The Committee will meet at 10.00 am in Committee Room 4 to consider the following agenda items:

1. **Fire (Scotland) Bill:** The Committee will take evidence on the Bill’s Financial Memorandum from—
   
   Ian Snedden, Head of Fire Services Division; Jill Clark, Fire Bill Team Leader; and John Nicholls, Fire Services Division, Scottish Executive.

2. **Water Services (Scotland) Bill:** The Committee will take evidence on the Bill’s Financial Memorandum from—
   
   Andrew Scott, Head of Water Services Division; Clare Morley, Water Services Bill Team Leader; and Tom Harvie-Clark, Economist, Analytical Services Division, Scottish Executive.

3. **Scottish Parliament Holyrood Building:** The Committee will consider correspondence from the Presiding Officer.

4. **Committee Away Day:** The Committee will consider and endorse the minute from its away day held in August and will further discuss papers on budgetary matters from its Adviser.

5. **Appointment of Budget Adviser (in private):** The Committee will consider a paper by the Clerk.

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

**Agenda Item 1**

Fire (Scotland) Bill, Policy Memorandum and Explanatory Notes—
http://www.scottish.parliament.uk/bills/index.htm

PRIVATE PAPER

**Agenda Item 2**

Water Services (Scotland) Bill, Policy Memorandum and Explanatory Notes—
http://www.scottish.parliament.uk/bills/index.htm

PRIVATE PAPER

**Agenda Item 3**

Correspondence from the Presiding Officer – to follow

**Agenda Item 4**

Paper by the Clerk

PRIVATE PAPER

**Agenda Item 5**

PRIVATE PAPER
13 September 2004

Dear Des

HOLYROOD REPORT, SEPTEMBER 2004

This is my eleventh monthly report on the Holyrood building, providing the Finance Committee with the latest information on the Project cost and programme.

This is the first report since the Parliament’s migration to the new building took place and deals with progress since the previous report on June 21st.

The move to Holyrood has been completed on schedule. I want to thank all our staff who worked so hard to ensure that all services were in place to allow Parliament to meet for the first time on 7 September.

Key points this month:

1. There is no change to the overall cost of £430.5m as reported in my letter to the Committee in February.

2. Since the June report, £2.4m has been moved from the risk and programme reserve into construction commitment. In addition, just under £260k has been moved from programme contingency into construction reserve. These movements were all in fulfilment of anticipated commitments. Details are given in the attached cost breakdown at Annex A.

3. The programme of works on external landscaping is on schedule for completion prior to the official Opening on 9 October.
Migration and Occupation

As Members are aware, the migration of staff took place at the beginning of August and MSPs moved in at the end of the month. As with all modern buildings so heavily dependant on information and communication technology, a great deal of testing has to be undertaken. As with any new building, there have been a number of snagging problems. I can assure Committee Members that the process to address them all continues apace.

A detailed schedule of snagging has been developed and the execution of works is being carefully managed between the Holyrood Project Team (HPT), Bovis and the Trade Package Contractors. Some of those works are achievable more quickly than others, but they will continue to be carried out, as far as possible, outwith Parliament business hours. As set out in my June letter to the Committee, snagging and commissioning work is likely to continue in some form until the end of the year, and possibly beyond.

Timber louvred screens

In my previous reports, I noted that the post-fixing of the timber louvred screens at the rear of the Debating Chamber, and on Tower 4, was likely to be carried out in the October or November recess. I am now happy to report that these works have been completed ahead of schedule.

Next steps

Apart from settling-in issues, the key focus will now be on achieving the best financial settlements possible on all Trade Package contracts. This will be a difficult process, but the HPT is working closely with DLE and Bovis to try to minimise the overall cost of the Project. I will keep the Committee advised of the progress until financial completion is achieved.

Post-completion group

The SPCB is now in the process of formally establishing the Post Completion Advisory Group, to provide advice on building issues arising after the official handover. The Group’s remit will include maintaining the architectural integrity of the building but by far its main job will be setting up processes for the handling of claims. The Group will draw on the experience of existing HPG professionals, relevant Parliament officials and external expertise as appropriate. Membership will be announced as soon as the Group is finalised.

