

# **FINANCE COMMITTEE**

Tuesday 5 October 2004

Session 2

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## **FINANCE COMMITTEE**

### **25<sup>th</sup> Meeting 2004, Session 2**

#### **CONVENER**

\*Des McNulty (Clydebank and Milngavie) (Lab)

#### **DEPUTY CONVENER**

\*Alasdair Morgan (South of Scotland) (SNP)

#### **COMMITTEE MEMBERS**

\*Ms Wendy Alexander (Paisley North) (Lab)

\*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

\*Kate Maclean (Dundee West) (Lab)

\*Jim Mather (Highlands and Islands) (SNP)

\*Dr Elaine Murray (Dumfries) (Lab)

\*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

\*John Swinburne (Central Scotland) (SSCUP)

#### **COMMITTEE SUBSTITUTES**

Gordon Jackson (Glasgow Govan) (Lab)

David Mundell (South of Scotland) (Con)

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

\*attended

#### **THE FOLLOWING ALSO ATTENDED:**

Professor Arthur Midwinter (Adviser)

#### **THE FOLLOWING GAVE EVIDENCE:**

Robert Brown MSP (Scottish Parliamentary Corporate Body)

Derek Croll (Scottish Parliament Directorate of Corporate Services)

Richard Dennis (Scottish Executive Finance and Central Services Department)

Paul Grice (Clerk and Chief Executive, Scottish Parliament)

Mr Tom McCabe (Deputy Minister for Health and Community Care)

Colin McKay (Scottish Executive Finance and Central Services Department)

Fiona Montgomery (Scottish Executive Finance and Central Services Department)

#### **CLERK TO THE COMMITTEE**

Susan Duffy

#### **SENIOR ASSISTANT CLERK**

Terry Shevlin

#### **ASSISTANT CLERK**

Emma Berry

#### **LOCATION**

Committee Room 4



## Scottish Parliament

### Finance Committee

*Tuesday 5 October 2004*

[THE CONVENER *opened the meeting at 09:56*]

### Budget Process 2005-06 (Scottish Parliamentary Corporate Body Submission)

**The Convener (Des McNulty):** I welcome members of the press and the public to the 25<sup>th</sup> meeting in 2004 of the Finance Committee. I remind people to turn off all pagers and mobile phones. No apologies have been received.

The first item on our agenda is consideration of the Scottish Parliamentary Corporate Body's expenditure plan for 2005-06. I welcome to the committee Robert Brown, who is a member of the SPCB; Paul Grice, clerk and chief executive of the Scottish Parliament; and Derek Croll, who is head of corporate services at the Parliament. Members have a copy of the SPCB's submission. I offer Paul Grice or Robert Brown the opportunity to make an opening statement and then we will proceed to questions from members of the committee.

**Robert Brown MSP (Scottish Parliamentary Corporate Body):** I thank the committee for hearing from us once again. The budget submission before the committee today will for the first time cover a full year of running in the new Parliament building here at Holyrood. It is therefore in many ways a benchmark year against which subsequent expenditure trends can be measured.

Members will recall that I have said to the committee before that when the Parliament was first established in 1999 it took a year or two before things settled down and we reached a more stable budget situation. In the current year, 2004-05, we have the cost of a period of double running of the temporary accommodation and the new buildings together with the migration costs. It will take a little time for the operation of the new building to settle down. It is a brand new building and factors such as visitor numbers are to an extent unpredictable. We do not know all the implications of the large number of visitors who will come through the door and of the other aspects of working in a new building. It will therefore take a little while for full-year costs to be established in some areas, the most obvious of which is rates, which are in the budget at £4 million, but which are

yet to be established. To an extent the figure is arbitrary—it is paid out, but it goes back into the Exchequer at the other end, so it is a sort of net figure at the end of the day.

The uncertainties are far less than they were when the Parliament was established, and the budget bid is entirely in line with the indicative figures advised to the Finance Committee last October and to the Scottish Executive as part of the spending review. There are two adjustments to note. The first is the increased employer pension contributions from 1 April 2005 and the second is the increase in the budgets for the new commissioners and ombudsmen, although those are funded by agreed transfers from the Treasury and Scottish Executive respectively.

We are projecting a decrease of £3.5 million in our general reserves and contingencies, which is largely because of the effect of the significant one-off costs allowed for in the current year budget for such things as the opening ceremony and the restoration of the Assembly Hall up the road to a condition in which we can give it back to the Church of Scotland.

The net revenue budget submission for 2005-06 is £63 million. If we strip out the one-off costs of migration and double running in 2004-05, which complicate matters this year, that is an increase of £0.2 million, or 0.4 per cent of our current year approved budget. However, to an extent that is due to the reduction in contingency.

10:00

We have highlighted comparisons between the 2005-06 submission and the current year's standard running costs in schedules 2 and 3 of the Presiding Officer's letter to the Finance Committee. In our budget bid for 2004-05, double running costs were assumed at £2.7 million. That assumed that six months' double running would be needed. In the event, early termination of our lease commitments cut that figure to just under £1 million, so there is an element of saving there. It is too early to assess the final costs of migration, but the early indications are that it will be managed within the allocated budget. That, of course, applies to the current year.

Excluding migration-related costs, staff pay shows an increase of £2.1 million, which is an increase of 13 per cent on 2004-05. At first glance, that is obviously quite substantial. Four factors make up that increase. First, there has been an average increase of 5 per cent in the required level of employers' pension contributions from April 2005, which is about £750,000 for the financial year. That is the sum that I touched on before, which is met by the Treasury. Secondly, there is an increase of £220,000 in staff pay as a

result of the recent review of the Parliament security force. I think that I reported to the committee on that during our previous discussion. Thirdly, there has been incremental pay progression. Given that the Scottish Parliament is a young organisation, staff have been moving up the grades, as I told the committee last year. Fourthly, there is an agreed pay award of 3 per cent. Those are the factors that make up the staff pay changes.

We now have to fund five office holders under the commissioners and ombudsmen heading. They are the Scottish public services ombudsman, the Scottish information commissioner, the Scottish parliamentary standards commissioner, the commissioner for children and young people in Scotland and the commissioner for public appointments in Scotland. Those posts are at various stages of establishment.

We have reviewed and approved the 2005-06 budget submissions from the Scottish public services ombudsman and the Scottish information commissioner. We have had fruitful discussions with them on areas where common services can be considered. There are a number of areas of commonality and efforts are being made to try to develop them. However, both those offices are at an early stage of establishment and their full work load will come into effect only in 2005. That applies in particular to Kevin Dunion, the information commissioner, as the Freedom of Information (Scotland) Act 2002 does not come into force until then. Apart from that, the main increase in the commissioners and ombudsmen budget arises from the creation of a central contingency to meet the cost of legal challenges to the commissioners' rulings, which might be nothing or might be significant. That contingency will be held centrally by the SPCB. We have agreed that approach with the commissioners.

We are not looking for any new resources this year, nor do we seek any end-year flexibility carryover. The surplus this year will be returned to the consolidated block. Parliament's requirements change over time, of course, but the approach that the SPCB is taking is very much to live within its existing resources, to build in efficiency reviews, to control staff numbers prudently and to make off-setting savings where we can.

Thank you for the opportunity to make that statement, convener. There will obviously be questions on the detail.

**The Convener:** I turn first to staff pay and staffing in general. What is the trajectory of staff numbers? How has the number of staff been affected by the period of double running? Is there likely to be a reduction in the number of staff once they have completely moved into the new set-up? What mechanisms do you anticipate bringing

forward by way of best-value reviews within the Parliament? I appreciate that now might not be the best time to do that work but, in the context of considering the budget projections for next year, I am anxious to encourage you to consider how the efficiency of the organisation should develop.

**Robert Brown:** I will ask Paul Grice to deal with the detail of that question.

**Paul Grice (Clerk and Chief Executive, Scottish Parliament):** There has been a steady, although gentle, increase in the number of staff over the piece. We are carrying about 60 temporary or fixed-term staff. Many of those posts are in areas where we face uncertainty. There was a peak in demand over the move. I anticipate that some of those posts will be dispensed with in due course. On the other hand, there are new pressures. We have to reconsider security requirements in the light of recent events. There is a significant likelihood that we will need additional security staff. We also have to keep a close eye on what it takes to manage an increase of about 600,000 or even 700,000 visitors on the number we had up the road. That is a massive new demand on the business. We are also looking at opportunities to generate revenue, both through tours and through the shop, to try to offset that.

