

FINANCE COMMITTEE

Tuesday 4 May 2004
(Morning)

Session 2

£5.00

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FINANCE COMMITTEE

14th Meeting 2004, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Fergus Ewing (Inverness East, Nairn and Lochaber) (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

Mr Adam Ingram (South of Scotland) (SNP)

Gordon Jackson (Glasgow Govan) (Lab)

David Mundell (South of Scotland) (Con)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Andrew Goudie (Scottish Executive Office of the Permanent Secretary)

Professor David Heald (University of Sheffield)

Professor Irvine Lapsley (University of Edinburgh)

Liz Lewis (Scottish Executive Office of the Permanent Secretary)

Paul Rhodes (Scottish Executive Office of the Permanent Secretary)

Tavish Scott (Deputy Minister for Finance and Public Services)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 4 May 2004

(Morning)

[THE CONVENER opened the meeting at 10:02]

Public Sector Jobs Relocation Inquiry

The Convener (De McNulty): Good morning. I welcome members, the press and the public to the 14th meeting of the Finance Committee in 2004. I remind members to switch off all pagers and mobile phones. Wendy Alexander is away for a while, but will be joining us later.

The first item on our agenda is our inquiry into the relocation of public sector jobs. We have with us Tavish Scott, the Deputy Minister for Finance and Public Services. With him are Scottish Executive officials Paul Rhodes, who is head of facilities and estates services, and Michael Garden, who is head of the corporate responsibility unit.

As I am sure the minister is aware, various committee members went on case study visits. We discussed the issues arising from those visits at our meeting on 20 April. We also set up an online questionnaire in March to gather public sector staff's views on relocation. Committee members have a copy of the analysis of the responses to that questionnaire. We also have a copy of a written submission from Highlands and Islands Enterprise. I ask the minister to make an opening statement.

The Deputy Minister for Finance and Public Services (Tavish Scott): I do not have any planned remarks. I am conscious of the work that the committee is doing on the matter and have read the *Official Reports* of its deliberations with keen interest. I look forward to being of any assistance that I can be.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): As the convener has said, we went to various places—Ireland and all kinds of exotic places. I went to Galashiels, which was interesting.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I feel that I ought to raise a point of order on that.

Mr Brocklebank: From our visit to the Scottish Public Pensions Agency in Galashiels, we discovered that, although 200-odd jobs were

relocated, only seven people had physically moved from Edinburgh down to Galashiels. What is the purpose of relocation? Is it to move people out of Edinburgh to the remoter regions or is it to bring jobs to those regions? What is the essential policy?

Tavish Scott: The policy, as we have discussed before, creates a number of opportunities in locations such as the exotic town of Galashiels, including having an organisation's brass plate in the town. That is an important point, about which there is considerable evidence—we received representations from towns and other places in Scotland that would like organisations to be relocated to and headquartered in their localities because of the kudos that that would bring. The brass plate on the wall and the headed notepaper help the growth and development of an area as part of a wider strategy that the local authority and the local enterprise company will implement, as is happening in every part of Scotland.

I accept your point on posts, but the economic spin-off and spin-out effects of the relocation to Galashiels are clear. I am dredging my memory for the Scottish Enterprise Borders report that indicates that, but I am sure that it was brought to the committee's attention. The discussions that I had with Ralph Garden when I was at the SPPA last summer were clear about those wider benefits. All the aspects that I mentioned can come together in the benefits that relocation can bring to Galashiels.

Mr Brocklebank: I am not denying that at all; I am trying to get at what the policy is and I am not sure that you have answered the question. Is the policy to take jobs out of Edinburgh and disperse Edinburgh people out into the regions or is it to attract jobs to the remoter regions that require them?

Tavish Scott: You know what the policy is because we have been over it a number of times before, particularly back in January, when we considered the matter in a lot of detail. The policy of relocation is to disperse civil service jobs around Scotland so that every part of Scotland can benefit from devolution. That was stated in 1999.

Mr Brocklebank: So jobs, rather than people, are dispersed.

Tavish Scott: It follows that the jobs that go with the relocation of organisations or parts of an organisation are important to the parts of Scotland that are chosen. That is the economic boon that comes from the policy.

Mr Brocklebank: Will you tell us how many new jobs—relocated posts that have not been filled by previous incumbents or others who currently work in the civil service or public sector—have arisen as a result of relocation?

Tavish Scott: I am not sure what you define as a new job in that sense.

Kate Maclean (Dundee West) (Lab): A job that is new to the area.

Mr Brocklebank: Yes. I can tell you about Galashiels, but can you tell us how the policy has panned out overall?

Tavish Scott: I cannot tell you off the top of my head that X new jobs were created. However, over the five years of the relocation policy, 1,800 jobs have moved from where they were previously to other parts of Scotland. That is the direct jobs change over the period.

Mr Brocklebank: The Executive has stated that most weight is given to socioeconomic factors when deciding to which area an organisation should relocate. Will you be more specific on the particular socioeconomic indicators that are taken into consideration and how they are weighted?

Tavish Scott: That is a point on which the committee has been highly critical of us. It has pointed out in previous evidence-taking sessions that the approach to that is not consistent. As I have said before on the record, I have a lot of sympathy with that point. I am trying to bring consistency to the process and I would welcome the committee's thoughts on that.

The socioeconomic weighting in the relocation policy varies according to—dare I say it—which consultant is being used by the organisation that is going through the process. I do not find that satisfactory and I want the process to be tightened up so that it is much more transparent. I want it to be abundantly clear which criteria have been used so that not only the committee, but members of staff in organisations that are relocating and everyone who has an interest in the policy can be clear about what is happening and which determining factors are used in coming to a decision or presenting a business case for change to ministers. There is a lot to be done on that, but I do not think that I am saying anything that I have not said before on that point.

Kate Maclean: Would it be possible to provide us with a written answer to Ted Brocklebank's second question, which was about the number of new jobs that have been created in different areas—because people have chosen to stay in Edinburgh or Glasgow—rather than about the number of posts that have been moved? After all, I understood that the aim of the policy—apart from giving areas the kudos of having civil service jobs based there—was to provide employment in areas of higher unemployment and greater social deprivation.

Tavish Scott: I am quite happy to provide that information.

The Convener: It would also be interesting to find out how many people have relocated from Edinburgh to somewhere else.

Tavish Scott: You will forgive me for not knowing that figure off the top of my head, but we will provide it.

Dr Elaine Murray (Dumfries) (Lab): Minister, you said that about 1,800 jobs have moved in the past five years. What is the scale of future relocation likely to be? How many organisations are likely to be relocated and how many posts are likely to be transferred in future?

Tavish Scott: Mike Garden or Paul Rhodes will pick out the figure and list the specific bodies. However, I should point out that, in January, we published in response to a parliamentary question a list of the bodies and the respective numbers of individuals in them. Obviously, the situation moves on not so much because policy evolves, but because of the trigger points for organisations.

Paul Rhodes (Scottish Executive Office of the Permanent Secretary): I think that a relocation review has been announced for another 1,800 people, but no decision has been taken as yet.

Dr Murray: What is the timescale for that review?

Paul Rhodes: Many of the relocations will be decided this year. The largest review, on the Registers of Scotland, will be completed by the end of the year.

Dr Murray: You said that relocation policy is dependent on a trigger such as a lease break or the creation of a new organisation or agency. Would changing the triggers significantly alter the number of posts that might be relocated?

Tavish Scott: Do you mean changing the existing trigger mechanism?

Dr Murray: Yes.

Tavish Scott: If the Executive changed the policy—which is what changing the triggers would mean—that would undoubtedly have an impact on implementation. However, we are where we are on this matter.

Dr Murray: I was one of the members who were lucky enough to visit Ireland to find out about the Irish relocation policy. The Irish have a fairly ambitious target of relocating more than 10,000 jobs in three years and I was impressed by the fact that their relocation strategy was guided by a regeneration strategy. Earlier, you talked about the benefits of relocation. The Irish were looking strategically at specific areas to which jobs needed to be dispersed and how relocation could support those areas' economies. Would an approach in which the Executive's job relocation strategy

mirrored a regeneration strategy for the regions of Scotland have some merit?

Tavish Scott: You will forgive me for not making policy on the hoof. Much as I might be tempted to do so, that would be dangerous.

You are quite right. What you describe would be a fundamental change to our approach up to now. However, the Irish policy is not without its difficulties. I read with interest the case study and the *Official Report* of the members' discussions about Ireland. It is a little flippant simply to say that there are considerable differences between the two policies, but I found it interesting that the Irish civil servants and others whom you and Fergus Ewing met pointed out that their policy evolved over time. They did not suddenly decide to relocate 10,000 posts. Instead, they learned from what they had done in the past. That said, we are always looking at how our relocation policy meets the Executive's wider objectives with regard to the country's economic needs.

10:15

Dr Murray: I suppose that that is a benefit of tying the policy into a regeneration strategy. You have said that you would like the process to be more transparent and consistent. If people understood how the decisions were made, surely that would enable more consistency in decision making to be achieved.

My final question concerns the balance between the benefits that accrue to the area to which the jobs are being relocated and the possible detriment to Edinburgh and to those who live and work in the city who are unable to relocate to the other areas. Does the need to achieve such a balance form part of the thinking when decisions are made? Are those factors weighed up?

Tavish Scott: We try to achieve a balance. One example is that, at the tail-end of last year, just before Christmas, the Executive chose not to relocate VisitScotland lock, stock and barrel. That shows that, contrary to public myth, we think through the consequences for an organisation in a business sense and the consequences for the staff and for Edinburgh in the wider sense. I believe that that example illustrates the breadth of thinking in how we take those decisions.

I am sure that both you and I have thought through the issue in the past. It is demonstrably the case that, if we were simply to base our consideration on one aspect of the policy—in other words, what we hear from the organisations about the staff's views—and to make that the driving force or the overriding priority of the policy, we would have no relocation at all. By definition, a relocation policy is difficult for the individuals and the extended families of those concerned. I would

not want to disguise that for a minute; it is the uncomfortable aspect of relocation, in which I take no pride or pleasure. However, we either have relocation or we do not. There are implications of developing the policy for Government and, more important in this context, for the people who are affected.

The Convener: Obviously, the relocation of Scottish Executive jobs and jobs in non-departmental public bodies for which the Scottish Executive is responsible exist alongside the relocation or potential relocation of jobs from the south-east of England in the context of the United Kingdom Government's relocation strategy. As we heard in evidence, Edinburgh and perhaps Glasgow, for example, were seen as desirable places for the relocation of UK jobs. Is it possible to argue for the relocation of one set of jobs out of Edinburgh and, at the same time, to argue that other kinds of jobs should be relocated from other parts of the UK to Edinburgh and Glasgow? Clearly, the object is to maximise the Scottish return on those UK job relocations. Is there an issue about how the two arguments are balanced?

Tavish Scott: I do not think that there is anything inconsistent in wanting the civil service jobs that are to be relocated out of London and the south-east of England to come to Scotland. I will be delighted if the business case arguments that the Lyons review and the wider system in London are making mean that the chosen location for those jobs is Edinburgh and Glasgow. I imagine that the Parliament would also be pleased about that kind of relocation. At the same time, if there is to be a balance, the relocation of those jobs would allow it to be achieved. In some ways, that would allow us to deal with the pressures that Elaine Murray mentioned in relation to Edinburgh.

To some extent, that mirrors the points made in the Highlands and Islands Enterprise paper that the committee kindly provided us with, which points out that relocations into Inverness or the Highlands and Islands allow Highland Council or Highlands and Islands Enterprise to be clearer about the decentralisation of their functions out into and around the Highlands and Islands. It shows the parallel that we can achieve in Scotland in addition to seeking to attract jobs into Edinburgh and Glasgow in the case of UK job relocations.

The Convener: One thing that angered me about the HIE paper was the idea that there was a perfect right to relocate jobs from the central belt to other parts of Scotland. Given that Glasgow and the Clydeside conurbation have the highest concentrations of unemployment and social deprivation in Scotland, it seems inconsistent with the policy to bracket together the west coast with Edinburgh, where the economic circumstances are different. It is also inconsistent to have a policy of

stripping jobs from Glasgow and moving them to a place with much lower unemployment, such as Inverness. What are your comments on that?