Yours sincerely

GEORGE REID

Encl: financial summary annex.
<table>
<thead>
<tr>
<th>MAIN PROJECT</th>
<th>Range Low End</th>
<th>Range High End</th>
<th>Change Since last Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site, demolition and archaeology</td>
<td>5.7</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Fit Out</td>
<td>19.5</td>
<td>19.5</td>
<td></td>
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<tr>
<td>Current construction commitment</td>
<td>247.8</td>
<td>247.8</td>
<td>plus 2.40m</td>
</tr>
<tr>
<td>Fees (capped lump sum)</td>
<td>50.3</td>
<td>50.3</td>
<td></td>
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<tr>
<td>Site organisation costs</td>
<td>17.5</td>
<td>17.5</td>
<td></td>
</tr>
<tr>
<td>VAT on current commitment</td>
<td>43.4</td>
<td>43.4</td>
<td>plus 0.42m</td>
</tr>
<tr>
<td>Construction reserve</td>
<td>13.5</td>
<td>16.5</td>
<td>less 2.14m</td>
</tr>
<tr>
<td>Estimated VAT on reserve</td>
<td>2.4</td>
<td>2.9</td>
<td>less 0.38m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>400.1</strong></td>
<td><strong>403.6</strong></td>
<td>plus 0.30m</td>
</tr>
</tbody>
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| LANDSCAPING                                     |               |                |                          |
| Muster room transfer                            | 0.5           | 0.5            |                          |
| Land purchase                                   | 0.3           | 0.3            |                          |
| Construction works                              | 10.5          | 10.5           |                          |
| Fees (including site mgt)                       | 1.9           | 1.9            |                          |
| Construction reserve                            | 2.0           | 2.0            |                          |
| VAT                                             | 2.4           | 2.4            |                          |
| **Total**                                       | **17.6**      | **17.6**       |                          |

| SUBTOTAL                                        | **417.7**     | **421.2**      |                          |

**Materialisation of risk sums:**

Risk drawn down from 'Construction Reserve':
- Q H Scaffolding: 500,000
- Specialist Glazing: 700,000
- Assembly Building Roofing: (500,000)
- Assembly Rooflights: 75000
- Stone Cladding: 50000
- Screed / Stone Floors: 50000
- Zone 1 Fit Out: (1,023,500)
- Zone 2 Fit Out: 1,000,000
- Mechanical & Plumbing West: 94,945
- Mechanical & Plumbing East: 430000
- Building Management System: 205000
- West Electrical: 127,805
- Security: (205,000)

**Net Total: 2,404,250**
- VAT: 420,744

**Total: 2,824,994**

Movement from Contingency to reserve:
- Foyer Roof & Glazing - Mero: 736000
- Assembly Roofing - Coverite: 500000
- Assembly Rooflights - Spacedecks: (75,000)
- Site Organisation: (2,364,000)
- QBH Ceilings & Partitions - RD: (25,000)
- Plantroom Doors: 70000
- Zone 3 Fit Out - Ultimate: 300000
- Zen Garden/ Steel and Stone Cladding: 463500
- Building Management System: 45000
Programme contingency (incl. VAT)  7.0  9.3 less 0.30m

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<tr>
<td>Security</td>
<td>90000</td>
</tr>
<tr>
<td>Net Total</td>
<td>(259,500)</td>
</tr>
<tr>
<td>VAT</td>
<td>(45,413)</td>
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<td>Total</td>
<td>(304,913)</td>
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**Accounts Settled To Date**

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<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>OH Demolition/Reconstruction - Ballast</td>
<td>4,250,000</td>
</tr>
<tr>
<td>Roads - Hewcon</td>
<td>1,050,736</td>
</tr>
<tr>
<td>Total</td>
<td>5,300,736</td>
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Finance Committee  
22nd Meeting 2004 – Tuesday 14 September 2004

Report on Away Day

Background
1. The Finance Committee held an “away day” on 25 and 26 August, in order to discuss its future work programme.

2. This paper summarises the decisions made by Members and seeks formal, public agreement from the whole Committee that these are acceptable. Some of the papers provided at the away day are also attached, to provide a background to the decisions reached.