I anticipate that, from next year—2005-06—we will have a rolling programme of efficiency reviews, drawing on best value and other principles, and we are geared up for doing that. Over the next two or three months, I will be making some proposals to the corporate body for discussion. It is too early to do that now—we absolutely have to focus on getting the new building up and running—but my intention is to have a rolling programme of reviews from the beginning of the next financial year. We already have quite a history of change management and reviews, whether in the security force or in relation to our information technology system. Looking at key areas of the business, I expect to determine whether we can improve efficiency and effectiveness.

We must always be responsive to the needs and demands of the Parliament itself, too. It is quite a complex equation. In the course of further evidence sessions with the committee, I expect to be able to advise the committee more precisely about the areas that we are considering in terms of efficiency.

**The Convener:** The budget that we are considering is for 2005-06. This is a personal point of view, although I suspect that it is shared by the committee. I think that we would want there to be a proper breakdown of the processes that you are considering with a view to achieving best-value reviews and of how staffing numbers and the disposition of staff are managed. That is clearly a

matter for the SPCB in the first instance. It would be inappropriate if the transitional staffing costs that were associated with getting up and running in the new building simply transferred into a kind of stabilised staffing system without some budgetary scrutiny of that process.

**Paul Grice:** The process is subject to very significant scrutiny. As you rightly say, it is really a matter for the corporate body. We have a clear approach to budgeting. We have zero-base budgeting each year. In other words, when I go round the various directorates, we start from a zero base. They have to bid up each year and there is no question of just carrying things forward historically. The costs associated with migration are separately identified and funded. Where we were not sure that the posts would be continued, they have been established on a fixed-term basis so as to give flexibility.

There are some quite significant new demands associated with the new campus. They include dealing with three quarters of a million visitors, a huge number of extra events and increased security. Those are all new demands and it is a question of assessing all of them quite carefully. I can assure the committee that, as far as the use of best value or any other technique for helping us to find efficiency is concerned, I intend to have a clearly programmed set of efficiency reviews when we hit a more stable period, which I think will be from the next financial year onwards. I am working towards that with the corporate body. I am happy to report to the committee on how we are going to go about that work and on where we are going to look, so that the committee is satisfied that our overall approach is appropriate.

**Robert Brown:** Schedule 2 of the document that is before members sets out some of the predictable trends, with the indicative forecasts for 2006-07. Remember that we are taking out migration and double running as non-standard costs, so they are shown separately. You can see the trend from the approved budget for 2004-05, minus those bits, to the budget bid for the forthcoming year and on to 2006-07. That gives a reasonably clear comparison, as far as possible.

**The Convener:** I appreciate that. Under staff pay, we are given an aggregated figure, with an incremental uplift. Although I understand the reasons for that uplift, I suppose that I am seeking a breakdown that shows how that process is being managed through a cycle of change.

I would like to move on to the commissioners and ombudsmen budget, which comes through the SPCB. From previous discussions, which caused the committee some concern, we were aware that the SPCB and the Executive did not feel able to suggest to commissioners or ombudsmen how they might follow an overall relocation strategy, for

example. A number of the offices concerned have ended up in Edinburgh or other places, apparently without anybody being in a position to question those decisions. That is something that the committee wishes to pick up and take forward. Are you in the same situation in relation to the growth of staff in those bodies? If the Scottish information commissioner or the Scottish public services ombudsman comes forward with a proposal to increase staffing and says that they need such an increase in order to function, how far do you feel that you can legitimately interrogate them? Is there a role between the SPCB and the committees of the Parliament that you would look to explore in terms of proper financial control?

**Robert Brown:** You must remember the background to the matter. The office holders are independent and were established in various ways under parliamentary authority, so to some extent decisions—budgetary implications aside—are ultimately decisions for the office holders themselves. However, we have a process for meeting them; I and corporate body staff met the Scottish information commissioner and the Scottish public services ombudsman to go through those issues. Those offices are at an early stage of establishment; I do not think that full-year costs come through in the current budget in either instance. We discussed where they established their offices and whether there are common issues in relation to services such as payroll support and auditing and how those issues relate to what the SPCB does. Some common information technology stuff is being worked up by Alice Brown in particular—information systems are being made available to the other commissioners, and there is scope for common working in such areas. I am bound to say that there are fewer of those areas than I thought at first because the different offices are reasonably distinct in a number of ways, leaving aside the issue of where the offices are located. We have had useful discussions on a number of issues and I hope that they will bear fruit over the course of the next year as the offices are established and we can see where we are going.

The timescale for the commissioner for children and young people is a bit further behind; there are similar issues in relation to that post, but it will benefit from the fact that we will have already been around the course with the other office holders. There is a delicate balance between the commissioners and ombudsmen with their independent status, the corporate body as the Parliament's representative and the Finance Committee with its regard for budgets. I hope that as we get used to working in this realm it will become clear where the borderlines and divisions are.

**Paul Grice:** As the convener noted, we have only a degree of influence. We cannot control the commissioners' work load or the decisions that they take in terms of how they discharge their functions. There have been detailed discussions with my finance team and Robert Brown on behalf of the corporate body. Of course, it is entirely appropriate for commissioners, especially where they are accountable officers, to appear before the Finance Committee to justify their bids. The corporate body envisages a range of control mechanisms. As you know, the system does not go live until January next year so it is difficult for the commissioners, especially the information commissioner, to anticipate exactly what the demands will be until then.

**The Convener:** I will bring in Ted Brocklebank in a moment, but first I will be indelicate and say that I have some concerns on the matter. On the information that is in the public domain, we are simply given a line that says that the commissioners and ombudsmen have a 7 per cent uplift and a budget line for that. There is no supporting information on that expenditure to allow us to examine value for money or the opportunities that might exist for economies between the various organisations. A number of issues to do with transparency and scrutiny need to be batted down but that cannot happen on the basis of the information that we have.

10:15

**Paul Grice:** If it would be helpful, I am certainly happy to go back to the individual commissioners and invite them to submit direct to the committee more detail on their budgets for this year and next year. We are all in new territory. We are not here to argue the case for the commissioners; the corporate body acts largely as a conduit and it is for the commissioners rather than the corporate body to defend their decisions and judgments. They are not like non-departmental public bodies, where there is a ministerial power of direction, but are independent office holders. The corporate body has no locus to tell them how to discharge their functions. It has asked some pretty pertinent questions but, at the end of the day, there is a relationship between the individual commissioners and the Finance Committee in defending their budgets. I am more than happy to arrange for them to submit more detail on their budgets, either via the corporate body or direct to the committee. It is entirely proper for the committee to ask the individual commissioners to come before it, should the committee consider it appropriate to do so. As Robert Brown said, there is a balance to be struck between the independence of the offices and the role of the corporate body, and the corporate body is keen not to overstep the mark.

**Robert Brown:** We have a protocol of operation

with the commissioners, which deals with what happens when we agree that things are okay and what happens when there are issues. If we were significantly unhappy with aspects of a commissioner's budget, it would be our job to report that to the Finance Committee and say, "They have put in a bid for another £1 million but it is not justified in our view." The Finance Committee would then have to arbitrate. However, that has not been the position up to now and the corporate body is comfortable with the situation.

**The Convener:** I do not want to pursue the matter too much further, but there is an issue here and we need clarity. The negotiations and discussions between the commissioners and the corporate body do not take place in the normal scrutiny setting. We need to find a mechanism that allows those discussions to be brought into the normal scrutiny setting and produces open information about what is going on. It would be a nonsense if the Scottish information commissioner in particular was seen to be not accountable to the Parliament in some way.

**Mr Ted Brocklebank (Mid Scotland and Fife) (Con):** My questions are not directly related to the role of commissioners and ombudsmen, although it might be useful for the committee to know that I recently met Kevin Dunion to talk about his decision to move to St Andrews and he is more than happy to appear before the committee. Indeed, he would welcome the opportunity to explain his judgments.

I would like to know—perhaps you can remind me—how much it cost per year to hire the Assembly Hall building while we were there? Can you give me a figure for that?

**Paul Grice:** Not off the top of my head.

**Mr Brocklebank:** Can you give me a ballpark figure? I am wondering what savings there will be, given that we have moved to a new home. How much did it cost?