Tavish Scott: That illustrates that the situation is not black and white and that it is not easy to implement the policy. You ask a fundamental question about the policy—whether it is simply about aligning the relocation decision with socioeconomic circumstances. We give the socioeconomic circumstances only 50 per cent weighting as opposed to 100 per cent, which might be the logical extension of your line of argument. We balance that with other issues that we have to consider, such as the business efficiency of an organisation. I argue strongly that we have made some progress in the past year in relation to particular organisations in west central Scotland, including Ayrshire, Inverclyde, Paisley and South Lanarkshire. It could be said that progress has been made in relocating jobs, on the basis of the socioeconomic statistics indicators, to areas where unemployment is as you describe it.

The Convener: I want to be assured that Glasgow would not be disadvantaged. Glasgow has not quite the highest—it has the third highest—concentration of unemployment in Scotland. I am sure that people from Dundee would make a similar argument in relation to Dundee. The object of relocating jobs is not to spread jobs to new places; it is to focus job relocations where need is greatest. The balance between that and the business efficiency of the organisation is to be taken into account. In that context, any policy that treated Glasgow in the same way as Edinburgh would seem unreasonable.

Tavish Scott: Our policy does not do that, as you know—the presumption relates to lease breaks and new organisations in Edinburgh. Another factor to consider is that the Scottish Executive Enterprise, Transport and Lifelong Learning Department relocated to Glasgow in 1999. The Minister for Tourism, Culture and Sport has already made an announcement about a body in his portfolio with which he is proceeding. That illustrates our understanding of the issues that you have raised.

The Convener: If you look at the rules that govern the transfer of organisations, you will find a trigger that treats Glasgow and Edinburgh similarly. That information has crossed my desk recently. There might be some need to clarify that issue.

John Swinburne (Central Scotland) (SSCUP): Are you quite happy that we are going about implementing the policy in the right way, minister? At our meeting on 20 April, I mentioned to Andy Kerr that the south-east of the UK is totally overheated. What positive steps are you taking to

move jobs from the south-east of England to Scotland? The United Kingdom Atomic Energy Authority is moving jobs down south from East Kilbride, where I come from. Have you no control over such movements and, if not, are you failing in your objectives?

Tavish Scott: Scottish Trade International has responsibility for implementing the Lyons review in the context of relocations north of the border because that is its task in life and it has the skills set to do it, although we play our role, too—STI is our agency after all.

My understanding is that the Department for International Development is progressing with further relocation into East Kilbride and that the Health and Safety Executive is also looking at Scotland in conjunction with some location opportunities in England. We need to recognise the competitive nature of the marketplace. In the same way as many towns, cities and other areas throughout Scotland are working hard to attract relocations from Edinburgh, other parts of the United Kingdom are working hard to attract any relocations that emerge from decisions that are taken in Westminster in the context of the Lyons review.

On the UKAEA, just as there have been campaigns down the years to retain organisations and headquarters in Scotland, I have no doubt that similar representations were made by the appropriate department to retain that body. However, we can certainly check the detail of that and provide a more considered answer.

Jim Mather (Highlands and Islands) (SNP): I am interested in your earlier comments about the key drivers. Will the reading that you are doing and the process in which you are involved clarify the key drivers that the Scottish Executive believes should drive relocation policy?

Tavish Scott: As I said at the outset, we will be genuinely interested in the committee's findings on relocation policy. I do not claim to have all the answers, but from my reading of the *Official Report* I think that the committee has also found that the issue is not black and white. Relocation policy is not straightforward; it is a tricky issue and some stark choices must be made about how the policy is taken forward.

I am certainly determined to ensure that we have more clarity and consistency on the indicators that we use. I was interested to note the point that the convener made about the use of consultants. All those points will be genuinely useful for us as we examine closely the policy's operation and consider how it can be improved.

Jim Mather: As we accumulate data and as the debate surrounding the interchanges moves forward, would there be merit in Scotland adopting

an overarching national spatial strategy similar to the one that has evolved in Ireland?

Tavish Scott: I am not convinced about the value of such a strategy, which would represent a large and significant exercise. That is not to say that there would be no place for it if we were to decide to consider economic drivers area by area and—dare I say it—constituency by constituency. Undoubtedly, such a strategy would involve a lot of small-“p” politics that would drag in every department of Government. There is, I repeat, at least an intellectual argument that it would be entirely fair for any Administration to promote such a strategy, but that would be quite a move from where we are now and it would take a considerable amount of time. I suspect that relocation would be a small part of the entire exercise if the Executive were to choose to go down that road. We would need to be very convinced before following that route.

In addition, I simply make the observation that, from my reading of the Irish situation when I was there a couple of years ago, the strategy involves quite a lot of big-“P” politics as well. As I recall, the Opposition parties had some criticisms—heaven help us—about the places to which the Government had decided to relocate departments. The process is very political.

Jim Mather: However, the Irish policy seems to have been carried out in a broad and relatively objective way. The Irish Government is at least trying to overcome the tendency that we can describe by the word “agglomeration”. It has tried to overcome the gravitational pull of the centre. Given that Scotland is facing an 8 per cent reduction in the number of economically active people, I suspect that, in the context of growth in Edinburgh, Glasgow, Inverness, Aberdeen and Dundee, there could be a dramatic impact on some of our remote and rural areas.

Across the water, Ireland has a relocation mechanism that involves no compulsory redundancies, because the staff transfer on a voluntary basis. That provides clear-cut benefits: it helps staff motivation and eases the pressures on the public purse, because it does not involve paying relocation expenses. That seems to be an example that would be worth following. Perhaps Ireland also provides other examples with which we could compare ourselves and from which we could cherry pick solutions to address our problems. Perhaps we need to learn from the expertise that others have evolved.

10:30

Tavish Scott: I would never rule out considering other options or other countries’ experiences. I have two observations on Mr Mather’s point. First,

I take the point that the sparsely populated areas of Scotland face a gravitational pull. To some extent, if not to a great extent, that is why I believe that the small units initiative is so important. As we have discussed before, five, 10 or 15 jobs can be important in such locations. I tend to feel frustrated by how quickly that initiative is being rolled out, or not, as the case may be—I would like to see it move.

Secondly, correct me if I picked this up wrongly, but from reading the case study and the *Official Report* of the discussion on it, some of the arguments about Ireland’s ability to relocate large numbers of people appeared to relate to the fact that many people were happy to relocate to Dundalk or wherever because they had family ties there. It would be an interesting study to find out whether that would be the case in Edinburgh. The decision to sell a well-appointed and therefore pretty expensive house in Dublin to go back to the family croft, as I might put it, given that I come from the Highlands and Islands, is perhaps not what would happen in Scotland, but I am happy to be corrected on that.

Jim Mather: The impact might be softened somewhat if people were taking their Edinburgh salaries back with them.

The scale of the Irish job relocation is remarkable: the most recent announcement was on the relocation of 10,300 jobs. We have heard that jobs may be coming from the south to Edinburgh. As a back-to-back exercise, is it not worth thinking about emulating that, even just to create space and avoid additional overheating of the Edinburgh economy, through a policy that frees up residential and commercial property and therefore allows relocation from London to Edinburgh?

Tavish Scott: The property people in Edinburgh tell me that, as a glance at the commercial property pages of our national press would suggest, at present, the Edinburgh market is a little looser than it was two or three years ago. I suspect that there are issues of which we at least need to be aware. My answer is similar to one that I gave the convener earlier: I do not think that there is an inconsistency between being proactive in seeking to attract to relocations to Scotland from the Westminster system in the wider sense—if that happens to be to Edinburgh, so be it—while at the same time making progress on relocation within Scotland. Those two aims can sit perfectly well together.

Jim Mather: In the absence of a volunteer-based scheme, how can compulsory redundancies be avoided in public sector bodies in which staff have no right of transfer and do not wish to relocate?

Tavish Scott: We have not had compulsory redundancies so far, but I accept that the position may change, although I hope that it does not. We have not developed proposals for that, but we would be happy to consider any firm recommendation that the committee made on the subject.

The Convener: In the context of current projections, have you made contingency plans for how you might handle compulsory redundancies if they arise?

Tavish Scott: As I say, we do not have any such plans at present. It would be for individual sponsoring departments to consider the issue when bodies are being taken through the review and relocation process. The redundancy issue has not been brought to my attention yet.

The Convener: So there is no financial projection of how much compulsory redundancies might cost and no provision has been made for them.

Tavish Scott: No, not in terms of general policy. Those are matters for individual bodies and sponsoring departments to take into account when carrying out relocation exercises.

The Convener: So if departments anticipated that compulsory redundancies were likely as a result of their policy decisions, they would have to include provision for that in the costs of relocation.

Tavish Scott: They would have to make that assessment and put that into the proverbial melting pot when making the business case argument to ministerial colleagues, but such a situation has not arisen yet.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): Dr Elaine Murray covered the first point that I wanted to raise—namely, that in any national strategy on relocation or decentralisation, we should seek to pass on the benefit of public sector jobs to those parts of Scotland that are less well off. That is a first principle, and it was set out in the conclusions that you read in paragraphs 51 to 54 of the paper on Ireland.

I want to touch on the other main feature—if I can term it thus—of the Irish model of such a policy. I think that you accept that I am not suggesting that we should replicate the Irish policy here. That would be wrong-headed and impossible anyway, but we are looking at the principles. The second principle is that the Irish seek volunteers rather than conscripts. Is not that a better approach?

Tavish Scott: I accept Mr Ewing's point that not everything is perfect in any system, including the Irish system. That is where the Irish are at the moment; it is not the system that we have at the

moment. To adopt such an approach would be to make a fundamental change to the way in which we carry out relocation policy. The issue is a little like the point raised in the earlier discussion with Elaine Murray. My concern is to take forward relocation. I do not expect it to be universally popular among the staff who are confronted with what are, after all, big lifestyle decisions about their futures. I appreciate totally that those are extremely difficult circumstances. I suspect that, if we were to have a voluntary policy in Scotland, relocation policy would not go anywhere.

Fergus Ewing: I think that there are at least three advantages in applying the voluntary principle. First, it is less expensive, because you do not run into compulsory redundancy. I think that it was Mr Wyse, an Irish civil servant who, when asked whether there had been a single example of compulsory redundancy in Ireland since 1987—when the policy was introduced and since when nearly 4,000 jobs have been relocated—said that there had been not one compulsory redundancy of which he was aware.

The second advantage is attitude. Those who volunteer are surely likely to be more enthusiastic about the venture than those who are press-ganged. The third advantage is a concomitant and necessary feature of the voluntary principle. Those who do not wish to relocate from Dublin—we might perhaps call them the relocation refugees—are entitled to claim asylum, as it were, in another public sector job.

I understand that that would be a major change, but the Parliament, on the first anniversary of its second session, has been criticised for not coming up with radical, ambitious, forward-looking and significant policies and for being a wee bit timid. At least, the Executive has been so criticised. Do you recognise that, if you were to subscribe to the voluntary principle, a concomitant requirement would be that you would have to take steps to equiparate the treatment of public sector workers in quangos, who have lesser rights, and the treatment of those who work in the civil service? An element of equiparation of rights would open up opportunities, so that those who did not wish to relocate could transfer to other public sector jobs.

Finally, do you agree that, unless a relocation and decentralisation policy that applies to Scotland's circumstances was on a fairly large scale, the possibilities for migration to other departments of those who wished to stay in Edinburgh would be slim? The ambitious policy would need to be on a fairly large scale to work; otherwise there would be a diminished pool of opportunities for people in Edinburgh to take up.

