (Scotland) Bill Financial Memorandum in private at its next meeting.

5. **Scottish Water (in private)**: The Committee will continue its consideration of a draft report as part of the Committee’s investigation into Scottish Water.

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

**Agenda Item 1**

Covering paper by the Clerk  
PRIVATE PAPER  

**Agenda Item 2**

Paper by the Clerk – written submissions  
PRIVATE PAPER  

**Agenda Item 3**

Paper by the Budget Adviser  

**Agenda Item 5**

PRIVATE PAPER – to follow
Finance Committee

11th Meeting 2004 - 30 March 2004

Cross-cutting Review of Economic Development

1. The Committee agreed at its meeting on 25 November 2003 that it would commence phase one of a cross-cutting review of Economic Development. At its meeting on 9 December 2003, the Committee agreed that it would commission research from Peter Wood which “would seek to identify what budgets and what monies support economic development. This would involve looking not just at expenditure allocated to promoting economic development but also at identifying what other resources would be regarded as being within the scope of the inquiry”.

2. Peter Wood has now completed that research and has produced a report which is attached for members’ consideration.

3. The Committee is invited to consider the issues in this report and to consider whether or not it now wishes to commence a further phase of the review. It is suggested that this second phase would assess whether the bodies involved in economic development are making optimum use of their allocations. It would seek to assess whether economic development has been treated as an expenditure priority by the Executive, and that the relevant spending programmes are based on realistic financial assumptions, deliver outcomes and are organised and presented in a format which promotes transparency.

4. If the Committee agrees to commence this further phase, then it is suggested that an adviser be appointed to assist the Committee. Given the Committee’s current work commitments which include Stage 1 of the 2005-06 Budget Process, Inquiry into the Relocation of Public Sector Jobs and scrutiny of both Executive and Members’ bills it is suggested that time between now and the summer is recess is used to consider and appoint an adviser and draft a remit and approach for phase two. Written evidence could then be sought during the summer recess with oral evidence sessions beginning in September 2004.

5. Members are invited to agree whether they wish to commence a further phase of this review.

Susan Duffy
Clerk to the Committee
Finance Committee

11th Meeting 2004 – Tuesday 30 March 2004

Tenements (Scotland) Bill - Financial Memorandum
Written Submissions

1. When the Committee took evidence from the Scottish Legal Aid Board (SLAB) as part of its consideration of the Financial Memorandum of the Tenements (Scotland) Bill, SLAB agreed to provide additional information in relation to how a joint or common interest may affect the number of applications for legal aid that could be approved. SLAB’s additional submission is attached.

2. The Committee is invited to consider the Scottish Legal Aid Board’s additional comments.

Emma Berry
March 2004

SUBMISSION FROM SCOTTISH LEGAL AID BOARD

In our submission to the Committee, we explained the effect of regulation 15 of the Civil Legal Aid (Scotland) Regulations 2002. The financial situation of the other proprietors could be one of a number of factors which might be presented in a joint or common interest situation. If, having looked at the circumstances of a case as a whole, we reach the conclusion that the criteria in regulation 15 are met, we would have to refuse the application for civil legal aid.

If we did so, the cost of the case would fall on the other proprietors. I am afraid that I cannot give an indication of the likely cost of litigation of this nature to privately paying clients. However, I can advise the Committee that the average cost to the Scottish Legal Aid Fund of a legally aided Sheriff Court case was £1,854 in 2002/2003. A privately paying client might well be required to pay significantly more than that sum.

I am afraid that I cannot provide the Committee with any further information regarding the numbers of previous applications for civil legal aid involving a similar subject matter. Equally, I cannot give the Committee any indication of the number of cases where the joint or common interest criteria have been satisfied, although I understand that applications where such factors arise are not particularly common.

I am sorry that I cannot be more helpful on this occasion. However, should the Committee wish any further assistance, I will be happy to oblige.

Philip Shearer
25 March 2004
Finance Committee

11th Meeting 2004 - Tuesday 30 March 2004

Spending Review 2004
Review of Budget Strategy: Paper by the Adviser

1. The setting of spending priorities in the Budget is central to the exercise of political choices over competing demands for public expenditure. The reforms to the budget process this year are intended to promote a more robust and systematic consideration of the Executive’s budget strategy in Spending Review 2004. The new AER is likely therefore to include a report on past performance in meeting priorities and targets since SR2002; a statement of the new spending priorities; and a summary of current expenditure plans. Under the consultative approach adopted the Executive seeks commentary on the proposals over spending priorities, by Parliament and public, to inform the Spending Review process in the summer.

2. The Finance Committee has a key role in the process, co-ordinating subject committees recommendations, and commenting on strategic priorities which cut across departmental priorities. It recommended that the Executive adopt a systematic statement of priorities in its Budget Report of June 2002; and this was introduced in Building a Better Scotland in September 2002. Its more recent concerns have been that this statement – with five functional priorities and two cross-cutting priorities – had too many priorities to be a meaningful guide to resource allocation, and made it difficult to monitor performance in practice as no clear definition of priority has been given.