**Paul Grice:** I think that it would have come to hundreds of thousands.

**Mr Brocklebank:** Per year?

**Paul Grice:** Yes.

**Mr Brocklebank:** Would it be possible for you to come back and—

**Paul Grice:** Absolutely. I am sorry that I do not have the figure at my fingertips, but we have a precise figure.

**Robert Brown:** Would Ted Brocklebank clarify which figure he is looking for? There were, of course, a number of buildings that made up the parliamentary complex at that time: the Assembly Hall, the George IV Bridge buildings and the building in St Andrews Square.



**Mr Brocklebank:** It would be useful to have the figure broken down to show how much was spent where.

**Paul Grice:** I can give you a total rental figure but, as Robert Brown said, it covers quite a number of buildings.

**Derek Croll (Scottish Parliament Directorate of Corporate Services):** We have a figure of £800,000 for four months.

**Mr Brocklebank:** Is that for all the buildings?

**Paul Grice:** That is for St Andrews Square and all the buildings at the Mound including the Assembly Hall. However, it will be possible to give you a breakdown.

**Mr Brocklebank:** By my terrible arithmetic, that is about £3 million per year. Is that right?

**Paul Grice:** Do you mean the total for the whole estate?

**Mr Brocklebank:** Yes.

**Paul Grice:** Yes, that would seem about right, but we can confirm that quickly.

**Mr Brocklebank:** As a follow-up to that, you mentioned the cost of restoring the Assembly Hall building. Do you have that figure?

**Derek Croll:** The figure is £660,000, I believe.

**Mr Brocklebank:** Is that a one-off payment to put the building back to how it was before the Parliament went in?

**Derek Croll:** Yes.

**Paul Grice:** Not quite—it will be considerably improved on from when the Parliament inherited it. It is what is called mode 4, so it is a combination of how we had it and how it was before. Essentially, the desks have been taken out and there is extra seating, but the horseshoe shape has been retained. It is a considerable improvement on the condition that the building was in when the Parliament inherited it.

**Mr Brocklebank:** I have a question about maintenance. We all know about the problems of escalation of costs of the building, but we now look around at the large number of windows in this place and the huge greensward outside. Presumably, there is an on-going budget for maintaining those. I should have thought that cleaning the windows will be a bit like painting the Forth bridge—the job will never be finished.

**Paul Grice:** There is a budget for cleaning the windows. The cleaning budget for 2005-06 is £658,000. That relates not just to windows, but to the whole complex. There is a variable regime, as some windows need to be cleaned more frequently than others. As members will have seen

already, to access some windows in the towers cleaners will have to abseil using ropes—that is the technique. Other windows can be cleaned far more conventionally. We are also examining carefully the frequency with which windows will need to be cleaned. Clearly, the building must be clean and must look good, but I am keen not to spend any more money than is necessary. We need to review the matter carefully over the first year or so, to determine a regime that strikes a balance between expenditure and keeping the building in the condition that we want.

**Mr Brocklebank:** How do the contracts work? Do you put them out to tender on an annual basis?

**Paul Grice:** All the contracts are let through a competitive process, usually for between three and five years. At the end of that period, they are retendered in line with normal Government procurement policy. Where there is uncertainty, we have secured contracts based on a variable amount, so that we do not pay for any more cleaning than we need.

**Mr Brocklebank:** Do the same conditions apply to the landscaping contract?

**Paul Grice:** There will be a maintenance contract and a regime to cut the grass and maintain the hard landscaping.

**Mr Brocklebank:** I have one final question.

**The Convener:** That is about six questions so far.

**Mr Brocklebank:** It is a minor related question. Earlier this year, there was a story about problems related to the grass. The story suggested that it had had to be stored for a long period and that it was dying or could not be resuscitated. What happened on that?

**Paul Grice:** The story was as accurate as many stories that emanated from the source in question, which is to say that it was not accurate. If members look out of the window, they will see that the grass is quite healthy. As members know, we hit our deadline—which is why we are here—but there had to be some shifts within the programme. For that reason, some of the plastic pallets of grass had to be stored, but as far as I can see it is growing very well.

**Alasdair Morgan (South of Scotland) (SNP):** Robert Brown mentioned national insurance costs. Did you say that those would be met by the Treasury? Surely you did not mean that.

**Robert Brown:** I was referring to the increase in pension contributions for staff—not increased pensions, but the increased cost of pensions in the current climate. I think that all civil service-type positions across the country are affected.

**Paul Grice:** Robert Brown is correct to say that this is a common issue. The cost that we have

identified is £750,000, which has been met in full by the Treasury. It is a cash transfer, rather than a net cost.

**Alasdair Morgan:** Is it a recurring item?

**Derek Croll:** From now on, the cost of contributions will remain at the higher level. It has risen from an average of about 13 per cent to 18 per cent.

**Alasdair Morgan:** Will it be met by the Treasury on a recurring basis?

**Derek Croll:** It will come out of the Scottish consolidated fund, but the fund has been increased by the amount that is needed to make the payments.

**Alasdair Morgan:** I return to the issue of the commissioners, and I will try not to be delicate. You indicated that someone, perhaps the Finance Committee, might have to arbitrate; you certainly used the words "arbitrate" and "Finance Committee" in the same clause. At the end of the day, who says no to these people? Regardless of what the relevant act of Parliament says, someone must control their budget and say, "You are not getting any more."

**Paul Grice:** The bottom line is that Parliament, through the committee, has that right. We are in relatively uncharted territory. I have personal experience of sponsoring NDPBs. Ultimately, ministers have the authority to say, "Don't do that," and to direct bodies not to do things if they cannot afford it. That power does not exist in relation to independent commissioners. They are deliberately set up with independence and are required to make their own judgments.

The corporate body plays a different role. I am sure that it will want to learn from experience, but it sees its role as being to challenge the commissioners and to ask pertinent questions about why certain expenditure is included in budgets. In the current budget round, some of the initial bids were reduced. Derek Croll and his staff spend a great deal of time interrogating budgets. That work is reinforced by the corporate body, which has had meetings with the two main commissioners, Kevin Dunion and Alice Brown, and has challenged them on their budgets. However, if at the end of the day a commissioner states absolutely that they believe that they need a particular budget to fund a certain amount of work, the corporate body has no locus to say, "We don't agree with you."

We have not reached that stage. As Robert Brown said, the corporate body satisfied itself that the budgets for which the commissioners were bidding were reasonable. However, if agreement could not be reached the matter would have to be referred to the Finance Committee, as Parliament

has the right to say no. The corporate body does not have that power; when the various commissioners were set up, Parliament did not give it the power to direct the commissioners in the discharge of their functions. As Robert Brown said, we need to strike a balance between their feeling that they can do the job that Parliament gave them and the corporate body and the Finance Committee deciding what is a reasonable level of resource to achieve that.

**Robert Brown:** I will provide members with a small example. The original budgets that we received included contingencies for each of the commissioners and ombudsmen. We believed that that was not appropriate, because the contingencies would simply be absorbed into other things. For that reason, any contingencies are held by the corporate body as part of its overall figures. The commissioners were happy with that approach and accepted the rationale for it.

**Alasdair Morgan:** Every public body in the history of the planet has probably had its budget cut at some stage because whoever was in control of it thought that the body was not as efficient as it could be. The chances are that the same will apply to the commissioners in due course. It is easy to say that Parliament should do the job, but I am not entirely clear about what the mechanism would be. Clearly, Parliament as a plenary body would find the task difficult. Would the Finance Committee have to decide whether a commissioner was getting too much money? We cannot lodge amendments to budget bills—only the Minister for Finance and Public Services can do that—so how would the system work?

**Paul Grice:** We must all work within the legislation. In his preamble, Alasdair Morgan made the important point that those who control the budgets of public bodies occasionally take the view that those bodies are excessive; I have been involved in that process in the past. The problem in this case is that the corporate body does not control the commissioners' budgets. It would need statutory authority to do so.

There are other models that have been set up. For example, a body called the Scottish Commission for Public Audit has been established with the specific function of challenging and setting budgets for Audit Scotland, but Parliament did not give the corporate body such a role. The corporate body can discharge only the role that has been given to it. It has control of matters such as terms and conditions, but it does not have the power to direct. If it cannot direct the way in which commissioners discharge their functions, it cannot directly control their budget and there must be a process of negotiation. The Finance Committee has the ultimate sanction of saying whether it is happy with a commissioner's budget, but the

corporate body does not have that final say, although it will strive vigorously to encourage efficiency.