Tavish Scott: I could accept all Mr Ewing's arguments if that was the route that we chose to embark upon and which the committee

recommended—I will be intrigued to see whether the committee chooses to recommend that route. I accept the fact that, were the Executive to move towards or implement a voluntary system, the kind of changes that Mr Ewing describes would be necessary. I take it from the transcripts of the evidence that you gathered in Ireland that such changes would be prerequisite to the success of such a system. I would not argue at all about that. However, timidity is not a word that I associate with relocation policy. It is slightly ironic, in that I usually get accused of the opposite of timidity on this matter, and it is not fair to make that accusation in relation to relocation policy.

On Mr Ewing's final point about the scale of relocation, any member would be ill advised to start plucking figures out of the air in relation to posts and organisations. However, my reading of the Irish situation is that a fundamental change is happening, including the relocation of very senior civil servants to different parts of the country. It is a very different approach from that which is being taken here. Nonetheless, I accept the premise of Mr Ewing's argument if that were the approach that one wished to take.

Fergus Ewing: Certainly, no one has accused Charlie McCreevy of timidity.

Tavish Scott: Indeed.

Jeremy Purvis: I have a supplementary question on that issue and a couple of other questions that are not directly connected, although they lead on from Fergus Ewing's point, which was well made.

I want to get to the heart of where the Executive's priorities lie. Does the Executive believe that the best way forward is to consider the matter on the basis of an appropriate business case that would suit either a Government department or an executive agency—of which there are perhaps more in Scotland than there are in Ireland—and which would suit circumstances, providing a best fit for the area that an agency is going to go to? Effectively, that would mean continuing on an ad hoc basis and ironing out the wrinkles.

Alternatively, would the Executive prefer a spatial strategy approach? That would mean the consolidation of the indicators—such as socioeconomic indicators, which we have been discussing in the committee and on which you will know my view—of the projected change in population over the next 10 years, of population density, of the Scottish indication of multiple deprivation, of average weekly earnings, of the benefit claimant count, of unemployment and of the proportion of employment in the public sector. The population of my constituency goes up and down and up and down and up and down—there

is no consistency at all. A spatial strategy would have to create a set view of where the need in Scotland was—which, incidentally, may not be consistent with what the European Commission says in relation to structural funds.

Which of those approaches do you, as the Deputy Minister for Finance and Public Services, believe would ensure that our civil service and the public services that our constituents receive were best protected?

Tavish Scott: The relocation policy strongly favours an approach whereby the trigger for relocation arises either from new organisations coming forward or from lease breaks taking place. I am not in a position to start changing policy by deciding that the spatial approach that the committee has discussed is appropriate for Scotland. I strongly believe that the manner in which we currently produce policy is appropriate to our need. It is also important in the context of the improvements that we can make in relation to points that the committee has made previously—for example, on the consistency of information, data and indicators. That method of policy production enables us to refine and steadily improve our approach.

I believe firmly that it would be a root-and-branch change to move to a spatial management regime based on regeneration. That would be a considerable exercise and would, by definition, create a lot of uncertainty throughout every organisation and department of Government until it was clear where the exercise finished. I suspect that the Irish example illustrates that. I am not advocating a change to our current approach; I am strongly advocating that we continue to work on tidying up elements that we have not got right at the moment. In that respect, we will consider what the committee says; however, a fundamental change in policy, such as the choice that Mr Purvis has described, is not on our radar screen.

10:45

Jeremy Purvis: In passing, I noticed in the 2002 annual business inquiry that Shetland had the lowest proportion of employment in the public sector—I am sure that that has not escaped your notice.

Earlier, you mentioned the importance of the brass plaque and the kudos that can be generated by relocation. Do you know how much that kudos has cost the public purse? Are you keeping a running total?

Tavish Scott: We would need to write to the committee about that. If Mr Purvis means the cost of relocation, the committee is familiar with the manner in which relocations are done—they are done on an economic basis and on the basis of statistical analysis and the economic cases that

are put together. Certainly, I cannot provide such information off the top of my head, but we would be happy to write to the committee with details on costings, if that would be helpful.

However, there is a difference between a pure budget line and the wider impact of relocation, which is obviously sometimes more difficult to quantify. Earlier, I discussed brass plaques with Mr Brocklebank. Brass plaques are a difficult concept on which to put a monetary figure, although Scottish Borders Enterprise has sought to do exactly that. If I may put it this way, the independent audit of how we do such things—that is, through local authorities and local enterprise companies bringing together information—may be a more useful check on what is happening.

Jeremy Purvis: Yesterday, I spoke to a local business that is relocating many of its staff. If a business is moving and there is a clear indication of how much relocation will cost—whether in respect of relocation costs for individual staff or capital costs for moving equipment or facilities, or whether there is new build—I would hope that officials would keep a running total. There might be brass plaques, but there might be 24-carat gold plaques in many places, if we were to find out the figures.

There is a serious point. I think that you mentioned Scottish Development International linking with the relocation of civil servants from Whitehall, and said that it is “our agency after all”. However, SDI’s expertise and systems for linking inward investment to particular, suitable areas seem to be distinctly missing from the process. Instead, each agency seems to hire expensive consultants—we will find out how much that approach will cost in total. Is there a role for the Scottish Enterprise network, which already has links and sophisticated computer systems to do with the labour market, transport issues and all the things that we read that consultants use? You said that you are looking into that matter, which is welcome. Will you widen that consideration to include existing systems and agencies that taxpayers are already paying for?

Tavish Scott: I absolutely accept that there should be more clarity in the process—that is what I desire. We want to ensure that organisations that regularly carry out reviews achieve consistency, and although we must give organisations some flexibility, I do not want different consultants to be pulled in who will use different information about each different relocation, as that is exactly the criticism that the committee has made of the process so far, with some justification.

On using existing mechanisms and the Scottish Enterprise network, the network is already heavily involved, as Mr Purvis said, but perhaps it could do more. We want to continue to make progress in that area of work.

Jeremy Purvis: I have one more question. Until now, my local experience is that the Scottish Enterprise network has been part of the team that has been put together either to submit a bid or to provide background information as to how a bid would work in practice if it were successful. The network’s mechanisms and systems have not been used at a much earlier stage in determining where the best fit is for some agencies. It needs to be brought in. If taxpayers’ money is being paid to an agency of Government to provide the information that consultants ask it for, that would seem to be a rather obtuse use of public funds.

Tavish Scott: Highlands and Islands Enterprise made a submission to the committee; I do not see a submission from Scottish Enterprise. I simply make that observation.

Jeremy Purvis: And, very briefly, I—

The Convener: You are running on, Jeremy.

Jeremy Purvis: I know, but I read such an interesting document over my wonderful bank holiday weekend: “Civil Service Statistics 2002”. The statistics helpfully detail the number of civil service jobs from 1996 to 2002. In 1999, Scottish Office jobs numbered 5,290; the latest figures in the “Civil Service Yearbook” show that Scottish Executive jobs currently number 12,590.

I accept that a figure of 3,600 relocated jobs by the end of this year would be a substantial number—it would be between a quarter and a third of all current Scottish Executive jobs. However, at the same time that quite a lot of jobs are being relocated, there has been an enormous growth in the total number of jobs at the Scottish Executive. You might wish to write to us on this, but could you say where those jobs have been created and state how much has been spent on them by the public purse? It seems a wee bit perverse if you, as a minister, have been getting flak over a relatively small number of jobs in some agencies, while 7,000 new jobs have been created in the Executive and we do not know where they are.

Tavish Scott: We need to check the figures that you have cited, as I must confess that I do not recognise them. That book does not sit next to my bedside every night—I have to commend you for your diligence. We will look at the figures and will give the committee a considered, detailed answer. I am aware that, of the number of civil service posts that currently exist in Scotland, the vast majority—70 per cent or so in the public sector in the round—are out and about in every part of Scotland, in health boards and so on. We need to be careful about how we look at the figures, but I will be happy to provide details on them.

Jeremy Purvis: It would be interesting to know where those jobs have been created.

Mr Brocklebank: Thus far, Fergus Ewing has been uncharacteristically quiet about Scottish Natural Heritage and the Inverness situation; perhaps he is just keeping his powder dry.

My question relates to the online survey that the committee commissioned. Are you at all concerned about the responses? Staff, most of whom had been transferred to Inverness, were asked what they understood were the most relevant factors in the organisation's relocation. Of the 66 people who specified their own reasons, 73 per cent said that the relocation had been for political reasons, whereas 12 per cent said that it was in line with the Executive's relocation policy. Does that perception that the move was a blatant political act worry you?

The Convener: I thought that you indicated that you would come in with a question that was supplementary to a previous one.

Mr Brocklebank: Sorry about that.

The Convener: I thought that we were going to deal with that point differently.

Mr Brocklebank: I see—okay.

The Convener: Perhaps Kate Maclean could come in—

Kate Maclean: I do not mind if the minister wants to answer that question.

Tavish Scott: The only way of answering the question would be to say—as I said when I was asked pretty much the same question by Wendy Alexander and Susan Deacon back in January, when we discussed the same issue—that, ultimately, such relocation decisions are political; I do not disguise that in any way. I notice that, if I have got it right, the majority of respondents supported the relocation policy. I do not find it surprising that there is a perception of a political process taking place. That is factually what happens. Ultimately, all these decisions are part of a political decision-making process by Government. Would I like that not to be the perception? I do not think that that would be living in the real world, in relation to either this or any other policy.

I suspect that, no matter how we had dealt with the particular circumstances of Scottish Natural Heritage, that allegation would always have been made. I would put this in the context of the entire spread of relocation policies, Mr Brocklebank: I do not believe that any of our decisions are taken without recourse to a political process in the context of considering a business case.

Kate Maclean: In response to Elaine Murray's question, you said that the nature of relocations means that they are difficult and painful. The analysis of the results of the online questionnaire

shows that the staff who responded to it share the view that relocations are difficult. Of the respondents, 55 per cent felt that the consultation process in which they were involved was poor, 78 per cent felt that their views did not contribute at all to the decision-making process and only 1 per cent felt that their views had been taken into account in a significant way.

I hope that the relocation policy will continue, even if posts rather than jobs are moved. Dundee has benefited from having the care commission located there, so I accept that there is some kudos attached to having the headquarters of a civil service organisation based in an area. I hope that the policy will continue but, as the years go on, there will be fewer opportunities for people to choose to stay in Edinburgh rather than to be relocated elsewhere. I accept that, at this stage, probably half the responses to the questionnaire were from people who had the opportunity to stay in Edinburgh in a different department but, in future, there will be less opportunity for that, so the consultation process with staff and the taking on board of staff points of view will become even more important.

As Fergus Ewing has said before, it is not possible to have an entirely voluntary system, because people would just choose not to move. Do you have any ideas about how in future staff views could be taken on board to a greater extent and how staff could be made to feel more involved in the consultation process? The survey results are quite worrying as regards staff morale.

Tavish Scott: I accept that the difficulties that Kate Maclean mentioned exist. Although I do not want to belittle in any way the online survey that the committee has conducted, it must be pointed out that the number of respondents represents a small percentage of the total number of jobs involved.

As we have said in previous discussions with the committee, we are strongly of the view that we should leave the consultation process on the relocation to the organisation concerned, regardless of whether that is the care commission, Scottish Natural Heritage or the Scottish Executive inquiry reporters unit. I do not think that it would be appropriate for Scottish Executive officials to get involved in the nuts and bolts of an organisation's consultation process, as I believe strongly that that is a management role, in that it demands liaison with staff, unions and other representatives within the organisation. I am sure that there are ways in which such processes could be improved and I hope that lessons will come to light from the case studies that the committee has carried out. We will consider carefully any recommendations that you make to us.

Kate Maclean's wider point is entirely legitimate. Relocations are just not easy. If our policy was to elevate the staff response to the status of being the initial trigger that put an organisation into the relocation review, I suspect that we would simply stop there. I agree with her view that relocations are not easy. I am sure that we can do more with the consultation process and I will be interested to find out what recommendations the committee makes on that area.

Kate Maclean: Is it not important that there is some strategic overview of consultations with staff, to ensure that there is a benchmark for the standard of consultation that we would find acceptable? That cannot involve turning the consultation exercise into a veto—while people do not feel that a consultation is a real consultation unless their desired outcome is what actually happens, that is just not going to happen. Do you think that a standard for consultations would be an improvement and would make the monitoring process much easier?