3. The Executive’s approach to setting priorities has changed over the period, perhaps reflecting the frequency of ministerial changes in the first parliamentary term. The first formal reporting of priorities was made by Donald Dewar in Investing in You, the Executive’s Annual Expenditure Report of 2000. His foreword stated that –

“These spending plans set down the financial foundations of our programme for government. The broad scale of this budget reflects the importance that we attach to both the health of the nation and the future success of the nation as determined through the education process. Our spending priorities for 2000-1 and 2001-2 demonstrate our commitment to education and health, but also seek to make a start in making improvements in housing and social inclusion in Scotland, the decay in the Scottish transport system, and ensuring our environment – one of our key assets - is sustained ..... The theme behind the budget is social justice.”
4. In the Spending Plans document of September 2000, the Finance Minister argued that “prudent use and management of resources is key to achieving the main priorities we have set; delivering better services in hospital; higher standards in our schools; cutting drug related crimes and creating an enterprise culture” (*Working Together*). This document was regarded as providing a consideration of spending strategy, and seeking views on future expenditure priorities.

5. The successor document of 2001 recorded continuity and change in spending priorities, with its emphasis on infrastructure investment and deprived areas (*Making a Difference for Scotland*, p4). The Report’s discussion of the Executive’s priorities for spending highlighted the “new provision to improve our infrastructure through capital spending” (on transport, water, education and health) and to promote social justice (through community care and the warm deal for the elderly, and improvements in the poorest neighbourhoods).

6. The most recent statement of priorities is in *Building a Better Scotland*, the Executive’s strategic document for the next Spending Review period, which described how resources will be allocated in order to achieve its priorities. These were – ‘health, education, crime, transport and jobs’ plus two cross cutting themes – ‘closing the opportunity gap’ and ‘sustainable development’. It further stated that the Spending Review ‘ensures that our spending has maximum impact in meeting our priorities’, and the cross cutting themes are in recognition of ‘the threads running across the priorities’. (p2). The Committee will recall its previous discussions of the problems of effectively targeting resources in practice, particularly on cross cutting priorities.

7. Over four years the stated priorities exhibit continuity and change, whilst there is a tendency to state that certain issues of immediate relevance are priorities – eg the First Minister announced that “children” were a top priority shortly after his appointment, and later stated that “growing the economy” was also a “top priority”. This is now in the Partnership Agreement, although within the Enterprise and Lifelong Learning portfolio. *Health* and *Education* consistently appear in the language of priorities, indeed health was also a stated spending priority of the Conservative Governments in the 80s and 90s. In the past, we have used “higher than average percentage increases in expenditure” as an indicator of priority treatment, but this was criticised by the Finance Minister for not recognising the “interrelated nature of how we tackle these issues” (Letter to the Convenor, 10 June 2002). However, as yet the Minister has not provided an alternative model for monitoring performance on spending priorities. Our own approach is similar to that adopted by the Westminster government, which reported –

> “Rigorous selection of priorities over the next three years will enable significant additional resources to be reallocated to education and health” and that …

> “The annual increase in expenditure in both education and the NHS will be more than double the growth in other services – over 50% of the increase in
departmental spending limits and local authority spending plans will in fact be targeted on those two services”. (HM Treasury, CSR 1998, p 13)

8. The Committee’s key role lies in the consideration of strategic priorities. Although the Executive has highlighted the cross-cutting impact of expenditure (e.g. fruit in schools on health), this is neither systematic nor comprehensive enough to permit robust scrutiny of this dimension. The five functional priorities in the main refer to spending on portfolio programmes such as health, justice and transport. It would be more helpful if strategic priorities were clearly stated on a thematic basis and used as guiding principles for evaluating departmental spending proposals, whereby the contribution of functional spending to wider strategic objectives is a key factor in decisions. Using current priorities, for example, “how would a proposal to increase staffing levels in schools contribute to Closing the Opportunity Gap as well as improving standards in schools”.

9. The Executive already uses such an approach for portfolios as a whole. This way, the strategic principles would be applied to specific proposals for changes in spending – increases or decreases – and help determine their acceptability.

10. The Executive’s restatement of its priorities in the new AER provides a key opportunity for parliamentary influence on budget strategy. This paper is a review of past practice, which argues for a more rigorous and consistent approach to priority-setting. At this stage, it would be helpful to have members views on:

- the need for the existing priorities to be retained;
- any pressing strategic issues currently not in the priority framework: and
- as we expect a tighter budgetary context, how the Committee would want to consider budgetary redistribution and realignment to fund priorities.

Professor Arthur Midwinter
Budget Adviser to the Finance Committee.

Footnote

Since drafting this paper, I have received the Official Report for 2 March, in which a number of issues were raised by members which relate to the relationship between this committee and the subject committees. I shall be drafting guidance to the committees for your consideration after the publication of the AER. If members are concerned that there are problems of coordination, then perhaps we should reconsider allocating subject committees to individual members to play a co-ordinating role – as reporters to the Finance Committee.
It is particularly important that we receive clear indications from the subject committees as to their spending priorities *within* their portfolios, so these can be considered over the summer and their assessment of performance against targets. It is further this Committee's role to make recommendations regarding strategic priorities in the Stage 1 report.

Finally, I shall be giving a short briefing paper to any committee which wants it.