**Alasdair Morgan:** On this occasion, I am not trying to put the heat on the corporate body. However, I wonder what the process would be if we ever reached the point that I described. It is not clear to me how it would work.

**Paul Grice:** I will make a suggestion. We are in uncharted territory and, to be fair to Alice Brown and Kevin Dunion, they have offered to give evidence to the committee. It may be worth our while to write a detailed protocol that sets out the process so that every stage is clear. We have aimed to do that and could work with the committee to establish such a protocol. I would be happy to pursue that.

**The Convener:** It might be sensible for representatives of the various commissioners, the corporate body and the Finance Committee to meet and thrash out a mechanism. The committee could then decide whether it was content with the approach that was suggested.

**Paul Grice:** I would be happy to pursue the matter. The commissioners were set up individually, and the role of the corporate body in relation to them is not the same in each case. It would be helpful for us to establish a protocol. Above all else, I would like to be happy that the committee feels that it has the best handle on the situation. I am happy to come back to the committee with some thoughts after I have consulted the commissioners.

10:30

**Robert Brown:** If one compares the sums of money that are spoken about with departmental estimates, they are relatively small beer in the overall scheme of things. It is a question of getting the mechanisms right; thereafter, issues will emerge from year to year.

**The Convener:** There is a lacuna in the principle of scrutiny and we need to ensure that that is dealt with.

**John Swinburne (Central Scotland) (SSCUP):** I find it intolerable that you say that you have no control over what the commissioners spend but you give them an extra contingency fund of 7 per cent. I find in life that if one gives someone a percentage increase, it will be gobbled up somewhere along the line. We live in a time when the Government is trying to tighten up all expenditure and to cut back on total expenditure. What authority did you have to make that 7 per cent increase without asking Parliament for permission to do so?

**Robert Brown:** The 7 per cent does not represent an actual spend. It says in our submission that that increase is

“to meet the potential costs of defending legal challenges to the Commissioners’ rulings.”

There might be no such challenges or there might be challenges that cost more than is in the contingency. It is legitimate and reasonable to hold a contingency fund for such challenges. At the end of the day, if that narrowly defined contingency is not called on, it will not be spent and that will be that. However, we cannot exclude the possibility that a legal challenge will take place. From its earliest days, Parliament has been challenged in the occasional court action. It might well be that the commissioners, who will operate in contentious territory, will be similarly challenged by legal action.

**John Swinburne:** You are not showing a great deal of faith in the legality of the commissioners’ decisions if you have to build in 7 per cent for legal challenges. Surely you could have looked for a 7 per cent reduction in the costs that you anticipate because the commissioners’ decisions will be so perfect.

**Robert Brown:** Other people who deal with the commissioners in one form or another might or might not take that view. We live in a litigious age when people challenge all sorts of bodies; it is conceivable that that might happen in this instance. The 7 per cent contingency fund is a legitimate and prudent inclusion in the budget and it might or might not be called on.

**Dr Elaine Murray (Dumfries) (Lab):** In your submission, you have broken down the revenue costs into property and running costs. You say that the property costs include an estimated £4 million for the rates on the building. It would be interesting to know whether that figure was correct and when we will know the actual ratable value of the building.

The other thing that I noticed about the running costs—the standard cost is £9.3 million—is that they are to decrease slightly over the next couple of years. What is the breakdown of that £9.3 million?

**Paul Grice:** Those costs are not typically for pay or the building; they would be for training and various other costs related to the building. Putting aside the maintenance of the fabric and salary costs, the running costs account for all other expenses including, for example, printing, stationery and other contracts. A whole bundle of issues is covered. For example, we learned lessons when the print contract was last retendered. There were issues about the printing of committee reports, which were costing us more than I thought they should, so we were able to get a better deal when we retendered for that contract. That shows that we have reasonably good control over some of those matters.

**Dr Murray:** Do you feel that you can continue to drive down those costs over the next couple of years?

**Paul Grice:** Absolutely. To return to the convener's earlier point, we face uncertainty in demand and we have to adapt to that. However, I assure the committee that efficiency and effectiveness genuinely matter to us. They have done so far and will continue to do so. It is difficult in the current period to have planned efficiency reviews, but we want to do them and I will look at all those costs over time.

As Robert Brown said, we have a strategic aim to live within the 2005-06 baseline, as uplifted simply by the cost of living thereafter. That will require us to be vigilant in looking for efficiency opportunities because it is my experience that demands continue to increase on all fronts. The early months in this building suggest that demands continue to be high. It is a fantastic facility, so people want to do things with it, but that has an inevitable impact on staff and on our various contracts. It will be a challenge in the coming years to live within that baseline.

**Dr Murray:** What about the ratable value of the property? Are you confident that you will know how much the rates will be?

**Derek Croll:** Discussions are under way to establish the ratable value. We will probably know what the assessor will put the value at initially in early November.

**Dr Murray:** The other point that I want to ask about is the information technology budget. I notice from the figures that £3 million has been allocated for each of the next two years. What do you anticipate will happen in the development of IT that will require £6 million?

**Paul Grice:** There are periodic technology refreshes. As members know, we are going through a technology refresh in local offices at present, so the money would cover that kind of thing. I accept fully that it is a round number—I want to interrogate it more precisely when we come to finalise those matters. That allocation is to cover a technology refresh both here in Parliament and in members' local offices. It seems to be a reasonable budget estimate, but as we move through the migration period, I will examine the allocation more closely to see exactly what we are using.

I return to John Swinburne's generally fair point on how contingencies are used. The corporate body has a good track record of not spending contingencies when it does not need to. I assure the member absolutely that IT capital or any other contingency will, if it is not needed, either be given back or used as end-year flexibility to reduce a call in a future year.

**Jim Mather (Highlands and Islands) (SNP):** I am interested in the revenue item in your submission, given that we have now moved into this fantastic new attraction. Why does the revenue drop off in 2005-06?

**Paul Grice:** Do you refer to income?

**Jim Mather:** Yes.

**Paul Grice:** I have two comments to make about that. Our projections for income have generally been conservative. I hope that we will, through the shop in particular, be able to generate additional revenues. As you no doubt know, the corporate body took a decision that paid-for guided tours should simply wash their face; that is the current position.

The reason for the projected drop-off is that the corporate body took the view that, in this building, we should no longer charge the broadcasters for the broadcast feed. That was pulling in about £90,000 a year—I can check that figure if the committee wishes. The corporate body took that decision because it wanted to increase dissemination of the signal and to make it easier, for example, for digital broadcasters to come in and use the feed. I considered the matter carefully with advice from our head of broadcasting and I took the view that by not charging for the feed—in other words, by providing the service as a public good—we would give ourselves the best chance of disseminating the signal widely. That explains the drop-off in income.

**Jim Mather:** I accept that totally.

A document called "The Budgeting Process—Agreement between the SPCB and the Finance Committee" that was published in June 2000 is mentioned in the briefing paper that we received. I have not seen that document, but if such a document has been published in the past and we now have your statement of financial outcomes, could you augment that in future years? I suggest two measures. First, you could record the throughput of what happens in Parliament as the outcome of the expenditure and, secondly, you could consider benchmarking the financial costs of running Parliament against other legislatures.

**Paul Grice:** The first point is fair. At the end of the day, we need to assess whether we have had value for money in the outputs of our expenditure. The corporate body would normally do that through its annual report. When we put together future bids, I will be happy to consider whether we can include that suggestion so that the committee will at least get the headline outputs to help it judge. What was your second point?

**Jim Mather:** The second point was about benchmarking the costs that we incur against other legislatures.

**Paul Grice:** I am interested in that in the context of the convener's initial point. When we consider best value, one other method is to consider benchmarking; we are considering benchmarking with any comparable organisation. There might be some public sector organisations against which we can benchmark in some respects and in terms of some services.

My first port of call would be other legislatures, such as the National Assembly for Wales, which is obvious. The Northern Ireland Assembly will be a good benchmark when it is up and running. We have looked abroad; for example, we undertook an exercise that involved the Flemish Parliament, but it became too technical and did not produce the outcomes that I wanted. Benchmarking will be a valuable tool that helps us to assess our expenditure.

**Jim Mather:** What would be the impact and how would you cope if the mooted 2.6 per cent efficiency saving was foisted on the SPCB and the SPCB had to find the £1.8 million saving that that 2.6 per cent would represent?