Tavish Scott: I certainly accept that it would be appropriate to provide some broad parameters on how consultations should be handled in an organisation, but they would have to be pretty general. That is the balance.

I repeat that it is not our job to tell an organisation how to run a consultation, because it is probable that the organisation would already have appropriate relationships with unions and staff representatives and direct staff contact, in the context of its management of staff resources. It is not appropriate for ministers to interfere with that. However, I repeat that we would be happy to consider a recommendation on what the broad parameters should be, but that the balance is important.

11:00

Fergus Ewing: We can all accept that there cannot be a relocation or decentralisation policy without tears. Some people will be unhappy whether or not the voluntary principle is a strand of the new strategy. However, the committee has a duty to take up some of the points that were raised in the online questionnaire. We owe that much to the people who took part, who did so in good faith, because they hoped that their views would be taken into account, even though that might not have happened during the consultation on whether there should be a relocation. I have read the paper on the questionnaire that the clerks prepared and I was struck by the fact that, in response to the question about whether their views had been taken into account, 78 per cent of respondents—nearly four out of five—said “not at all”. The paper says:

“A strongly recurring message, particularly from staff of Scottish Natural Heritage ... was that the consultation exercise had been a charade”.

That is strong stuff—I have been known to administer strong stuff, but in this case that comes not from me but from more than 100 people who answered the questionnaire.

The minister said earlier that politics plays a part in the decision, but that is not really the point. The point seems to be rather different and quite straightforward: the decision was taken against advice. People have expressed their disillusionment and, as the paper from the clerks says, their feeling that

“the decision to relocate SNH to Inverness was because it would be of electoral benefit to the Executive”.

The decision to relocate was taken against the views of staff and against the advice of SNH and of the consultants who were paid £20,000—if my memory serves me correctly—to come up with a recommendation.

Does the minister accept that that is a valid point? The adverse response that we have received is a result of the perception that the decision was driven by political reasons, against advice that was obtained at great expense.

If you accept that, will you also explain whether the civil service advice matched that of SNH? Did the civil servants recommend that the relocation should not go ahead? I appreciate that you said at the Finance Committee meeting on 13 January that civil service advice is not normally disclosed, but I think that you would accept that such advice can be disclosed in the public interest. That situation is specifically provided for in the relevant code of practice. A large number of people in Edinburgh have expressed concern. Can you confirm that the advice from the civil service, as well as from others, was that SNH should not be relocated to Inverness?

Tavish Scott: Mr Ewing, you know that I will not give an answer to that. I repeat what I said in January about civil service advice. That is the position and the Executive will not change its view on the matter. I was not a minister when the SNH decision was taken. I am not ducking the issue, but I cannot add to what I said in January under repeated questioning from you and many of your colleagues. We have been round the course on the issue and I am sure that you have taken advice in some depth on that particular relocation.

I accept the point about the number of respondents to the questionnaire who said “not at all”. I do not know the detail—that is my fault—but I would be interested to know the question to which that was the response. Did the questionnaire ask whether their views on the decision had been taken into account or did the

question refer to their views on all the different components of lifestyle and work practices that are important to everyone's private and professional life, which is a rather different issue?

I take the general point about the seriousness of the consultation. I am not going to go back on what I said earlier. Mr Brocklebank was asking me not only about SNH but about general relocation policy. In that context, I sought to explain that, as with every decision of Government, a political decision-making process is involved.

Fergus Ewing: I can help you, as always, minister. The question that elicited the response, "not at all" was as follows:

"To what extent do you feel that your views contributed to the decision process: significantly, well, partially or not at all?"

Some 78 per cent answered "not at all" and 1 per cent answered "significantly". I would be interested to know who that 1 per cent was. However, I understand your response. It is one that I was expecting with a 99 per cent degree of certainty.

In conclusion, I invite you to accept the premise that the disclosure of civil service advice is something that can be done but, in this instance—as in so many cases—will not be done because the Scottish Executive chooses not to make it public.

Tavish Scott: Mr Ewing should go away and read the Freedom of Information (Scotland) Act 2002, although I am sure he is familiar with it. It provides a real test of responsibilities with regard to advice and information. It takes forward the openness of government in Scotland quite considerably and creates a situation that is far better than any that has existed in this country before. I would have thought that Mr Ewing would welcome that development and, indeed, I seem to remember that he voted for the bill—I certainly hope that he did so. The act has created a new, dynamic and much more open society in Scotland.

I will not add to what I have already said on the issue of civil servants' advice. If Mr Ewing expects me to, he can keep on asking me about it, but I will keep on giving him the same answer.

Fergus Ewing: I think that this is a case not so much of "Yes, minister" as of "Aye right, minister."

Jim Mather: Distilling your evidence today, what is the core message that you seek to convey to the committee, minister?

Tavish Scott: I can think of something to convey to Mr Ewing, but I will not do so as we are both gentlemen and it would be inappropriate for me to do so.

What I would be interested to see coming out of your inquiry is akin to the question that Mr Purvis

asked earlier. I would be fascinated to know whether the committee has come to the view that a complete change in policy and the advocacy of a spatial management approach to Scotland as a whole, with relocation as one part of a much larger economic picture, are preferable to the existing policy, which we will continue to refine and develop, particularly the clarity and consistency of the criteria. That is the element of your deliberations that I find particularly interesting.

Jim Mather: If those final deliberations come out with categorical proof that a full-blown relocation policy with structure and perhaps even volunteers would have a beneficial effect on economic growth and competitiveness, is there a presumption that that would get the backing of the Scottish Executive?

Tavish Scott: I am sure that you do not expect me to give any guarantees about changes that we would make to our relocation policy. We firmly believe that the manner in which we are handling the matter is appropriate for Scotland's needs. However, I genuinely want to know what the committee has to say on the issues that are involved.

The Convener: One issue that has arisen with regard to SNH concerns the status of staff who are employees of non-departmental public bodies. Civil servants can transfer across the civil service and have more places to go, but the employment status of SNH's staff gives them fewer places to go in the public sector. Is enhanced status for NDPB employees who are likely to be affected concomitant to proceeding with the relocation policy in which you are involved or with a more strategic relocation policy? If the process does not give employees rights throughout the public sector, they will continue to feel picked on in comparison with other similar staff. Is the Executive considering that?

Tavish Scott: The Executive is not considering that at this time. I cannot add to what we have said. We would be happy to consider the proposal, and we will provide a full answer to that point, and others, in responding to the committee's recommendations.

The Convener: I thank the minister and his officials for their attendance. The committee is progressing with the process. We expect to consider a discussion paper in the next couple of weeks and to move towards findings before the summer.

Budget Process 2005-06

11:12

The Convener: Agenda item 2 is further consideration of stage 1 of the budget process 2005-06. I welcome Professor David Heald from the University of Sheffield and Professor Irvine Lapsley from the University of Edinburgh, who have agreed to give us their thoughts on the annual evaluation report. Perhaps it would be best to hear both witnesses' opening statements, after which we will proceed to questions.

Professor Irvine Lapsley (University of Edinburgh): I will make a number of comments. In preparing them, I have used the first annual expenditure report, from 2000, as a useful reference point in seeing how far we have travelled in dealing with such documents.

I will comment on the new annual evaluation report's format and style, which are important. The declared intention is to encourage comment on the Executive's spending plans by members of the Parliament and by the public, but the document is 111 pages to download, which is inhibiting and makes comments unlikely.

We see quite a few differences from the annual expenditure report of 2000. From 2000, I especially liked "Investing in You: Summary of The Annual Expenditure Report of the Scottish Executive", which reaches parts that other documents might not reach. The document is small and accessible. I did not obtain such a document when I downloaded the annual evaluation report.

The AER of 2004 is much denser and is packed with more detail on objectives and targets. It also contains more narrative, which some people would welcome. It has a more comprehensive index, which many people will also welcome. It also has an interesting glossary, which is helpful. However, it could go a stage further in examining ministers and their responsibilities by having a statement about how targets sit within budgetary responsibilities. The whole thing is about targets and how they relate to services, and the targets seem to be much clearer in the current annual evaluation report than they were in the 2000 annual expenditure report. In particular, there are fewer of them. For example, there are 12 targets for health and community care as opposed to 16 in 2000.

I also like the classification of whether targets have been met, are on course to be met or are experiencing slippage. That is a significant enhancement, and the AER is making progress. However, if we consider what confronts members of the public or MSPs who wish to examine what

the document tells them, we see that there are major difficulties in trying to tease out the relationship of priorities to allocated resources and outcomes—I can return to that, if you wish. It is quite tricky to tease out what is happening in public services.

The annual evaluation report is a helpful document for doing the sums. It is rather large and dense and, although there are definitely things about the document that make it more accessible to someone who knows what they are looking for, it might be quite inhibiting for others to comment on where the stage 1 budget process is going.

11:15

Professor David Heald (University of Sheffield): I agree with much of what Irvine Lapsley says. I was a member of the financial issues advisory group in 1998 and I am pleased with the way in which the Executive and the Finance Committee have taken on board the spirit of what FIAG wanted. The budget process in the Scottish Parliament is totally different from the experience in the Westminster Parliament. I am a specialist adviser to the Treasury Select Committee and one can learn far more about what will be in the budget by reading what has been leaked to the *Financial Times* than one can from any consultation process at the Westminster Parliament, so there are many good aspects of the Scottish Parliament's budget process.

When I looked at the draft budget for 2004-05 and the annual evaluation report 2005-06, it struck me that the documents are much more of a style—much more similar—than I had expected. I understand Irvine Lapsley's point that a short, brief document might be more accessible to members of the public, but I would think that what the committee wants at this stage of the budget process and what is best for public presentation might not be the same. The committee needs to get some sensible overall priorities, and there is far too much detail about parts of the budget that do not incur great deals of expenditure. It is almost as if every department has an entitlement to a certain number of pages and targets, whereas the big money and big political issues are in a restricted range of portfolios. At this stage, one needs much more focus on where the big numbers and the big and difficult policy decisions are.

One does not get much sense of the financial context of the Scottish budget from the budget documents. I am extremely embarrassed that, in the late 1990s, I published a lot of papers in academic journals saying that the Scottish Parliament would be pretty short of money when it was established. Essentially, that is what everyone expected in the late 1990s. Instead, there has

been a torrent of money down the Barnett pipeline over the past five years, but that will stop. The spending review 2004 will be difficult.

I listened to the evidence-taking session on public sector relocation. During that, nobody mentioned the targets for efficiency savings and big reductions in public sector jobs, although one obvious question to ask is how the Treasury will reflect that in the spending review. Perhaps it will do that through an across-the-board reduction in departments' budgets, which has never happened in the post-devolution period. In a sense, that would be a form of Barnett-formula bypass that would be damaging to the devolved Administrations.

At this stage of the budget process, I would have expected something that was more concerned with the financial context of the budget, and with how to deal with a switch from a position in which everybody is embarrassed about having to use so much end-year flexibility to one over the next three years in which resources are likely to be in pretty short supply.

The Convener: The committee has struggled to get the Executive to give us information about the run-on costs of policy decisions or the introduction of bills over a two or three-year period, so that one can anticipate the level of need and the financial consequences and build those figures into the equation. We have the impression that we are given a snapshot, with no historical data or projected data to let us know the financial consequences of decisions that have been or are about to be made or the implications for other decisions that could be made. Is the aspiration to move towards that kind of data the right aspiration? Do you know of anywhere internationally where the budget process is sufficiently transparent for that to have been achieved?

Professor Heald: The aspiration is entirely admirable and should be pursued. The Executive has faced the difficulty that devolution coincided with big changes in the UK public expenditure system, with a move to departmental expenditure limits and annually managed expenditure and the two-stage conversion to resource accounting. In my research, I have tried to chain-link different spending review settlements to show how you get from the assigned Scottish budget in 2000 to the assigned budget in 2002, and then prospectively to the assigned budget after spending review 2004.