Committee working practices
3. As a first step, Members discussed a paper that examined working practices which have arisen in the second session. The following decisions were made:

   • Members wished to have shorter or less frequent meetings, to free up time for better scrutiny and analysis;
   • To make report drafting easier, Members will discuss the main issues to have emerged after the final piece of evidence has been taken;
   • Members reiterated the decision taken at the meeting of 25 May 2004 that any papers written by the budget adviser would be made publicly available on the day of the meeting at which the paper will be discussed;
   • Members noted that papers on the role of the Scottish Commission for Public Audit, and how the Committee handles EU matters, are forthcoming.

Financial Memoranda
4. In addition to these procedural issues, Members agreed a new approach to the way they scrutinise Financial Memoranda (FM), with the aim of freeing up committee time for other work.

5. For those Executive Bills involving a relatively small sum of money the Committee will decide on an individual basis whether it wishes to take any formal, oral evidence or whether it wishes to leave the scrutiny of the Bill to the relevant lead Committee. For more substantial FMs, scrutiny will continue as before. With Members' Bills, it was agreed that these would not be scrutinised unless significant amounts of money are involved or the Committee decides that it wishes to scrutinise the Bill. In all cases, a standard questionnaire will be produced when seeking evidence from relevant bodies on FMs.
6. A letter outlining the Committee’s concerns with the FMs produced to date in the second session, based on the attached paper, is also being sent to the Scottish Executive.

Future work programme
7. Members discussed the Committee’s short and medium term work programme, and agreed that they would incorporate the following items in addition to the work already in the programme, or likely to come before the Committee in relation to scrutiny of Financial Memoranda or the Scottish Executive’s budget:

- To seek clarification from the Executive on its statement of 24 June 2004 on the efficient government initiative. In the longer term, the Committee will consider a scoping paper on the possibility of carrying out a short inquiry into efficient government in Scotland. This inquiry may incorporate the issue of how the Executive spends its advertising budget.
- To take evidence on the Scottish water industry from the Minister for Environment and Rural Development, and the Scottish construction industry.
- To incorporate issues surrounding capital spending across Executive portfolios into the Committee’s current cross-cutting inquiry on economic development;
- To examine the feasibility of carrying out a post-implementation study of the accuracy of financial assumptions made in Financial Memoranda, which may also have to examine other recent spending in that area. It was suggested that an initial inquiry could be carried out jointly with the Health Committee, focussing on issues surrounding the Care Commission and the Community Care and Health (Scotland) Bill.
- To ask the budget adviser to produce a revamped paper on performance information in the Scottish budget, examining how best to present political and operational targets, and outcome and performance measurements.
- To examine the feasibility of holding a budget seminar early in the new year, to discuss the Committee’s revamped approach to scrutinising the annual budget process.

8. Members are asked to agree the working practices and work items set out in this paper.

Terry Shevlin
Senior Assistant Clerk
Finance Committee Away Day
25 and 26 August 2004

The Quality of Financial Memorandums for Bills at Stage 1

Background

1. Under Standing Orders, Rule 9.6, the lead committee in relation to a Bill must consider and report on the Bill’s Financial Memorandum at Stage 1. In doing so, it is obliged to take account of any views submitted to it by the Finance Committee.

2. So far in the 2nd Parliamentary session, the Finance Committee has considered the Financial Memoranda (FMs) of 14 Bills (11 Executive and 3 Members Bills). During its consideration of these 14 FMs, the Finance Committee has considered the quality of the FMs before them to be of varying standard. While some have provided sufficient information and clarity to allow the Committee to perform its scrutiny role, it has been the consensus that other FMs have not provided the information to allow the Committee to properly assess the financial implications of the legislation before it.

3. All public Bills (Executive, Member and Committee) must be accompanied by an FM (Standing Orders Rule 9.3.2). The Executive has produced guidance for its Bill teams on the preparation of FMs and this is attached. This of course only applies to Executive Bills and not to Members’ Bills which are not drafted by the Executive.

4. This paper sets out some specific and some of the more general points of concern that the Committee has raised in its reports on the various FMs for Bills at Stage 1. The paper also sets out possible recommendations and courses of action that the Committee may want to take.