**Paul Grice:** It is hard to say. The best approach is to examine services and to undertake the reviews that the convener talked about, rather than just to slice off the top—I have experience of that. If members wanted not only to maintain the high quality of parliamentary service that I hope we deliver, but to deal also with all the new demands on us, it would be extremely difficult to deal with just a straight cut.

As I said, Parliament at Holyrood is a much bigger and more sophisticated operation, in particular in the services that it delivers to the public: that must be recognised. If we had to face a budget cut, we would have to examine the services that we deliver or we would have to consider charging and other measures. I would prefer to make a service-by-service assessment. That is the process that I have begun to follow with the corporate body and I am happy to report to the committee on it.

We need time to settle into the new home. I consider 2005-06 to be the year in which we begin planned efficiency and effectiveness reviews. I would prefer to tackle the matter in that way. If we can generate savings or efficiency gains of the order that has been mentioned, I will be pleased to report that.

**The Convener:** How will the ratable value be assessed? Is a parliamentary building required to pay rates to a local authority? Is a benchmark issue involved?

**Paul Grice:** The answer to your second question is yes—at least, nobody has given me a reason why we would not be required to pay rates. At a previous committee meeting, Robert Brown

made a point that it is worth having on the record. The money that would be involved would circulate in the Scottish block; it will not be like VAT, for example, which flows out of the Scottish block. The money will go into the pool and be redistributed among local authorities. It is a cost to the corporate body budget line, but not to the public purse. It is important that that point is clear.

The reason why we are still negotiating with the local authority is that valuing a building such as the Parliament is enormously difficult, because it is a one-off. Its valuation is not as easy as that of a standard office block, for which one can consider rentals. That is why valuation has taken a bit longer and that is the process that is being followed.

**Derek Croll:** What has been said is right. An obvious comparator for the building is not available. A wide range of ratable values for the building is possible and the £4 million that we have cited is probably at the low end of that range. It is fair to put down a marker for rates.

**The Convener:** The subject is difficult. I appreciate that Paul Grice said that the money recirculates at one level in the public sector. I would be interested to know precisely how it would recirculate and whether it will simply go as a business rate into a general pool that is available for all local authorities.

**Paul Grice:** That is my understanding. The money goes into a pool and is redistributed on a population basis throughout the country.

As Derek Croll said, the matter is difficult. We are, again, in uncharted territory. We referred to the £4 million and felt it right that we draw the matter to the committee's attention, for the reasons that Derek gave. We have no control over the figure. When the judgment is made, we will have to pay rates at that value. The corporate body will have to bear that cost, albeit that the Scottish block does not.

**The Convener:** The Parliament should have some interest in the process.

**Paul Grice:** We are happy to have all the support that we can obtain in the process. Other unique buildings exist, but there is only one Parliament building.

**Alasdair Morgan:** Does Westminster pay rates?

**Derek Croll:** It does.

**The Convener:** Does the Palace of Holyroodhouse pay rates? That is another interesting question.

**Paul Grice:** I do not know.

10:45

**John Swinburne:** What is the level of staff turnover? What percentage of security staff work

on 12-hour shifts for four shifts on and four shifts off?

**Paul Grice:** The rate of turnover is about 8 per cent. About three quarters of security staff work on 12-hour shifts and the rest do day shifts. That is the result of the review that we undertook before we came here to anticipate the seven-days-a-week operation here, under which security staff have much more to do. The huge number of extra visitors also has an enormous impact on security staff.

**John Swinburne:** Any qualified accountant will say that a pattern of four shifts on and four shifts off is the most economical way to organise staff and to obtain the best returns from them, but the Parliament is supposed to be a family-friendly employer for MSPs and staff. I assure you that nothing is more disruptive to family life than four shifts on and four shifts off for 12 hours a day. Perhaps you should reconsider that and make that shift pattern more family friendly.

**The Convener:** That is not really a budget issue.

**Paul Grice:** We undertook a thorough review that involved staff and trade unions, which were both immensely co-operative in helping us. The staff are sensitive to the fact that we work in the public sector and that we want to be efficient and to provide a good service. We have struck a balance between the work-life balance and efficient working. The feedback from security staff, of whom I see a lot, is that by and large the four-on, four-off pattern—as John Swinburne describes it—is pretty popular.

**The Convener:** We have completed the questioning, so I thank the witnesses for their attendance. As we suggested, we might well consider how we will deal with some of the outstanding matters on commissioners, which include location as well as financial accountability issues. Perhaps we can deal with those with Paul Grice offline.

**Paul Grice:** I am happy to do that.

**The Convener:** Thank you.

## Spending Review 2004

10:47

**The Convener:** Agenda item 2 is a briefing from Arthur Midwinter on the outcome of the spending review, which was announced last Wednesday. I thank him for producing for us at short notice papers that allow us to discuss any issues that arise from the spending review.

Agenda item 3 has been affected by the Cabinet reshuffle, which makes it impossible for us to undertake full ministerial scrutiny today. I propose that we take the briefing from Arthur Midwinter, after which the Minister for Finance and Public Service Reform designate will introduce himself to the committee. I intend to invite him to return after the recess for the questioning that we meant to have today. That would fit the expected timetable for the efficient government statement, which I understand is unlikely to be made tomorrow, but will instead be made after the recess. Do members agree to that?

**Members indicated agreement.**

**Professor Arthur Midwinter (Adviser):** I am aware that we are running behind schedule, so I will be brief and concentrate on the three big issues. The trends of winners and losers in the budget show much continuity. As we can see, education and young people, health and transport have gained in three spending reviews. The only exception this year is the justice budget, which has been a concern in the past.

I argue broadly that economic growth has been treated as a budget priority. The programmes that Peter Wood identified as relevant in the departmental expenditure limit have gained roughly a third of the additional moneys. The only exception is the enterprise programme, which is standing still in real terms. I suggest that the committee may want to pursue the reason for that.

Of greater concern is the treatment of the local government budget, especially as local government is fairly central to two Executive priorities—improving public services and strengthening communities. Local government will receive a low increase of 9.7 per cent over three years. Contrary to the reply given to Mr Morgan in Parliament last week by the Minister for Finance and Public Services, that increase is in cash terms and it works out at less than 1 per cent per annum in real terms, which is in stark contrast to the other increases that are around. There is probably a lack of information about the figures in the draft budget at this stage; we need to pursue that information in order that we can be content with the figures. The Executive proposes improvement in education, police, free personal care, roads, and

environmental programmes for waste disposal and collection. That is a lot of areas in which to propose improvements when there is a small amount of real growth.

When I saw the statement that the Executive has provided money to increase the number of teachers to 53,000, I went back to the press and to the previous partnership agreement. It was reported in the press that the current figure was 50,000 teachers, but the local government rating review states that we currently employ 52,400 teachers. It would be useful to get the real assumptions into the open so that we can see that the sums of money square with the number of teachers that people expect there to be. It is vital that we get the grant-aided expenditure figures for each of the big services, because I suspect that there is a big squeeze on the remaining part of the local government budget in order to give money to the bigger services. Given the high degree of dependence in local government on central grant, it would not be surprising if there were council tax increases above the level of inflation on the basis of this settlement, particularly given the way in which the grant system is operating. The non-domestic rate is being increased in line with inflation while spending is rising above inflation. That must put a squeeze on the other elements of the budget.

There is further information about efficient government in "Building a Better Scotland: Spending Proposals 2005-2008: Enterprise, opportunity, fairness". The savings targets in that document remain the same as those in the earlier announcement: £500 million by 2007 and £1 billion by 2010. Personally, I think that it is presumptuous to set targets for a year that falls after the next parliamentary election and for which no budget currently exists, but far be it from me to criticise that. The latest announcement that the savings are now to be £650 million—I understand that we will get information soon on how those will be delivered—still does not square the confusion that we discussed a fortnight ago about whether the targets are tougher than the ones at Whitehall. We need to clear the issue up. The UK document suggests that at least 60 per cent of savings across the UK should be cash releasing, but in fact departments made provision for greater cash savings than that—69 per cent of savings, which is equivalent to 5 per cent of the budget. The cash-releasing target for the UK programmes that are comparable to Scottish programmes is only 50 per cent of savings, which in cash terms represents 3.6 per cent of the budget. Overall at UK level, cash or productive time-releasing savings of more than 7 per cent are being sought. Whichever measure is used, it is transparent that the target that is being set for Scotland is not as tough as the targets that are being set for England. We need an

explanation as to why it was suggested that the targets for Scotland were as tough.