There is an awful lot of noise in the system to do with classification changes and measurement changes. For technical reasons, and because of Treasury domination of the expenditure control system, it is difficult to get a run of expenditure data. With the old commentaries on the Scotland

programme that the Scottish Office used to publish in the 1980s, the Scottish Affairs Committee at Westminster managed over a period of time to get the Scottish Office to publish historical data. The great difficulty is in seeing how expenditure has evolved and in seeing future projections. One needs to avoid examining too short a window of expenditure to get a longer historic series. It has been a particularly difficult time.

Clearly, the Treasury is keeping tight to itself what will happen in the spending review 2004. In a sense, the Executive does not know exactly what will happen, but the committee has to put pressure on the Executive to get it to divulge the best data that it can put together.

Professor Lapsley: I agree with David Heald's comments. The task is difficult, and not only in relation to historical data. We have to understand how information has been systematically collated, analysed and presented. Unravelling that is a major exercise. There is the capacity to make forward projections. One is at the whim of competing priorities when there is a pressure point in the budget, but there is the potential to produce projections on the likely impact of expenditure.

The convener asked about an historical record, but obtaining that is difficult. With such records, one is often dealing with things that are unstable. Policy targets shift—they have even shifted over the past four years. A system can be set up to capture data to measure and track targets, but it could all change, so the system is not robust. I sympathise with people who try to produce information on public expenditure for the public domain. We should recognise the difficulties of having high expectations.

Jeremy Purvis: I am delighted that you are both here at the committee. I am excited about the work that you are carrying out—we are in a process of change.

I have a specific point that comes from my experience over the past year of dealing with many local constituency groups that receive the cash. The design of the process is front-ended. In a way, this comes back to what Professor Lapsley said about the brief document that was published. Many of the local groups that receive Executive funding and deliver on the ground want to get past that brief document very quickly. They need to have information on processes, the timing of budgeting and the budget cycle—they need to understand the process.

Professor Lapsley said in his research document that MSPs have a limited grasp of the budget process, but many local groups have even less understanding of it. If we want such groups to be involved in the process and feed that up the chain, we must address that. How can local groups feed

into the budgetary process? Currently, they have great difficulty in doing so.

Professor Lapsley: The most obvious route in is through the target-setting process. That would be a way to comment, influence the process and shape things. We are talking about work in development. We have refined the work on target setting, although I would not say that we have arrived. You have introduced another dimension, which is the wider stakeholder interests. The target-setting process would be the most obvious route in for groups to say what they want and how to get there, but for the reasons that we have mentioned, it is difficult to relate such targets to expenditure. It is difficult to set a target, identify a programme of expenditure and establish how it impacts on the target. Considering targets individually or in aggregate might not capture the entirety of what a programme is about. However, the target-setting process would be an obvious point of entry for people who are keen to be involved in the process of setting the budget.

Jeremy Purvis: You said that there were closer linkages in the 2000 report. Can you explain what has happened? Perhaps we have moved back a step.

Professor Lapsley: We have not quite gone back a step. My comment on the closer linkages is that the 2000 report had clear sets of objectives and targets and also tried to weave in the expenditure. If you are numerate, it is clearer. The benefit of the current annual evaluation report is that there is greater explanation, which some people might be more comfortable with, but that is just my take on it.

I think that the 2000 report made a more deliberate attempt to link objectives, targets and expenditure than the 2005-06 annual evaluation report does. In the current AER, there are targets and there is a current programme of expenditure, but the big issue is how one relates to the other and how we make sense of it. That is the challenge.

Let us put the issue into context: establishing such linkages is the biggest challenge that faces any public sector organisation, whether it be the Executive or local health trusts.

Professor Heald: A combination of finance experts and public relations professionals can design good explanations of the numbers and how the process works in short, brochure-form documents. One is lucky because now one can make references to what is available on the web. Life is much easier than it used to be in respect of disseminating information to people who want to find it; it used to be difficult to get documents.

The problem with involving local groups is that the groups that are interested are probably those

that want to spend money, who are likely to be disillusioned if they do not get as much money as they want. One of the messages that one has to put to people when consultation takes place is that there is an overall spending envelope and the money is constrained. If more money is spent on skills, less money will be spent on something else. Not only because of the method of funding the Parliament—although that is relevant—in essence the message is that resources are constrained and people have to make choices.

Jeremy Purvis: I believe that you both accept the AER's priorities. Professor Lapsley said in his written submission that

"The four key challenges are hard to contest as strategic priorities for Scotland."

If we take that as given, and if we are to see a difference in outcomes and outputs, many of the deliverers will be local bodies, such as NHS boards, local authorities and voluntary organisations, which are in receipt of funds and want to be in receipt of more. With the experience of the financial issues advisory group and so on, how do we shape the budget process to bring in local deliverers such as local authorities and NHS boards? The boards—which have a non-executive element to reflect local circumstances—and local authorities might choose priorities that do not match the overarching Scottish Executive priorities.

11:30

Professor Lapsley: It is hard to contest objectives such as growing the economy or achieving excellence in public services, because they are so broad and laudable—no one would dispute them. They are things that everyone in the community should want. The real issue is about moving from the broad, high level, ambitious statements that we as a country should want, to getting policies to work and establishing linkages. That is where the difficulty comes in. Essentially, Jeremy Purvis is pleading for a more bottom-up approach to setting the budget, as opposed to the Executive's top-down approach. It is difficult to have a bottom-up approach with a centralised Government service such as the health service; it is much easier to have such an approach in parts of other public services.

I find it hard to contest the strategic objectives; I would not do so and I believe that most people would not do so. The next stage is to establish linkages to targets, and some kind of bottom-up involvement, which raises issues about the entire process. All the FIAG indications were that there should be some kind of public involvement, but we should acknowledge that it is very difficult to do that.

Jim Mather: I am particularly interested in the emphasis on organisational and process targets that permeates the AER. Some 36 per cent of the targets are organisational or process targets. Is there merit in having such targets?

Professor Lapsley: There are issues about volume and about how meaningful the targets are to the people who must deliver them, which is fundamental. There is also an issue about how all the targets sit together; often, they do not do so. If we asked whether AER targets represent the objectives of, for example, the NHS in Scotland, it would be hard to aggregate them and state that they capture those objectives. That is not a criticism, but a statement about how difficult such a task is. Targets have their place, if they are applied with sensitivity.

A sensible approach is to change processes and try to improve public services. When we go for targets that can be quantified easily and quickly, there is an issue about displacement—I cited examples of that in my written submission. Other targets are incredibly difficult to deliver on. For example, there are health targets to reduce smoking and alcohol consumption, which are clearly about individuals' lifestyle choices. I would find it difficult to hold the Minister for Health and Community Care accountable for such matters. It is difficult to tie broad overarching aims to targets. I see no problem in having process targets, which improve services.

Jim Mather: To continue on that, our adviser broke down the targets into three broad categories: output, outcome and organisational targets. My view is that outcome targets that do not have quantifiable achievement criteria are really output targets. Should we have fewer outcome targets and have them tend towards the macro level of managing the health and well-being of Scotland's social and economic fabric?

Professor Lapsley: The key is to establish a hierarchy in which all the targets interrelate. That is the challenge that we face. Non-quantifiable outcome targets are entirely legitimate. I have not seen the committee adviser's paper, but measurement of output in public services is fraught with difficulty. We end up with hybrid measures that are often input derived, or some other variation. The idea of organisational targets is interesting if we are trying to track results and responsibilities.

The number of targets is an issue. David Heald made an interesting observation about the size of the budget document and whether every part of the entity that is the Executive should have the same space in it. A case can be made that the budget should be more targeted on big spend and that it should examine more elaborate relationships between outcomes and targets.

Professor Heald: I believe in targets—they are useful. However, at the end of the day, there will always have to be an informed political and managerial judgment about the combination of targets that is used. We all know that whenever the higher examination results get better, the exams must be getting easier and that whenever the results get worse, the education minister should resign. We must guard against such cynicism about targets. Targets are useful, but they cannot substitute for informed judgment. It is incredibly difficult to measure whether student performance is improving or whether standards are getting lower. We must be careful not to put too much emphasis on targets, and we must regard them as a useful benchmarking exercise and not as a substitute for political and managerial judgment.

Jim Mather: Let us consider the absence of a target. Overall public expenditure in Scotland has increased by 41 per cent since 1999, but the spending on the number 1 target—economic growth—has increased directly by only 19 per cent, and by 22 per cent if we take into account related support activity. Last week, Andy Kerr in effect told the committee that the Executive should not sign up to targets over which it has no control. I note the absence of a specific target on economic growth and that Andy Kerr is reluctant to take on such a target. What could we do to remedy that situation and achieve a focus on economic growth that would be meaningful and transmittable down the pyramid that Professor Lapsley described?

Professor Lapsley: If I try to look into Mr Kerr's mind I can, in a sense, see where he is coming from. A strong relationship exists between the efficiency of the public sector and the aim of economic growth, but many issues to do with economic growth are entirely beyond the Minister for Finance and Public Service's control. We are in a global economy. In recent times, we have felt a cold draught or whatever many times. Some levers are beyond the minister's control. There is a sense in that there should be aims in respect of those, but not measurable targets. The key way in which we can promote economic growth is by having efficient public services and by trying hard to ensure that we deliver value for money for every pound that we spend. That is how I would try to make progress.

Jim Mather: That relates back to the point that Professor Heald made about the absence of targets on savings and efficiencies in the public sector. We are between a rock and a hard place: we have aspirational rhetoric on growing the economy, but no tangible measures to squeeze out savings and efficiencies in the public sector. Without real targets that create the pressure to

squeeze out efficiencies, I fear that efficiencies will never be garnered.

Professor Heald: Before I answer that question, I return to the previous one and associate myself with Professor Lapsley's comments. The best thing the Scottish Executive can do is improve the efficiency of Scottish public services and their basic human and physical infrastructure. I am not sure how to classify which expenditure is to promote economic growth and which is not. Within the current constitutional setting, it is much more important for the Executive to concentrate on what I regard as its core tasks.

The point that I made about efficiency savings was a criticism not of the Executive, but of the UK Government. The efficiency savings that are proposed by the Gershon review and which were leaked in advance of the budget were magic numbers that were intended simply to make spending pressure look less acute. If you are asking me whether the Executive should concentrate on improving the efficiency of public services and of the state administrative machine in Scotland, my answer is yes, absolutely. However, that is an on-going task. I am much more convinced by a strategy in which that is seen as an on-going task than I am by rhetoric around the time of a budget.

Jim Mather: Do you have any thoughts about how we can liberate more efficiencies and savings from public services?

Professor Heald: That can be done only by long-term hard graft. Among the tensions that emerged from the previous evidence session was the tension between the social reasons for job relocation and the business efficiency of government. An obvious question is: How great are the up-front financial costs of relocation and the costs in disrupted service provision? I accept that taking activities out of Edinburgh—like taking activities out of the south-east of the England—makes long-term economic sense, but if there is enormous staff turnover at the time, there can be a conflict between relocation and improving efficiency of services as we go along. Politicians are always accused of using short time horizons. Given the remarkably big increases in public spending that have taken place over the past five years, results must be seen now, rather than in five years. I would not want relocation of public sector jobs out of Edinburgh to happen at the expense of efficiency of service delivery.

Professor Lapsley: I have studied the public sector in Scotland over the past 20 years. For much of that time there have been pressures. The pressure for efficiency gains and cost savings has been relentless. We enjoy some economic success and there have been reverses, but those are very recent. Part of the story is the attempt to

get a set of robust measures that can inform people—not only members of the committee, but managers at the top and middle levels of the public services—about how they are doing. So far, that goal has been elusive for all concerned, but it is the key to moving forward. I see the AER as contributing to progress in that.

Ms Wendy Alexander (Paisley North) (Lab): It is comforting to have the experts emphasise the complexity of what the committee is trying to do. I want to take a step back and to seek advice.

The difficulty that the committee has is that it is trying to perform two functions. The first, to which you point, is to meet its straight financial accountancy obligations and to determine what is being spent. David Heald and others have pointed out that considerable progress has been made towards meeting the aspirations of FIAG—four years on from the first Scottish budget, there is a high level of transparency.