5. So far this parliamentary session, the Finance Committee has assessed the FMs for the following Bills:

- Primary Medical Services (Scotland) Bill
- Vulnerable Witnesses (Scotland) Bill
- National Health Service Reform (Scotland) Bill
- Nature Conservation (Scotland) Bill
- Criminal Procedure (Amendment) (Scotland) Bill
- Education (Additional Support for Learning) (Scotland) Bill
- Antisocial Behaviour etc. (Scotland) Bill
- Local Governance (Scotland) Bill
- Fire Sprinklers in Residential Premises (Scotland) Bill
- Tenements (Scotland) Bill
AREAS OF COMMITTEE CONCERN WITH FINANCIAL MEMORANDA

Executive Bills

6. The following are general areas of concern that have been raised by the Committee – these are predominantly in relation to Executive Bills. There are separate concerns which have been raised regarding Members’ Bills and these are detailed at paragraph x.

- Concern that assumptions underpinning calculations in FMs are not always correctly quantified or evidenced.

- Concern that many costs attributed to a Bill will only come to light once subordinate legislation is laid or guidance developed and that these costs are therefore not subject to detailed parliamentary scrutiny.

- Concern that where a Bill is part of a wider initiative, only the costs associated with the Bill are provided with no indication of how much the wider initiative is likely to cost.

- Concern that insufficient attention has been paid to identifying potential efficiencies in developing the policy framework for the Bill. Analysis of costs and potential savings should not be an afterthought but integral to the Executive’s consideration of proposed legislation.

- Concern at a lack of systematic consultation over the contents of FMs leading to wide ranging disagreement on costs arising from different assumptions being used.

7. The following are specific examples to portray some of the wider Committee concerns over the quality of information on financial expenditure in relation to Executive Bills.

8. In its scrutiny of the FM for the National Health Service Reform (Scotland) Bill, the Committee was concerned about the lack of financial information that could be given in relation to the creation of new bodies such as Community Health Partnerships (CHPs) as well as the lack of detail in relation to subsuming NHS Trusts. It appeared to the Committee that in both cases assumptions had been made that these would be budget neutral, but the Committee could not effectively
test these assumptions as a result of the minimal financial information on costs and savings that could be made. This concern, as the Committee Report would later state, highlights the need for the Scottish Executive to give “much more detail on where costs and savings may be made before asserting “that a proposal is cost neutral.”

9. In its report on the FM accompanying the Nature Conservation (Scotland) Bill, the Committee expressed its problem of having to scrutinise Bills where guidance is yet to be agreed (in this instance, the Scottish Biodiversity Strategy) which may play an important role in determining the costs of such legislation.

10. The FM accompanying the Education (Additional Support for Learning) (Scotland) Bill raised a number of concerns, relating not only to the accuracy of the Financial Memorandum, but also to the feasibility of tracking costs under the policy proposed. The key problem for the Committee was that it “was not convinced” by the assumptions underlying the costs attributed to the Bill. The lack of specific definitions led to differing interpretations of Co-ordinated Support Plans (CSPs) and the eligibility for such plans and consequently, major contradictions in estimates of the cost of the Bill. Ultimately, this made it extremely difficult for the Committee to assess the accuracy of the FM accompanying the Bill.

11. Until a Code of Practice has been developed for the CSPs, the costs of the Bill cannot be properly ascertained, and therefore the real possibility exists of the Parliament being asked to approve legislation without being aware of the full financial implications.

12. In the FM accompanying the Antisocial Behaviour etc. (Scotland) Bill, a £30million fund for wider antisocial behaviour initiatives for 2004-06 had yet to be allocated. The Committee therefore, in having no information as to how this money was to be spent, was hindered in considering the adequacy of the funding provisions. Regarding the Bill’s piloting of Fixed Penalty Notices (FPNs), the Committee was dissatisfied at the lack of sufficient information on the expected costs and savings from this pilot outlined in the FM. The Committee was also concerned that in only outlining funding for the Bill up to 2006, the long term funding of the specific measures of the Bill is not guaranteed by the FM.

13. The FM associated with the Local Governance (Scotland) Bill was also difficult for the Finance Committee to properly scrutinise, as its main proposals are uncosted, “and are likely to remain so in the short term.” The Committee report continues….."The Committee has growing concern that on a general level it is being asked to scrutinise Financial Memoranda where substantial costs could arise but are not quantifiable at the time of the Bill being introduced…..the Committee would argue
that the Financial Memorandum is perhaps misleading in not recognising all of the implications that could give rise to costs.”