The second point of interest for me is the suggestions that departments have made for how they will meet the targets. "Building a Better Scotland" narrows the focus a little to three areas, but those really cover four of the five areas identified previously. They include better procurement, shared support and transactional services, and streamlining bureaucracy, but do not include the productive time element that is being used in England. Some of the examples that the departments give appear to be difficult to fit into any of those categories. An example from tourism is

"implementing the outcomes of quinquennial reviews of the 3 National Institutions."

However, quinquennial reviews have gone on since the time of Mrs Thatcher, so they are hardly an innovation that falls under this exercise.

Another example is efficiency savings from Scottish Water, which we heard about last year. I find it difficult to see such savings as being part of the efficient government initiative. They may well be efficiency savings, but if those savings are within Scottish Water's operational budget, they have no impact on the public purse because that is the revenue side of the budget. I will wait to see the detail before I comment further, but some of the things suggested, such as exploring options to improve prescribing practices do not seem to be in the categories in the efficient government initiative—they are simply savings that might have been made anyway as part of the normal course of managing those matters. I have some concern about that.

The third aspect that I have raised for the committee is Scottish Water's budget, given our continuing interest in that. Members will recall that when the EYF statement came out, £205 million was reallocated from Scottish Water to other programmes via the Finance and Central Services Department. The committee argued that money that is earmarked for capital should be used for capital. Clearly, some of that money was not used for capital because it was used for pay costs in health and it will be used this year again. My suspicion is that although the £205 million is guaranteed to Scottish Water, it has probably gone and will not be required because the large sum of money that is available for future years suggests that Scottish Water will not need to go back to it—for it to be required, Scottish Water would have to spend and deliver the capital programme at a much faster rate than it has been doing up until now.

Although I am not suggesting that the Executive has done anything wrong, under the system that it

operates the departments are controlled on a capital and revenue basis. When Scottish Water agrees to release money to the Executive for the Executive to use in the current year and the Executive reallocates it to departments, technically the Executive is operating within its rights, but the effect of that in practice is that money that was earmarked for capital will not be spent on capital.

That is probably enough from me just now, except to say in conclusion that, despite those criticisms, given the committee's report last year, it should be broadly pleased, as almost all its key financial and target-based recommendations have been accepted. The increases in spending for enterprise and lifelong learning, housing, and capital investment and the reduction in the number of targets and the removal of the process-based targets are all in line with the committee's recommendations. I very much welcome the Executive's positive response to the committee's work on those matters.

**The Convener:** That is a useful point. I would like to add the appreciation of the committee for the work that you have done—informally as well as in formal committee meetings—to influence the format of the budget, which is now much clearer and much more capable of being relatively easily understood than what we inherited three or four years ago. Certainly, that work has assisted our scrutiny process and, arguably, has assisted the process within the Executive itself of being clear about how budgetary processes influence decisions.

On the efficient government issues, I emphasise again that there is information to come from the Executive—particularly from the Executive announcement—so it might be inappropriate to pursue some of those issues too far at this stage. Arthur Midwinter is flagging up a number of questions that the committee may well want to pursue on the basis of information that will be forthcoming. I am happy for members to ask Arthur Midwinter questions.

**Jim Mather:** The information in the flurry of papers that we received over the weekend illuminated things rather well. In paragraph 11 of the substantive paper that Arthur Midwinter produced, I take it that we are talking about £21.5 billion and £12.9 billion rather than £21.5 million and £12.9 million.

**Professor Midwinter:** Yes.

**Jim Mather:** Okay. If the clerks could provide the information in a tabular form, that would be more readily assimilated and more easily comparable than it is in the narrative format.

11:00

**The Convener:** I see that Ross Burnside is nodding.

**Jim Mather:** Arthur Midwinter made a point about the timing of the outcomes. My analysis suggests that only 10 per cent of the targets in BABS are either specific or due to be measured by a completion date before May 2007, which invalidates the exercise to a large extent.

**Professor Midwinter:** There are still two sets of targets. We are considering the revised set of targets, but we will receive a report on the most recent BABS, which I think covered the period up to 2007-08—I cannot remember the detail. I will discuss the matter with Executive officials later, but it is pretty clear that we had an agreement that they would report on the targets in the previous BABS even though we have moved on to a new set of targets in the most recent BABS. If such reports were not provided, performance would never be reported. It is important that we keep up to date.

**Dr Murray:** I seek clarification on paragraph 11 of Professor Midwinter's paper, which says:

"The cash-releasing target for devolved functions is 50%".

Is that the Treasury's expectation?

**Professor Midwinter:** Yes. In the UK spending review—

**Dr Murray:** Is it the Treasury's expectation that the Scottish Executive would spend—

**Professor Midwinter:** The Treasury, quite properly, set no expectations and gave no direction to the Executive. The UK spending review notes that the devolved Administrations have set themselves targets "as ambitious as" those of Whitehall. The 50 per cent element refers to the comparable programmes that are provided from Whitehall. For example, the health savings target in England is 50 per cent, rather than the 60 per cent average that was being sought. The same applies to the education savings target. Higher cash savings are being looked for from, for example, the Department for Work and Pensions, where greater job savings are expected.

**Dr Murray:** In paragraph 15 of your paper, you say:

"most of the £247m savings will fall on local government".

I am not sure where the figure of £247 million comes from.

**Professor Midwinter:** The figure is in the Executive's spending review. It is certainly not my figure.

**Ms Wendy Alexander (Paisley North) (Lab):** I make a process point. I appreciate that poor Tom McCabe has known about his new post for less than 24 hours, so it would be wholly inappropriate to ask him about the spending review today. However, given the ministerial changes, we should



bear it in mind that there are two distinct scrutiny exercises to undertake: the scrutiny of the budget; and the scrutiny of other documents or matters, such as the efficiency review. As we consider what will be a crowded agenda for the committee after the October recess, it would be a mistake to confuse an exercise that is in essence about the budget and spending proposals with the separate issue of efficient government. We will need to keep the two aspects separate as we consider our timetable at the end of the month and the beginning of next month, for the minister's sake and for the sake of the officials from whom it would be appropriate to hear. The people who decide how much we spend across departments are perhaps not the same people who drive some of the specific agendas.

**The Convener:** Our intention is certainly to try to separate the two aspects of our work. Today, obviously, we are driven by events beyond our control, but we have perhaps identified some of the questions that we need to ask and we can organise the process whereby we pursue issues around the budget and efficient government.

**Professor Midwinter:** Dr Murray asked where the figure of £247 million came from. The figure is on page 55 of BABS.

**Dr Murray:** Thank you. I have found it.

**The Convener:** I thank Arthur Midwinter for his paper. The committee will organise how we progress that work.

We move to agenda item 3 and I welcome Tom McCabe who, subject to parliamentary approval, will be the Minister for Finance and Public Service Reform. With him are colleagues from the Scottish Executive Finance and Central Services Department: Colin McKay, who is head of the efficient government team; Richard Dennis, who is co-ordination team leader; and Fiona Montgomery, who is policy analysis team leader. Given that Tom McCabe knew that he was to become the minister only yesterday, it would be appropriate to invite him to give evidence on the spending review and the draft budget after the recess and perhaps, as Wendy Alexander suggested, to give evidence separately on the review of efficient government. There is much scrutiny to come.

On behalf of the committee, I welcome Tom McCabe to the beginning of what will be our regular interaction. We can take the opportunity today to invite him to introduce himself to the committee—of course, he is no stranger to the Finance Committee, as he was a member of the committee in the previous session of the Parliament—and to outline how he envisages the scrutiny process.

**The Deputy Minister for Health and Community Care (Mr Tom McCabe):** Thank you and good morning. The First Minister invited me

yesterday to take on the position of Minister for Finance and Public Service Reform and I accepted the post, as members know. The convener rightly pointed out that important processes have to be completed before my appointment is confirmed, not least of which are the approval of the Parliament and Her Majesty the Queen and a swearing-in ceremony at the Court of Session. It is important that I make it abundantly clear that I am here as a deputy minister in the Scottish Executive and will be no more than finance minister-designate until those important processes have been carried out. It is important that I avoid showing any discourtesy to the Parliament and its processes.