There is a difficulty with trend data; you rightly point out that the level of change in public accounting is the reason for that, but there is movement. The first question is about what is being spent, and we can be pretty optimistic about that. The second question asks what is being achieved for that spend, in relation to tracking performance review. Given the resource-constrained environment, that question will become increasingly significant during the second session of Parliament.

11:45

In England, the Treasury Committee focuses on financial accountancy—what is being spent. The Public Accounts Committee has done most of the work on performance review and outcomes. I ask you, as experts who know both systems, whether is it possible for one committee to perform both functions effectively; that is, to track what is spent and what is achieved with that. If that is possible, how do we set an agenda for the Finance Committee around that second objective? The most effective committee work happens where such objectives about what we are trying to achieve exist. You have both worked with other committees, and I would welcome a top-level view. Is it appropriate for one committee to perform both functions? If we accept that we have made considerable progress on the first function, what is the best way to pursue the second objective, and what should our role be in that during the second session of Parliament?

Professor Lapsley: I agree with your earlier comments about FIAG and about transparency—we have certainly made significant progress with that.

It is a tough call. The Audit Committee has the support of the Auditor General for Scotland; it is much more investigative and has considerable resources with which to deliver on that investigative role. The Finance Committee is well advised, but the Audit Committee has a quite exceptional resource and there is rigorous scrutiny of what is spent, although there might be a wider issue about engagement throughout the Parliament and about people not relating to the documentation.

If the committee's aim and desire is to consider value for money and what is delivered on services in more detail—which, to David Heald and me, is key to the future success of the Scottish economy—an obvious institutional arrangement would be to bring together audit and finance. That would provide a powerful body that would be able to consider all the issues that you mentioned.

Professor Heald: I disagree with that. I think that there is a useful distinction between the role of the Finance Committee and the role of the Audit Committee. The public accounts committees in Westminster and Northern Ireland are serviced by the public auditor and, as a rule, party partisanship is pretty minimal. Essentially, the committees perform an entirely parliamentary function. Although I have criticisms of the way in which the United Kingdom system works, that basic idea is correct.

At Westminster, the Treasury Committee has a macro-monetary role, and much of its activity relates to matters that are not devolved to the Scottish Parliament, such as the euro. The advantage of the Finance Committee's being separate is that it can get more political in its discussions about expenditure priorities or job relocations, which are intensely political areas. There is much more to be done on the distinction—which Wendy Alexander made—between getting accounting right and ensuring that there is transparency in that accounting.

We do not know as much about the operation of the Barnett formula; we do not know about comparable expenditure in England and the UK Treasury never understands the questions that are put to it. There are important issues there. Furthermore, the Finance Committee has an important role in orchestrating or bullying the functional committees of the Scottish Parliament into taking an interest. Inevitably, the performance of those committees will differ with respect to how involved they are in responding to budget issues. There is a useful separation of roles there.

Ms Alexander: Those are very helpful observations. We might come back to you on the subject, because it goes to the heart of the dilemma in what the Finance Committee does.

We are about to hear from Executive officials. To some extent, we need to be led by the Executive. We are struggling with the question of whether one set of documentation can fulfil two functions: being the key instrument of providing financial accounting transparency; and fulfilling the management accounting function of measuring improvement and performance in public services. That has become a live issue for us in recent months—it can cut either way. We will probably come back to you to seek advice on how we should manage the issue in the light of the Executive's views.

Dr Murray: I was going to cover similar issues. You have touched on the fact that the documents have high-level aspirations, which have changed since the partnership agreement was signed a year ago. The targets that were inherited from the spending review 2002 had been identified from a different set of priorities. You have commented that the current priorities are not desperately different to what the Executive wanted to do previously; they are just expressed differently.

Our problem is to do with linkages. We know what the Executive is trying to do. The targets are set out for us, but it is difficult to assess whether those targets are the best way to measure whether aspirations are being achieved. It is difficult to link targets to how money goes along the various pathways in order to achieve them. Is the information available that would allow us to do that? Is it a matter of presentation, which, as you have commented, has changed? Is there enough information in the public domain for us to see those pathways and for us to be able to make judgments as to whether value for money is being achieved, which is one of our functions?

Professor Lapsley: The way I see it, there are essentially two different streams of information. First, there is a stream of information about the targets that have been set. That is very useful, although some of the targets are beyond the control of the ministers concerned, which is important. The targets are important for tracking what is happening in public services.

Secondly, on the financial side—as Wendy Alexander said—it is a matter of scrutinising what has been spent, how it has been spent and whether it has been spent appropriately. That does not necessarily tell us whether the money has been spent well. To judge whether it has, one must somehow connect the financial numbers with the targets, which is difficult. The targets are inherently unstable and the accounting system is not designed to capture that information. As an accountant, I say that it is very hard to capture precisely the information that would inform the targets as you would like it to do.

My take on the AER is that it is an important progression along the road to improved performance management information. It is a step in the right direction, but we are not quite there yet and we should recognise the difficulties that are involved in getting there.

Dr Murray: There are also issues around public services. In your preliminary remarks, you commented on the importance of public services to economic growth. We have heard from other commentators, who have said that Scotland is over-reliant on public services. The debate about the number of civil servants who are employed by the Scottish Parliament, for example, is partly about the Parliament employing people directly, rather than contracting out jobs that are contracted out in other legislatures. It is not necessarily my view that Scotland is over-reliant on public services, but I would like to hear your comments on whether the Scottish economy is over-reliant on public expenditure and public services.

Professor Lapsley: The point that I was trying to make was that the key lever for the Minister for Finance and Public Services is the public services lever. The economic growth lever is kind of wonky. He can pull it, but he does not know what will happen; there are too many intervening variables that might confound his aspirations. Public services are the key lever, but even in respect of those it is not the case that one can just pull and things will happen as you want them to. Nevertheless, that is the focus.

The size of the public sector gives rise to an interesting debate about whether or not the public sector in Scotland is too large. We might need a considerable time to answer that question.

Professor Heald: Thanks to the work that the Scottish Executive has done in the context of "Government Expenditure and Revenue in Scotland 2001-02", we know a lot more about the size of public spending in Scotland. I refer the committee to a paper that Andrew Goudie published in *Scottish Affairs* in November 2002, which has time-series data of Scottish public expenditure in relation to gross domestic product. Much better information is available about Scotland than about Wales, Northern Ireland or the English regions. Thanks to the work of the Executive, we have much better information.

Scottish public expenditure is substantially higher as a proportion of GDP than is the case for the UK, but it is equally true that public expenditure in most of the English regions—as well as in Scotland, Wales and Northern Ireland—is also much higher than the UK figure. Essentially, it becomes an argument about the structure of the economy and the role of the public sector, which goes beyond what we are talking about today. However, whatever decisions are taken about the size of the public sector, running

that part of the public sector that is devolved as efficiently as possible will allow more services to be provided to the people of Scotland than would be provided if it were run inefficiently.

I suspect that, in the earlier evidence session, there was some confusion about Executive employment figures. I suspect that all sorts of classification issues mean that some jobs, possibly related to prisons, are being included in the Executive figures but were not included in previous figures. I would be suspicious of such numbers without checking what classification changes have taken place.

Mr Brocklebank: I have three fairly basic questions. First, what aspects of the Scottish budget are flexible enough to be changed? Are you able to respond to that?

Professor Lapsley: That is an inherently political question—it is for policy makers to decide where they want to switch resources. I would have thought, looking at the declarations and at where this Parliament has come from, that the primary areas with which people would identify are health and education, which would mean that other parts of the budget would have to be considered to be flexible. I cannot give a specific answer. To say whether an area is more flexible than others is acutely political.

Mr Brocklebank: Are there programmes that you consider to be overfunded or underfunded? Are you able to answer that?

Professor Lapsley: One cannot say, on the basis of the information that we are considering, whether some areas are acutely underfunded or otherwise.

Mr Brocklebank: I shall see whether I have more luck with my third question. What is your opinion of the balance between capital and revenue expenditure, as outlined in the AER?

Professor Lapsley: The entire issue of capital versus revenue has become clouded by the business of how we record the information and how we attract it. It is sometimes hard to tease out what is actually happening, for example in respect of capital-intensive roads. I do not think that there is a huge imbalance, although I have certainly heard people say that there is an imbalance between capital and revenue, that too much is spent on revenue services and that revenue is regarded as investment. Technically, there is an issue around measurement of human capital, which could be seen as the major resource or asset of the public service, but which no one can capture at present.

12:00

Professor Heald: I shall take all three questions together. The point about flexibility is that, if you

spend £27 billion a year, there is flexibility, but it depends on time horizons and how you move forward. Flexibility will obviously depend on size. If you have a very big budget—as you have in health or education, where you count the local authority expenditure in—the changes that you make in that budget, upwards or downwards, will have much bigger effects on the assigned budget as a whole than would be the case in relatively small areas. Flexibility will also depend on whether the Executive is prepared to take unpopular decisions.

On flexibility to change expenditure priorities, you have had more flexibility in the past, because of all the money coming down the Barnett pipeline, than you will have in future. With relative price effect, the cost of the inputs that the public sector buys is going up faster than the gross domestic product deflator, which is likely to be a problem in relation to the size of nominal increases in expenditure over the next few years. Increases in one programme are much more likely to require reductions in other programmes than was the case in the first five years of the Parliament's life.

The second question, about whether programmes have been overfunded, is a political one. If each part of the portfolio of activities is equally efficient—and I doubt whether that is the case—the decision is essentially political. There is a trade-off between educating young people and looking after old people, or between prisons and transport. I can give you a refined economic formula for trying to make that trade-off, but ultimately the decision is a political one. Politicians are elected to make decisions on that kind of trade-off. The issue is whether we are getting sufficient efficiency from the individual components.

On the third question, about the balance between capital expenditure and revenue expenditure, the picture is complicated by the use of the private finance initiative. PFI expenditure has been considerable; when considering capital expenditure series, one has to watch carefully what has been happening to PFI expenditure. That is one area in which transparency could be much improved at the United Kingdom level, as well as at the Scottish level. There seem to be a consensus that public capital investment has been neglected in the past 20 years. One of the chancellor's priorities at the UK level is to increase the rate of capital investment. However, because of changes in public functions, with extensive privatisation of capital-intensive public services, we have to be careful with data series.

The Convener: As you pointed out, there has been an opportunity over the past five years to use the additional slack within the system—the additional resources that have been available—to reshape public services in particular directions and

either to reorientate the balance of public services or to use investment resources that might be available for a limited period to improve mechanisms for efficiency. I guess that the same argument applies in capital spend: the best time—or the easiest time, at any rate—to divert resources towards capital projects of one kind or another is while additional resources are coming into the system. My perception is that that opportunity might not have been sufficiently taken over that five-year period. If that is the case, does it present problems for us, as we move towards a tighter expenditure framework, if, instead of making the appropriate capital investments between 1999 and 2004, we are looking to make them between 2005 and 2010? The same applies in the context of the reshaping of public services.

Professor Heald: I agree with that. Life will get much more difficult. There is a remarkable disjuncture between what I know to be the case from the numbers—even though the numbers are difficult to put together on a consistent basis—which is that we have been going through a period of utterly unprecedented public expenditure increases on a planned basis, and what is perceived to be the case. The Government has not lost control of public spending; that spending has been deliberate and planned. We have never seen anything like it before, but the public perception is that public bodies are short of money. There will be a managerial and political problem of adjusting to much lower rates of nominal and real increases in spending and there will be the problem of tackling perceptions that are far out of line with what has actually been happening.

Professor Lapsley: There is a classic problem, which is that, when we inject additional funds, we do not know the exact impact of those funds or the precise outcomes. That is the inevitable result of not being able to tie down precisely the means, ends and outcomes. We also have to bear in mind the fact that we have had a cumulative impact of efficiency gains and cost savings. A lot of public service managers see the recruitment of front-line staff as an investment; they subscribe to a particular way of operating public services, which holds that human capital and expertise are some of the most important things that those services have to offer. That is an important dimension, which is not really captured by the classifications of money into capital and revenue.