14. The FM to the Criminal Procedure (Amendment) (Scotland) Bill asserted that costs of the Bill could be partly offset by efficiency savings that could be made within the court system. However, on the basis of the evidence received, the Committee was not satisfied that resource savings had actually been identified and certainly had not been costed. Further, many of the Bill’s provisions arose from recommendations made by Lord Bonomy’s report on the Review of the High Court of Justiciary and the Committee was not convinced that the Executive had looked at more innovative and creative ways of implementing these recommendations which could have considered some best value considerations rather than adding additional procedures.

15. Another issue raised in the Report into the Local Governance (Scotland) Bill FM was the seeming lack of consultation by the Executive with key stakeholders, specifically with COSLA.

Conclusions

16. The Committee may like to consider what recommendations (if any) it may wish to make to address these concerns. Possible options are set out below:

17. The concerns regarding financial assumptions not being quantified, lack of financial information regarding wider initiatives, lack of thought being given to efficiency savings and lack of consultation could be addressed in a letter to the Executive.

18. With regard to consultation on FMs, Executive officials, when they gave evidence to the Committee on the Anti-social Behaviour etc (Scotland) Bill said:

“according to the Executive's most recently published guidance on financial memoranda, there is no requirement on the Executive, and it is not the Executive's policy, systematically to consult on financial memoranda before they are published.

Leaving that to the one side, I think that a simple practical reason why we did not consult on a draft financial memorandum relates to the circumstances in which the bill was prepared, because we did not publish a draft bill for consultation beforehand. The measures in the bill were finalised only after the close of the summer consultation on the policy proposals. Therefore, we did not have, as it were, a set of published draft proposals for which it would be possible to publish an accompanying draft financial memorandum for consultation”
19. However, officials went on to explain that while it may be they would not necessarily consult on a draft financial memorandum, they would consult with stakeholders on the potential costs of any policy to inform the drafting of the FM. **Members are invited to consider if they wish to pursue this further and if they also wish to raise concerns regarding the quality of evidence underpinning financial assumptions and information regarding wider initiatives with the Executive.**

20. The concern regarding costs attributable to the bill only coming to light through subordinate legislation raises different issues. All such legislation is referred to the Subordinate Legislation Committee and to the subject committee which has been designated as lead committee.

21. If subordinate legislation has any financial implications, then these should be described in the Executive Note which accompanies all statutory instruments.

22. The Committee may wish to consider whether it should scrutinise any statutory instruments related to a Bill where it has previously expressed concern over the subsequent costs being attributable to subordinate legislation (eg, the Education (Additional Support for Learning) (Scotland) Bill). If the Committee wishes to do this, it should be aware that the timescale for scrutiny would be tight, given the 40 day period within which the lead committee must report to Parliament under Rules 10.4, 10.5 and 10.6 of Standing Orders. As with scrutiny of FMs, the Committee would need to report to the lead Committee before it publishes its report.

23. **The Committee is invited to agree whether it wishes to adopt this approach.**

**Members’ Bills**

24. Members’ Bills and accompanying documents are not prepared by the Executive. The Committee has scrutinised 3 such Bills. The Committee has noted that many of the costs in FMs are based on Executive answers to parliamentary questions and that Members in charge of Bills have raised concerns over the amount of research and information that can be obtained from the Executive.

25. The Committee has noted this in its reports on these FMs. The Committee has, wherever possible, tried to seek evidence from the Executive on the financial implications of Members’ bills but has stated in at least two reports that the Executive should, as a matter of course, produce a statement addressing the financial implications as well as
the policy issues of Members’ Bills. There should be an established timescale so that such a statement will be made available before the scrutiny process commences to enable this Committee to consider this information as part of the scrutiny process.

26. **Are members content that this should now be raised in correspondence with the Executive?**
Budget Process 2005-06 - Supplementary Note on Efficiency Targets

1. In recent days, it has been reported that the Executive's efficiency targets are 'tougher' than Gershon in Whitehall, equivalent to 2% per annum over three years, and may require job losses.