In a short space of time, I have managed to have some discussion with my predecessor—we shared a car this morning on the way to Edinburgh, as is the way of such things. He tells me that he has had a good relationship with the committee. In my new role, as in other roles that I have held, I regard it as being in all our interests to have a productive and constructive relationship, which is strengthened rather than weakened by robust exchange. I hope that our exchanges will shed light on where the Executive wants to go and, which is important, how it seeks to get there.

After such a short time, it would be facile of me to suggest that I am anywhere near conversant with the detail of many of the issues that the committee had intended to discuss this morning, as the convener rightly said. I think that it would be unrealistic of the committee to expect otherwise. However, I strongly felt that there would have been a missed opportunity if this part of the meeting had been cancelled or if I had passed up the chance to open up what I sincerely hope will be the kind of relationship to which I alluded. I was a convener of the Finance Committee in the previous session of the Parliament, so I am aware of the importance of the committee's work and its overall contribution to parliamentary scrutiny. On behalf of the Executive, I want to assist the committee as much as I can in its important scrutiny role in future. Most of the faces have changed since I was a member of the committee, but I have no doubt that the committee's work will be enhanced by the fact that Des McNulty is convener and a rejuvenated Alasdair Morgan is deputy convener.

I will do my best to answer members' questions, but I hope that you appreciate that I will rely heavily on the officials who are with me. The convener rightly identified Colin McKay from the efficient government team and Fiona Montgomery from the spending review team and I understand that the committee sees Richard Dennis more regularly and knows that his team deals with end-year flexibility.

Undoubtedly, the spending review is the most important process in our budget system. I acknowledge that the committee must have the answers that it needs to understand the process and to hold the Executive to account about meeting its commitments and responsibilities. The efficient government review is central to how we intend to drive up value for the money that we deliver. I underestimate neither the challenge that that presents nor the contribution that the committee can make to successful progress.

As a result, it is important that we have a proper opportunity to discuss these issues, and I have made it clear to the convener that I would be happy to come back to the committee in the near future when I have had more of a chance to get up to speed on some issues.

We will of course have an opportunity to debate the efficient government review in the chamber just after the recess. In any case, there are some advantages to postponing the debate until the committee has had an opportunity to study our efficient government plan, which will be published shortly. Although I hope that the plan will answer many of the committee's questions, I have no doubt that members will have many more questions that they will want a direct exchange about. I am happy to do that at the earliest opportunity.

We will also have an opportunity to discuss EYF in the context of the autumn budget revision. Although Andy Kerr announced portfolio entitlements back in June, they still require to come before Parliament for approval.

As I have said, we will have further opportunities to discuss these issues. As far as today is concerned, I will do what I can, and will bring in officials to clarify technical details. I hope that the committee will bear with me if we need to reply in writing to some of your questions. If that is the case, I assure members that they will receive our responses in the shortest possible time. I am also perfectly happy for Professor Midwinter and the clerks to pursue individual matters with officials where members think that that would be helpful.

For now, I simply draw the committee's attention to "Building a Better Scotland", which sets out the spending review outcome. I am sure that the committee already knows that the draft budget will contain more detailed information.

I look forward to the challenges and opportunities that my new portfolio holds. Equally, I look forward to having the kind of relationship with the committee that serves not only the interests of better government but the overall interests of the exciting new Scotland that we are all helping to build. As I have said, I hope that members will appreciate that only a short time has

elapsed since the First Minister invited me to take on the post. We will do our best in the circumstances and I will rely heavily on officials. I repeat that I am quite happy to have a dialogue with Professor Midwinter and the clerks and that if we need to reply in writing to any of the committee's questions, we will do so without wasting any time unduly.

**The Convener:** Thank you, minister. I am sure that the committee welcomes your comments about the constructive dialogue that you wish to engage in with the committee. We have had that dialogue for a period of years now and look forward to its continuation. After all, such a situation is to everyone's benefit.

Given the difficult circumstances, it might be inappropriate to pursue our usual line of questioning, which is based on a dialogue about political issues. That said, this is probably a good opportunity for members to ask any technical questions that they might have.

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** It might be appropriate to have a written response to this question if the minister or his officials are not aware of the answer. Following on from the briefing that we have just received from our adviser, I wonder whether you have made any assumptions about council tax levels over the next three years.

**Richard Dennis (Scottish Executive Finance and Central Services Department):** In reaching the settlement for local government, the Cabinet was very clear that it wanted to allocate full funding to tackle any new pressures on local government or any new commitments that it was asked to take on. The settlement also includes an allowance for pay and prices. Against that, the Executive is fully funding the new pay deal for teachers, the police and the fire service.

An efficiency assumption that was also built into the settlement was described by the minister as challenging but deliverable. If local government works with us and meets that efficiency assumption, there will be no need for council tax rises specifically as a result of the spending review commitments. That will be a matter for local government. I think that, in his speech on the budget settlement, the minister said that he saw no reason why council tax rises should depart from the trend in recent years.

11:15

**Jeremy Purvis:** So the assumption is that any rises will be inflationary.

**Richard Dennis:** The assumption is that there is no reason why the Executive's burdens on local government should require council tax rises. As a

result, it becomes a matter for individual local authorities to deal with.

**Jeremy Purvis:** Our adviser has already highlighted a few of the pressures or responsibilities that you mentioned. Does the Executive have a list of new responsibilities that local government is taking on? If so, are you able to provide them in writing to the committee?

**Richard Dennis:** Yes.

**Jeremy Purvis:** That would be extremely useful.

When might local authorities expect to receive information about their individual settlements?

**Richard Dennis:** As that will form part of the usual local government settlement process, we think that it will happen at the end of November.

**The Convener:** In response to Jeremy Purvis, you mentioned that some provision for funding extra teachers has been included in the calculations for the settlement. Are you able to let us know what the extra funding is?

**Fiona Montgomery (Scottish Executive Finance and Central Services Department):** In addition to funding for the new pay increases for teachers, some extra money has been made available in the education settlement for extra teacher numbers.

**The Convener:** But you cannot put a figure on that at this point.

**Fiona Montgomery:** We do not have the final figure just yet, because negotiations are still continuing.

**Dr Murray:** The minister mentioned the publication of the efficient government plan. When do you expect that to happen?

**Mr McCabe:** I do not have an exact date for that at the moment, but it will happen in the near future. Indeed, we expect to be in a position to debate the issue in Parliament very soon after the recess.

**Dr Murray:** Is it likely that the plan will quantify the expected savings for individual departments?

**Colin McKay (Scottish Executive Finance and Central Services Department):** Yes. It will give details of each department's plans.

**Dr Murray:** Does that mean that it will provide not just the amount that will be saved but details of the processes that each department will go through to make those savings?

**Colin McKay:** Yes. The plan will identify the areas in which departments will make savings.

**Dr Murray:** My next question might be somewhat premature, but how will you be able to monitor whether departments are making those savings? For example, as far as local government

and health boards are concerned, the potential to make savings is not in the particular department's control but in someone else's hands.

**Mr McCabe:** It is important that we set up proper monitoring processes and that we ask people to commit themselves to making a contribution to them. I hope that, over time, we will be able to demonstrate clearly where savings have been made and applied. After all, we must ensure that there are identifiable benefits at the front line.

**Mr Brocklebank:** Given that the prospective minister has known about his position for less than 24 hours, I will try not to make a political point. Jack McConnell recently said that he expected the Executive's efficiency targets to be tougher than those set by Whitehall. Does the panel believe that that will be the case?

**Mr McCabe:** I am interested in finding the most appropriate solution for the situation in Scotland. We have set ambitious targets. I do not think that there is necessarily a limit to our ambition; indeed, I want people to judge us on our achievements. If people want to compare what we achieve up here with what happens down south, that is their business. This Parliament was established to address the issues that we face in Scotland, and that is what we intend to do.

**Mr Brocklebank:** But the budget adviser's analysis does not suggest that the targets will be tougher. Are you able to comment on that at the moment?

**Mr McCabe:** We have set targets that are appropriate to Scotland. I am sure that people will appreciate that their aim is to pursue efficiency, which will lead to reinvestment in front-line services.

**Mr Brocklebank:** Will the approach require job losses?

**The Convener:** To be fair, Ted, I think that you are being a bit premature. After all, an announcement is to be made on these matters soon. I am sure that we will return to these issues.

**Jim Mather:** I have a philosophical question, minister. When your predecessor gave evidence to us six months ago, I asked him about the absence of top-level targets for growth, life expectancy and population numbers. Famously, he responded by saying that he could not have such targets because he did not have the levers to control those outcomes. Do you share that philosophy?