Professor Heald: This answer will be more cheerful than my previous one was. If we suddenly inject large amounts of money into public services in the context of a generally tight labour market, we would probably expect there to be a lag in the outputs. The committee should be looking to the Executive to show that, even if there is a lag in getting the increased outputs in health, education

and transport, they are coming. It is logical to expect a lag, because it takes time for outputs to come through.

At the UK level, there were significant capital underspends after the comprehensive spending review in 1998. Capital had been held down for so long that public bodies had lost the capacity to mount serious capital programmes, so there was a lag. Equally, someone might be allowed to hire more staff, but there would be a lag because there is a tight labour market and it is difficult to hire staff. Even if it is not difficult to hire staff, it still takes time to get people in place, get them trained and bring them to full utilisation. In the next two or three years, while acknowledging that the climate will be more difficult in terms of year-on-year changes, we should ensure that what was done before is seen to be generating the output increases that might have been a bit slow in coming.

The Convener: In the context of capital spend, perhaps we should try to move towards a situation where intended expenditure results in infrastructure investment. You said that that was an issue in the past, but our perception is that it is still an issue.

Professor Heald: The current annual evaluation report lacks thorough explanation of thematic issues such as the impact of the PFI. In the 1980s, the commentary on the Scottish Office programme had good thematic chapters. One cannot look at the capital expenditure figures without putting them in the context of total capital spend. More of the PFI is coming on to the balance sheet of public sector bodies and will be charged to the budget. One of the thematic cross-cutting issues that you need to pursue is the impact of the PFI. An additional chapter on that in a technical document could be helpful.

John Swinburne: Do the witnesses have a view on the level of transparency in the budget document regarding the use of PFIs or public-private partnerships as a method of capital asset delivery? From what has been said, there seems to be a train of thought that the more money the Executive throws at a problem, the better the outcome will be. A massive amount of money is being thrown at the Antisocial Behaviour etc (Scotland) Bill. If that is successful, we would expect decreasing amounts of money to be required in the future, but an increasing amount is projected to be poured into the area year after year.

Professor Heald: That is not necessarily a fair criticism, because the Executive does not regard the AER as the place to be transparent about the PFI. More generally, there should be more transparency about the PFI. If one throws money at problems in a well-directed and focused way,

that may well be beneficial. I am not in any position to comment on the specific case that you mentioned, but it is clear that, if one throws money at problems in an unfocused way, one can commit resources that one does not get much from. That is one of the issues that the Finance Committee and the Audit Committee can pursue with the Executive.

Fergus Ewing: My question is about the reportage of and transparency in the use of PFI/PPP. I know that the civil servants will say that that information is not contained in the current AER, but I have sympathy with Professor Heald's view that it would be useful to have in the document thematic chapters, including one that shows the impact of PFI across the board, perhaps classified by reference to the department in which the particular PFIs—for schools or hospitals, for example—have been taken out. Can the witnesses explain how they would like that information to be presented, whether in the AER document or elsewhere?

Is there any information that is not available at the moment that could be made available? I am thinking in particular of the commercial confidentiality clauses in some PFI/PPP contracts. Although commercial confidentiality is essential during the tendering process, do the witnesses agree that, once the contract has been awarded, the terms of that contract should be published so that the public can see what they are getting for their money, what the terms and conditions are, how much the mortgage will cost over 20 or 30 years and, consequently, how that will impact on the scenario that you have both painted of a potential squeeze in public expenditure three or four years ahead with a growth in the proportion of, for example, health and education budgets that will be spent on repaying PFI contracts?

Professor Heald: One of my major concerns about the PFI is the extent to which decisions often seem to be driven by considerations of the accounting treatment of keeping things off the public sector balance sheet. I have nothing in principle against PFI if it represents the best value for money, but what worries me is that people will say completely different things in private from what their organisations say in public. If the PFI is for a prison, road, hospital or school, people down the line feel pressured to get it off the balance sheet because, if the scheme is not an off-balance-sheet PFI, it will not go ahead. My concern is as much about the decision-making process as anything.

I am not competent to answer the confidentiality question, but I suspect that, because there is a lot of repeat business, Governments and firms would be concerned about releasing too much information about contracts in case that damaged their commercial interests. Although I can see

what the issues are, I do not know how to resolve them.

You asked about information that could be put in the AER. I am not sure whether the Executive publishes such information elsewhere, but there are summary figures in the Treasury red book about capital spend over a short run of years—although the run of years is not long enough—for the preferred-bidder stage and about the future value of commitments. The significant point that the committee has to watch is what the future payments and commitments under the PFI will be.

The Convener: We are running a bit short of time.

Jeremy Purvis: My question is about future commitments not on PFI and construction, but on the work force, an issue that Professor Lapsley raised. When we questioned the Minister for Finance and Public Services in the previous committee meeting, I asked about breaking down the proportion of budgets spent on public sector pay in a document such as the AER. That would at least allow us to have a different kind of debate.

If you have been following the Audit Committee's work on health, you will know that the two health board areas that I represent have been showing an increasing line of investment but a flat line of outputs. A lot of the budget has been pre-committed because of the general practitioner contract, the working time directive or infection control. The next spending review will be different. We have already committed money, but how can budget documents be presented to allow us to have a different kind of debate?

12:15

Professor Lapsley: There is certainly a case for detailing the way in which spend is built up. All sorts of things come into play and new European legislation will affect your flexibility.

At least three committee members have mentioned PFI/PPP. There is a danger that we think in traditional terms about the capital-revenue distinction. If we think in those terms, we tend to think of people as revenue expenditure rather than as capital expenditure. That is an important issue when we have people who are, as it were, locked into the system, where they behave more like capital.

Moreover, people tend to think of capital as physical plant. However, in the past decade or thereabouts, a lot of investment has been made in virtual systems, moving away from the old style of infrastructure. I do not think that that has been picked up on at all.

There is a need for more clarity on PFI/PPP. Having some kind of thematic analysis in the

report would be wonderful. I am sure that colleagues in the Scottish Executive would be delighted to do that. It would certainly inform the committee's thinking.

Jeremy Purvis: I think that we are just about to ask them.

The Convener: I can see from here that they are delighted.

Would either of you like to make a final comment on what you think the Finance Committee should consider for the spending review? How can the budget process be improved?

Professor Heald: I have no specific comments. The significant point is that we are now getting to a situation in which the rate of growth of expenditure will slow. With the present chancellor in office, it is unlikely that there will be a drastic slow-down in public expenditure growth. However, the economy cannot sustain the rates of catch-up that we have seen in recent years. At the macroeconomic level, the UK economy is running a big budget deficit while the economy is actually performing very strongly. Especially within the Barnett finance system, where what happens depends very much on the assigned budget, one has to acknowledge that important adjustments have to be made for a slower rate of growth.

Professor Lapsley: At the present stage in the cycle, the most obvious focus is the targets. We have to take a hard look at how meaningful the targets are and at what we can learn from them. There may be scope for improving them. That will be part of the debate as we try to ensure that public services are improved.

The Convener: I thank both witnesses for their evidence.

The committee has previously asked about the Executive's performance and innovation unit. As the Minister for Finance and Public Services and his team indicated last week, today we will be hearing from Andrew Goudie, who is the chief economic adviser. With him are Liz Lewis, who is head of the ministerial support group, and Richard Dennis, who is the finance co-ordination team leader and a regular attender at these meetings. Andrew, I will give you the opportunity to make a brief opening statement.

Andrew Goudie (Scottish Executive Office of the Permanent Secretary): Thank you for inviting us to talk to you about the way in which the Executive monitors performance and ensures delivery. I am the chief economic adviser and Liz Lewis is the head of the ministerial support group in the Office of the Permanent Secretary. You know Richard Dennis well.

I will spend a few minutes clarifying the main mechanisms for monitoring performance within the

Executive—covering, but going much wider than, the role of the new performance and innovation unit, in which the committee has expressed a particular interest. It might be helpful if I set out the general structure at the centre of the Executive, given that new arrangements have been introduced within the past year. In July, we announced the creation of the Office of the Permanent Secretary to draw together existing parts of the Executive whose role was to support the First Minister and the Cabinet in their collective work.

The Office of the Permanent Secretary consists of four elements. The ministerial support group, which is headed by Liz Lewis, is made up of the Cabinet secretariat, the strategy and delivery units—which we used to call the policy unit—and the teams that deal with events, protocol and UK relations. The analytical services group, which I head, includes teams of economists, statisticians and researchers who support the collective work of the Cabinet. The new performance and innovation unit is headed by Nick Parker, who was until recently a senior partner with PricewaterhouseCoopers. Finally, the changing to deliver division supports our internal change programme.

The intention behind the creation of the OPS was to ensure that the Cabinet's collective programme was delivered in a way that was more than the sum of its parts. We want to be sure that the Cabinet's cross-cutting objectives are met and that the organisation as a whole gives appropriate weight to the why as well as to the what. We also want to ensure that the analytical resources of the organisation are fully integrated into the support that is given to ministers.

The OPS is no different from any other Executive department, in that it has a civil service head and reports to ministers. The priorities and direction of the OPS are set by the First Minister, by the Deputy First Minister—when he is operating as such—and by the Cabinet collectively. We are responsible to the Minister for Finance and Public Services and we support his role in ensuring delivery on behalf of the First Minister and Deputy First Minister. The delivery unit and the performance and innovation unit report through Mr Kerr to the First Minister and the Deputy First Minister.

I know that the committee is interested in who does what, so it might be helpful to think of the strategy unit, the PIU and the delivery unit as three layers. At the top, the strategy unit is responsible for long-term thinking and horizon scanning. At the second layer, the performance and innovation unit is responsible for medium-term thinking on issues on which ministers are clear about what they want to do but about which they welcome advice,

including input from the private sector, on the best way of doing it. The PIU comprises short to medium-term project teams, which include private sector skills as appropriate, and it is currently focusing on public sector efficiency and improvement of services. It should be noted that the PIU does not have a role in monitoring delivery. That role is filled by the delivery unit, which is responsible for supporting ministers in monitoring the delivery of agreed commitments.

All three layers are assisted by the analytical services group, which audits the plans for delivering the more difficult or cross-cutting commitments. It also audits progress against those plans and advises on their rigour and deliverability. The Cabinet secretariat supports well-informed decision making in the Executive.

The other key player is finance group, which is part of the Finance and Central Services Department. The finance group has a specific responsibility for delivery, because it ensures that resources are used efficiently and effectively and it guides and advises ministers on resource allocation. Aligning resources to the Executive's commitments and providing sufficient resources to ensure that targets can be met are central to processes such as the spending review and any in-year allocations.

In practice, how do we work together to ensure a focus on delivery? The Executive's commitments are set out in the partnership agreement and reflected in the annual evaluation report, which also includes targets. Each minister is responsible for ensuring delivery within their portfolio, but all ministers are collectively accountable for the overall direction of the Executive and for delivery of the programme as a whole. Many of the commitments require collective effort to be delivered successfully.

Given the coalition dimension, there is a particular need for ministers to be consulted and to be content with the way in which policy develops and is implemented. The corollary of that is that officials at the centre of the organisation do not see themselves as separate from or unhelpfully challenging departments. We want to see ourselves more as working with departments towards common goals rather than as second-guessing what they are doing.

The framework to support and monitor progress is set out in the table, which has been circulated; it schematically lays out the way in which we approach that work.

The Executive's commitments were, of course, agreed by the partnership parties in the coalition negotiations. Ministers then translated those commitments into specific objectives and targets. Monitoring progress against targets and

commitments is carried out by the delivery unit and the finance group, which work together and are supported by analysts. Analysing progress towards the delivery of targets and commitments is done on the basis of reports to the Cabinet and a continuous overview. We have a monitoring system for the partnership agreement, which is used across the Executive to identify progress and to highlight areas of risk and what is being done to address those areas of risk.

The system is continuously updated and supports ministers and senior management in assessing delivery. It also provides a clear framework for Executive officials to take regular stock of progress. That work is co-ordinated by the delivery unit, which, again, is supported by the analytical services group.