2. It is difficult to agree with this view on the basis of the data in the public domain. The Treasury Spending Review document reports the Whitehall targets as being 2.5% per annum. However, the Treasury accepts that around 40% of the efficiency gains will be non-cash releasing (i.e. increasing outputs). This would give a total savings target of £21.5 billion or 7.3% broadly equivalent to 2.5% per annum with the cash savings elements delivering 4.4% of the total by 2007-08.

3. The Scottish plans provide for £500m of savings by 2007-08. At that time, the Scottish Departmental Expenditure Limit (DEL) will be £25.5 billion. The savings are therefore the equivalent of 1.96% over three years. If savings of 2% per annum were made, the figures would be as follows:

<table>
<thead>
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<th>Year</th>
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<td>2005-06</td>
<td>456</td>
<td>456</td>
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</tr>
<tr>
<td>2006-07</td>
<td>-</td>
<td>484</td>
<td>484</td>
</tr>
<tr>
<td>2007-08</td>
<td>-</td>
<td>-</td>
<td>510</td>
</tr>
<tr>
<td>Total</td>
<td>456</td>
<td>940</td>
<td>1450</td>
</tr>
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</table>

4. I raised my concerns with Finance Co-ordination and learnt that their current assumption is that all of the £500m will be in cash-releasing savings. Nevertheless, this is still less than half the cash savings target for Whitehall of 4.4%.

5. Finance Co-ordination also clarified the position regarding job losses, as the First Minister’s statement appeared to contradict the earlier commitment by the Finance Minister that no job losses would result from the Efficient Government Initiative. My understanding is now that there are no targets for job losses in Scotland, unlike Whitehall, but that job losses may arise in meeting efficiency savings targets. Finance Co-ordination is confident that most of the savings can be made without job loss. Personally, I am doubtful that £300m of cash savings from administration costs and duplication of back office services (Finance,
Human Resources, Facilities Management, etc) can be delivered without reducing staff costs. Some 73% of the Scottish Executive administration budget (£163m of £222m in 2005-06 excluding capital charges) is staff costs.
Finance Committee

22nd Meeting 2004 - Tuesday 14 September 2004

Budget Process 2005-06: Update on Developments since the Stage 1 Report

UK Spending Review

1. The UK Spending Review (“SR04”) was published on 12 July 2004. It is the fourth such exercise since Labour's election in 1997. Although the first review was called “comprehensive”, in practice it concentrated on changes at the margins, in the form of additional resources. The broad totals in SR04 are in line with UK Budget 2004, planning increases in current spending of 2.5% per annum in real terms; and growth in public sector net investment (PSNI) from 2% to 2⅓% of GDP. This is lower than in recent years, but still considerably higher than the previous thirty years.

2. As in previous years, the Treasury has given higher increases to spending on services (DELs) and lower increases on AME. The DEL average increase is 4.2% whilst AME is 2.1% in real terms. The restraints of spending on social security, tax credits and debt interest will continue.

3. There are two further aspects of presentation that need clarification arising from the somewhat confused media coverage of the report. First, it is not the case that the Treasury set efficiency targets for the Scottish Executive. Under the devolution settlement, the total assigned budgets and specific allocations are within the framework of public expenditure control, including DEL and AME. That said, the Executive has responsibility for financial management of the totals - including resource allocation, management of EYF, delivering value-for-money - and for financial propriety. It has the same rights of access to the Treasury’s reserve, and continues to transfer resources to and from UK departments as appropriate. The Executive is a devolved political administration, however, and not subject to such UK mechanisms as Departmental Investment Strategies, Public Service Agreements, or efficiency targets such as recently set by the Treasury in response to the report on efficiency by Sir Peter Gershon. The Executive does not agree either performance or efficiency targets with the Treasury.

4. Second, the provision for England includes assumptions of job losses to meet efficiency targets. However, the Executive's own statement on efficient government assumes no job losses. The big savings in Whitehall will come from reserved functions, mainly the Department of Work and Pensions, Inland Revenue, Customs and Excise, and Defence. It also assumes procurement savings of £6 billion.

5. However, whilst the Spending Review projects savings of over £20 billion from the efficiency targets, only about 60% are actually cash-
releasing, making the real figure £12 billion in terms of actual savings. The remaining 40% will be composed of gains in "outputs".