**Mr McCabe:** We have the levers to control outcomes such as life expectancy. We are making substantial investments in our health service, but we will struggle to achieve the success that we desire unless we can engage people in a

discussion about the lifestyle choices that they make and unless we can turn the tide of ill health that is racing towards our health service. If we can manage to do that, we can expect to see improvements in outcomes such as life expectancy. For instance, in my previous portfolio I often quoted the outrageous situation of Shettleston's male life expectancy, which is 63. Why would we be in politics if we did not have an ambition to ensure that that situation was radically overhauled?

**Jim Mather:** The virtuous circle that I tried to persuade Mr Kerr to break into involved setting targets for such things to set him on the right track. However, his response was that he could not set such targets because he did not have the levers to produce those outcomes.

**Mr McCabe:** I am firmly of the view that we should set targets in individual portfolios. For example, we set targets for the number of children whom we lift out of absolute and relative poverty and for improvements in survival rates from major diseases. On a range of indicators, we make it clear that we expect improvements to result from the changes and investments that are being made. We have our hands on those levers, but we need an engagement with people in Scotland. We could spend all the money that we like on health, but we will not succeed unless we engage people to think differently about their lifestyle choices. We need to accept that Government has a vital role in making it possible for people to adjust those choices.

**Alasdair Morgan:** Mr Dennis said that council tax would not need to rise over the period by any more than inflation. He said that councils were expected to be able to deliver in all the areas that Arthur Midwinter highlighted if they could meet their efficiency targets, which were "challenging but deliverable". That might be okay for councils as a whole, but some councils are much more efficient than others. How will the minister ensure that councils that have already tried to squeeze out all their inefficiencies are not penalised in comparison with those councils that have taken a more lackadaisical approach?

**Mr McCabe:** We do not believe that there are councils that have squeezed out all inefficiencies.

**Alasdair Morgan:** I assume that you do not claim that each council is as efficient as the next one. Are councils equally efficient?

**Mr McCabe:** I am not suggesting that; I am saying that there is room for efficiency savings in each council in Scotland. We need to be careful that we do not single out local government. There is substantial room for efficiencies right across government in Scotland, including health boards, local government and a whole series of other agencies.

**Alasdair Morgan:** However, there are issues around council tax and the objectives that local councils must meet in delivering services on behalf of central Government. Will the local government settlements recognise that some councils, although not perfect, might be already more efficient than other councils? How will the Executive work out which councils have already reached a higher degree of efficiency so that they are not penalised in the settlements over the next few years?

**Mr McCabe:** We have no intention of penalising councils. We engage in an on-going dialogue with local government representatives. Clearly, individual councils might wish to express a particular point of view, but local councils are democratically elected bodies that may have different aspirations for their local communities. They may set different targets and take on expenditure commitments that they will have to justify to their local communities.

**Jeremy Purvis:** Have any assumptions on local government pay settlements been built in? What percentage increase has been assumed?

**Mr McCabe:** There is an assumption for pay settlements, but I do not know the exact figure.

**Fiona Montgomery:** I do not want to give the wrong figures, but we have made assumptions for pay. In our efficiency assumptions, we assumed the existing pay deals for teachers, police and fire services. I think that the other pay settlements were assumed to be in line with the teachers' settlement, which is, I think, about 2 per cent or 2.5 per cent.

**The Convener:** It would be useful to have that information in writing. Arthur Midwinter has a question.

**Professor Midwinter:** Further to the two previous questions, I would like clarification on the efficiency assumptions in local government. Am I right in understanding from our previous discussions that it is envisaged that the efficiency gains within the Executive will operate within fixed budget totals, whereby departments that meet their targets will be able to release those resources to develop front-line services, but departments that fail to do so will have to live within their totals? The local government settlement seems to be qualitatively different. When you said that an efficiency assumption was built in, did you mean that a sum of money was taken off the top? Will local authorities that do not meet their efficiency targets somehow have to meet the costs of that from somewhere else?

**Richard Dennis:** It is not the case that we took a sum of money off the top. In considering how much additional provision to make for local government, one might say that, for example, as

average pay and price inflation is running at 2.5 per cent or 3 per cent—that figure applies to companies rather than to local government—and the expected productivity gain is 1.5 per cent or 2 per cent, an average increase in funding of 1 per cent is required. That is the sort of calculation that was undertaken in local government. However, I have not cited the local government numbers because I do not have them to hand. I do not want to mislead the committee.

**Professor Midwinter:** Richard Dennis seems to be confirming what I think has happened. An allowance has been made for savings within local government that is not reflected in the settlement. That sum has been taken off the bottom rather than off the top. The settlement includes an assumption about the sum of money that local government will save, so the total is less than it would have been.

**Mr McCabe:** I think that that is true.

**Ms Alexander:** Will you clarify what the local government efficiency savings assumption is? The United Kingdom spending review mentions a figure of £6.45 billion. Have we yet put a figure publicly on what the saving will be? I could not find such a figure in the document. Did the minister say that in his statement to the Parliament?

**Colin McKay:** The efficient government plan will set out the assumptions for local government. I do not want to pre-empt what the plan will say, but it is likely to include two elements. In addition to the assumptions that we made on the settlement, there will be opportunities for local government to make further efficiencies that will benefit their front-line services. Therefore, it is not entirely a case of just taking money off at source, as happened in the UK settlement. The plan will set out some of those figures.

**Ms Alexander:** In that sense, our spending review is not analogous to the one in England because ours does not specify the savings assumption, which will be given in the efficient government review.

**John Swinburne:** Do you envisage doing something about the inefficient collection of council tax? Allegedly, some 7 per cent of the tax is not paid by those who should pay it. Given that only 40 per cent of each council's electorate pays the tax, is there not a big argument that the tax would be spread much more evenly and collected more efficiently through pay as you earn, whereby it would be collected at source? For God's sake, we are still collecting the poll tax in some regions.

**The Convener:** We should not stray into the second of the two arguments that John Swinburne advanced in his question, as it is the subject of a review. However, what about collection rates?

11:30

**Mr McCabe:** Although there is—and there has been for some time—considerable interest in our ability to collect local taxes, there is scope for improving rates of collection. We may need to engage in some lateral thinking about exactly what we are prepared to do. My experience as a council leader leads me to question the view—or misinterpretation—that the people who do not pay are the ones who cannot afford to pay. Often, when the figures were analysed, they showed that the people who did not pay were those who were more than able to pay; they were often the people who had access to what I will describe as professional advice and who were therefore able to evade their commitments. A strong case can be made for looking at what we can do to improve rates of collection.

**Dr Murray:** I have a question on the savings that councils and health boards are expected to make. Again, I do not want to pre-empt the statement but, in relation to the focus of the savings—better procurement and shared support, for example—is there an expectation that authorities and bodies will work co-operatively in order to make mutual savings? Is that the way in which we are moving?

**Mr McCabe:** Undoubtedly, that is the general direction of travel. Initiatives such as the joint future agenda are undoubtedly generating savings. Another example is the e-care project, which aims not only to assist the more efficient delivery of services to the consumer, but to lead to a greater synergy between local government and the health service. Because of the reasonably high degree of unnecessary duplication in the public sector in Scotland, there is scope for examining how best to harness technology and other methods of removing that duplication. Local government reorganisation in Scotland created a fairly significant number of what might be called back-office functions, as anyone with experience of the situation can see. There is scope for re-examining that.

**The Convener:** I think that we have exhausted the questions that we can put in this first session. I thank the minister-in-waiting for coming to the committee today in advance of his appointment. We look forward to a robust exchange of views after the recess. I also thank the officials for their responses to our questions.

**Mr McCabe:** Thank you, convener. I thank committee members for the way in which they offered their questions.

## Relocation of Public Sector Jobs

11:33

**The Convener:** The final item on our agenda is consideration of the approach that we want to take to relocation in the light of our report and the subsequent debate. As members wanted the committee to do a bit more scrutiny of the issue, the clerks have prepared an approach paper.

Following our earlier discussion with the SPCB, I suggest that the various commissions and other agencies that do not come under the scope of the Executive should also be considered in the context of relocation or in the context of their location. With that amendment, are members content with the suggested approach that is set out in the paper?

**Members** *indicated agreement.*

*Meeting closed at 11:34.*

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