6. The Spending Review is essentially about allocating the DELs – both to the relevant UK departments and to the devolved administrations. In addition, further in-year allocations and inter-departmental transfers can be made in each budget year.

7. Table 1 below shows how the Scottish DEL has been modified over time\(^1\) and how each show increases over the previous Spending Review exercise. For example, the original provision of £14,510m for 2000-01, set in 1998, was increased to £15,050m in 2000. More recently, the £22,320m set in 2002 for 2005-06 is now £22,757m in SR 2004.

8. In the 2004 exercise, Scotland’s position through the Barnett Formula will be broadly maintained, as the higher increases for health, education and transport all generate significant consequentials. This gives increases in the Scottish DEL from £21.3 billion in the 2004-05 budget, to £25.5 billion by 2007-08, an increase of 3.5% per annum in real terms. AME is determined annually, but currently it is £2.5 billion in 2004-05. The SR04 figures, however, are net of depreciation, so they will differ marginally from those in the AER.

9. Members should be clear, however, that the efficiency targets do not affect the spending plans. If savings are made, these will be transferred into frontline services, leaving spending totals untouched. The inference made by some journalists that failure to meet efficiency targets would lead to cuts in services is simply wrong. Any funding released from such exercises should be re-distributed through supplementary allocations. The Scottish Budget, therefore, will not be affected by the Whitehall efficiency reviews.

Efficient Government in Scotland

10. The second development for consideration is the announcement on efficient government of 24 June 2004. The Finance Minister’s statement sets out a series of targets for efficiency gains, rising from £500m by 2007-08, to £1 billion by 2010. This is to be achieved by shifting resources from spending on support services and back office functions, to front-line services.

11. The Minister intends to set targets across the public sector for efficiency gains in the Scottish Spending Review in September. It is to be concentrated on the elimination of “waste, bureaucracy and duplication”.

12. The Committee should have no difficulty in accepting the principle that costs of administration should be kept to a minimum. There is always scope for such savings in every organisation, public or private, as

\(^1\) Each table contains 4 year data, the first year of which is simply the benchmark for comparison.
methods of production and technology change. The real concern for the Committee is the realism of the targets, in the light of the minimal impact of such reviews in the past. The most high profile, the Rayner Scrutinies in the Thatcher era, saved around 0.4% of total public spending over 7 years.

13. The Minister has so far offered only glimpses of how such savings will be made rather than a comprehensive assessment of the scope for efficiency gains. The Executive has identified only one potential source of major savings, procurement, which it targets at £200m from a total spend of £3 - £4 billion. It also acknowledges that “productive time” benefits will not be cash-releasing. This leaves “back office reform”, transitional services and rationalising policy, funding and regulatory regimes.

14. The examples of savings highlighted by the Minister to date tend to be small scale, such as:

- Facilities Management £2.1m per annum
- e-auction for PCs £0.4m per annum
- Rationalisation of accommodation £1.4m per annum
- Efficient processing of CAP grants £2.9m per annum
- e-HR systems £1.0m per annum

15. The Committee can get a better feel for the achievability of these targets – which must be “cash-releasing” if they are to be diverted into front-line services – by dissecting the budget.

16. The Executive has stated that these savings will not result in job losses. As staff costs account for 50% of the Scottish Budget, this means that the savings will all have to be made in the £13 billion of other costs in the Budget for 2004-05. This means the real efficiency target in percentage terms is much bigger – and as a result more difficult to achieve.

17. Second, local government and the health service together account for over £15 billion of expenditure, or 62% of the Budget. Both services have gone through structural and organisational reform in recent years to streamline administrative costs. The local government review of ten years ago also concentrated on reducing bureaucracy and duplication from the system, and built in an assumed level of savings into the grant settlement of £40m. Current corporate services costs amount to around £125m, with total tax collection costs of £36m.

18. In terms of the NHS, the current administration costs are around £360m in total, and the reduction in the number of Trusts has already saved £100m. This hardly suggests major savings will be found, as a 10% reduction would save less than £40m.
19. The remainder of the Scottish Executive’s budget covers a range of policy funding and regulatory regimes. General oversight costs are contained centrally in the Executive’s Administration budget of £233m – or around £200m if we discount RAB costs – including staff costs of £151m, accommodation of £17m and office overheads of £21m.

20. I could identify twenty regulatory/funding bodies specifically highlighted in the Budget, with a total spend of £2750m. Of these, five had major budgets:

- £370m (Students Awards Agency for Scotland);
- £781m (Scottish Higher Education Funding Council);
- £465m (Scottish Further Education Funding Council);
- £465m (Scottish Enterprise);
- £225m (Communities Scotland).

21. Of the administrative and inspectorate costs identified, the highest found was for Scottish Enterprise administration (£92m); Highlands and Islands Enterprise (£15m); Scottish Homes (£18m); and Legal Aid administration (£16m). However, the majority of these bodies had administration costs of less than £10m, in a total of around £200m. Rationalising the administration of funding and regulatory bodies will not yield significant savings.

22. There will be some administrative savings made from the proposed merger of SFEFC and SHEFC and in the future there may be some scope for further such savings.

23. In short, the administration costs we can identify clearly in the Budget amount to just less than a £1 billion in total, which must raise significant doubts about the feasibility of the Executive’s target of £1 billion savings by 2010. Even if procurement savings of £200m materialise, that leaves £800m to be generated from back office services, transactional services and rationalising services. However, if the Executive accepts non-cash releasing savings which increase output at the same cost, then the scale of funding available for reallocation to front line services falls to £300m by 2007-08, and £600m by 2010. This is equivalent to around 0.4% of the Scottish DEL per annum which is a more realistic target in the absence of staff reductions.

24. My advice to the Committee is that it would therefore be prudent to proceed with some caution. The Committee should be cautious about any request to approve any reallocation of resources to front-line services prior to having greater certainty that efficiency savings can be made. Second, the Committee should request regular performance reports on this issue, so that it can monitor the actual financial savings achieved and the subject committees can be assured that savings have not reduced jobs or services. Transfers of actual savings to front-line services should be made in the supplementary estimates in the normal
way. This will assure committees that funding is not being allocated on the basis of assumed yet unidentified savings in the future.

25. The Committee’s guidance on these two recommendations regarding the process of approving and reporting efficiency gains is requested, and any other issue of concern to members.

End-Year Flexibility (EYF)
25. The Finance Minister’s statement to Parliament also covered EYF. Much of the redistribution of resources was made possible by the continuing high level of underspending in the water programme.

26. The position is that Scottish Water’s operative budget includes interest costs and is funded from charges, as is part of its capital programme. Borrowing is a cash balancing item which is only drawn down after the capital expenditure has been incurred and income from charges used.

27. In the most recent announcement, there were three contributory factors.

(a) Programme Slippage £72m
(b) Delay in making charge to Executive ie. expenditure £60m is incurred, but the bill is not yet paid
(c) Reduction in operating and interest costs, which £45m increased profits and was used for capital programme

28. Members will also have noted that the current budget is £192m, and the plan for 2005-06 is £196m. In practice, the borrowing profile depends on the delivery of investment, and it is likely that the £196m will be reduced, with unused funds retained for future years, again through slower capital investment and lower interest costs.

29. This slippage has the short-term benefit of reducing debt and therefore interest costs to Scottish Water. In the longer term, however, more accurate forecastings would help ensure that resources are made available for other programmes at an earlier stage, which would help financial planning.

30. I have serious concerns however, regarding the practice of applying full EYF to the water programme, given its nature as a borrowing facility. In practice, only around £96m of net new borrowing has been committed, which means that over £500m of capital investment through borrowing is still available to Scottish Water and given the current expenditure performance, this seems unlikely to be needed in its entirety.
31. I would therefore advise the Committee to raise this issue with the Minister, particularly given the problem of construction capacity which was reported to the Committee. In particular, members may wish to consider whether full EYF remains a sensible approach, and whether there is scope for increasing the rate of expenditure through other organisations. The current situation is not helping promote economic growth, as the underspend appears to be used for current rather than capital expenditure, and the continuing slippage is delaying economic development.

**Table 1: Scotland’s Departmental Expenditure Limits**

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*Source: UK Spending Reviews*