Internally, the Cabinet receives a regular report from the Minister for Finance and Public Services on the delivery of Executive commitments. The Cabinet paper is co-ordinated by the delivery unit. Externally, there are reports from ministers at the end of parliamentary terms and there is, of course, the annual evaluation report, about which I will say more in a moment.

The Cabinet collectively considers the delivery report and identifies areas for further work and challenge. On the basis of the Cabinet's discussion, the Minister for Finance and Public Services has regular bilateral meetings with individual portfolio ministers in order to discuss delivery against plans and to explore risks and what is being done to address those risks.

The Convener: It might be useful and helpful for the committee to have what you are saying in writing, as members are anxious to get on with questioning.

You are, in a sense, setting out a theoretical model. If I were to pick a particular policy area—say, for John Swinburne's sake, care for older people and, as well as the introduction of free personal care, care standards—how far would the model that you have just described correspond with the reality of how policy has been implemented?

Andrew Goudie: The model that I am describing is not theoretical in that sense; I am describing the way in which we operate across the Executive. The table that members have in front of them identifies the particular responsibilities of the key units. Several of the units that are mentioned have an interest in that area and each has its individual area of expertise. It is important to bring them together into a coherent framework that operates in such a way that, in any particular area, there is a continuous process of reporting by the department on its work as the year progresses. It is important that that is monitored by us centrally

and that we draw information from all the departments in order to inform a summary overview of how successfully the Executive's commitments across the board are being progressed and to dig out where difficulties are emerging in the process. The process is very much an active one.

The Convener: Let us say that a set of care standards is established for the provision of accommodation. There can be an aspirational standard and there can be a process of monitoring what is achievable. The costs of moving towards different kinds of scenarios for what is achievable can then be identified and a legislative and administrative framework can be set in place to take forward the policy. Is what you are describing actually what happens in the process?

Andrew Goudie: There is an important distinction to make between the work that takes place in the OPS at the centre and the work that takes place in departments. The work that takes place in the OPS is very much concerned with the high-level commitments—the aspirational targets and the more operational, specific targets that are set out in the partnership agreement. Once we get into the more specific detail of any policy area, responsibility clearly remains with the minister, within his portfolio. The minister will have responsibility for identifying and monitoring the more detailed specific targets and ensuring their cost effectiveness. I make that distinction because the OPS is not concerned with the very detailed implementation of policy and the detailed targets that individual portfolio ministers have adopted.

The Convener: Recently, the committee has been concerned with water expenditure. I am interested to know to what extent the policy development and implementation process resides with the monitoring division in the civil service and to what extent the structure that you have described comes into play. How do the two elements interrelate? Who is responsible if something goes wrong or is not considered properly?

12:30

Andrew Goudie: Although primary policy responsibility undoubtedly lies within the portfolio, the process that I have described—which takes place throughout the year—will bring to light areas in which partnership targets and commitments do not seem to be being met in the way that we would like or areas in which progress seems to be at risk, for various reasons. On the basis of that kind of information, we produce a regular report for ministers.

There are three routes by which that information is taken back into policy thinking and the policy

process. The first is the Cabinet's collective discussion of the issues. The second is bilateral discussions between the Minister for Finance and Public Services and the portfolio minister. The management group has now set up a sub-group to deal with delivery, which will also consider such issues and try to identify ways in which policy implementation could be improved. There are three central bodies that take the knowledge that is collected through the process that I have described and interact with the department where responsibility lies. That sort of analysis flushes out questions such as whether better-designed policy, better implementation or more resources are needed.

The Convener: So you would be involved in making decisions about how quickly different thresholds of care standards, for example, should be rolled out and you would monitor information leading up to the decision-making process. Similarly, you would have been involved in considering the lack of investment committed to water infrastructure over the past three or four years.

Andrew Goudie: The OPS is involved at a far less detailed level than you are suggesting.

The Convener: I am trying to clarify the position.

Andrew Goudie: Fundamentally, the OPS is involved at the level of the commitments that are set out in the partnership agreement. We were not involved in the design and preparation of the much more detailed strategies and targets within portfolios, responsibility for which rests with portfolio ministers. The link between the two is that, if concerns about a partnership agreement commitment are identified through the monitoring process, the Cabinet collectively—and the Minister for Finance and Public Services on its behalf—will engage in more detailed discussions with the portfolio minister and seek to understand what strategies that should contribute to meeting that commitment are not going as well as expected and what more might be done at that level.

Dr Murray: Thank you for your explanation of how the system operates, which can be confusing to outsiders. Clearly, it would be inappropriate for me to ask you how objectives or targets are chosen, because those are ministerial decisions. Although civil servants advise, the responsibility for such decisions rests with ministers and questions about them should be directed at ministers. You are involved in monitoring, analysing and reporting on progress. From the available budget documentation, we find it difficult to see how the targets and so on tie into the strategic objectives and how the money that is invested reflects the Executive's priorities. Do you have more of a handle on that? Are you able to

indicate to us how targets are monitored to ensure that the overall objectives are met? How are you monitoring the objectives of growing the economy and ensuring that services become more efficient and effective? We have difficulty making connections of that sort.

Andrew Goudie: Your example of the economy is a good one. We have to be careful not to look too mechanistically at where the expenditures sit in any table. If we take the example of growing the economy, it is easy to fall into the trap of assuming that the Enterprise, Transport and Lifelong Learning Department is the area of the Executive that contributes to growing the economy. Indeed, the annual expenditure reports and so on encourage us to take that view.

The important thing is to go back to the basic strategic work of the Executive and examine what the Executive views as being the fundamental drivers of whatever the area of policy is that is being considered. For example, elements relating to the economy are well laid out in the earlier versions of the framework for economic development and, in the case of the enterprise network, in "A Smart, Successful Scotland". Those documents lay out what the basic strategy is and what the key drivers of the policy objective are.

The way in which to consider the issue is to go back from the strategy to the spending documents and examine how spending is allocated in the spending document towards those drivers of economic development. The First Minister has made it quite clear that, as well as the expenditure that takes place on the enterprise and lifelong learning side, he sees the transport infrastructure and the education system as being fundamental contributors toward the development of the economy. I agree that the documents do not set out the information in quite the way that I have described, of course.

The same sort of approach is required in relation to an examination of the targets. The targets that relate to that much broader strategy need to be considered rather than the targets for a narrow area of the work of the Executive.

Ms Alexander: You mentioned that the PIU is involved in some work on public services productivity. Could you say something about the nature of that work?

Liz Lewis (Scottish Executive Office of the Permanent Secretary): As you know, the unit is headed by Nick Parker, who has come in from the private sector and is working with us on a part-time basis. He is working with small teams of civil servants and bringing in private sector expertise from outside as appropriate. We have asked him to help us with the kind of work that Mr Kerr was speaking to you about last week, such as

backroom efficiencies, sharing backroom services, and e-procurement. He is using his private sector expertise to suggest ways in which we can better approach those areas and bring a private sector element into them.

Ms Alexander: When the Minister for Finance and Public Services was with us last week, he strongly emphasised the procurement side of things. That is obviously one dimension of public services' productivity. However, at that time, we highlighted an interest in the measurement of productivity, which might more appropriately lie with the analytical services group. Clearly, if all of us are to pursue the agenda that we were talking about earlier on, the measurement of public services' productivity and comparability in measurement with the rest of the UK are important. Obviously, a lot of work is being done elsewhere in the UK and it would be useful to get an idea of the Executive's thinking about public services' productivity.

Andrew Goudie: We agree that that area is important. There is no question about that. It is also an extremely difficult area in terms of measurement and the conceptual framework for understanding what exactly to measure in relation to both inputs and outputs. I do not say that by way of an excuse; it is simply a statement of the reality of trying to come to grips with a difficult question of measurement.

At the moment, the Scottish Executive's understanding of public sector productivity is poor. We are not alone in that, unfortunately; we share the problem with the UK and most other developed countries. The work that is being done in London as part of the Atkinson review is extraordinarily important in terms of trying to get a better understanding of how to go about doing that sort of work. We are in close touch with the review team, which visited us in February. We talked to the team and the team talked to various people across the departments, because much of the work revolves around defining public sector output in various sectors.

The sensible approach that we have adopted is to wait and see what Tony Atkinson comes up with. He is due to produce a provisional report in July and his final report will be published in January. It is difficult to predict what he will say in July, but we will consider what we can take from it. I have two approaches in mind. One is to see whether we can piggyback on the work of the review if it develops indicators that we can use readily. We would not do so mechanically, but there might be indicators that could quite easily read across. If we cannot use the specific output indicators that Tony Atkinson generates, the second possibility is that we may be able to use the basic principles that underlie his work and try to build on them in our work.

Everyone would readily agree that more work on the matter is needed, although we are conscious that the work is extremely difficult and probably quite resource intensive. Nonetheless, there are a bunch of reasons why people are deeply interested in it. People are interested partly because they want to know about the public sector's performance and partly because the work will guide the development of policy in the public sector. More broadly, people want to know about the performance of the national economy and GDP and so on. We have no difficulty in agreeing that the work is important.

Ms Alexander: That is enormously helpful. The committee will continue to show an interest in the matter because evidence-based policy must start with common agreement about the matrix.

I am aware of how resource intensive that work is and agree that piggybacking is the right way in which to proceed. However, as a precursor to the Atkinson review, the Office for National Statistics produced experimental productivity measures for England and Wales. Is it possible to ask the ONS, which has a UK-wide remit, to consider doing comparable work for Scotland, which might not be such a draw on the Executive's resources but would allow us to stay in step?

Andrew Goudie: That is a possibility, although the Atkinson review was established because of serious questions about what is going on at the UK level. The ONS is deeply concerned not only about the productivity measure but about its components, particularly the output side, which is a fundamental part of GDP. We could ask the ONS to do that work, but it has sufficient worries. It is probably worth waiting to see how the ONS works through those worries before we try to do further work.

Jeremy Purvis: In the bilateral ministerial discussions that have taken place since the new structure was put in place, have there been any examples of policy or budgetary changes?

Andrew Goudie: Obviously, I cannot report on the detail of bilateral meetings—you would not expect me to do so. However, the nature of bilateral meetings is that the Minister for Finance and Public Services, on behalf of the First Minister and the Deputy First Minister, undertakes a friendly challenge of the work that is being done in the portfolios. Policy changes have been discussed in the sense that, where specific partnership agreements have been seen to be at risk or to be moving more slowly than we might wish, the question has arisen of why that is the case. The policy is not always the reason why things are not moving fast enough—the implementation of policy can be just as important—but it is absolutely right that the nature of the policy is discussed.

Jeremy Purvis: You will be aware of the adding-it-up approach that the Cabinet Office strategy unit has taken in the past few years, one aspect of which is transparency. My constituents want to know why they are still waiting eight or nine months for an operation, but we get the answer that discussions between ministers are friendly chats. During our meeting in Motherwell, we questioned Richard Dennis about whether the discussions that take place are simply fireside chats. We remind you that you have a commitment to provide better public services for taxpayers' money. Where are the teeth within the structure that you have outlined? Is it the delivery unit that says, "Look, it's not working and you're not getting any more money until it works"? Alternatively, do people say, "Give us another six months and another £200 million and I'm sure that it will work after that"?

12:45

Andrew Goudie: That question should probably be directed to ministers as much as to me. The primary approach is in the first instance to identify through monitoring whether something is on or off track and then to find out why that might be the case. A strong emphasis is placed on taking a collaborative approach to understand why initiatives are not working as expected. The role of reducing funding and other steps is further down the line.

When early discussions take place, the emphasis is much more on understanding how matters can be made to work better through what you characterised as a friendly chat—some such chats are from being friendly. The purpose is to find a solution rather than a sanction at that time. Ultimately, it is for ministers to expose such conversations as they wish to when they report to Parliament or at other opportunities.

Jeremy Purvis: How do we communicate that to a wider audience than the minister and officials? We, the public and relevant professionals learn about that only if it results in a budget revision or a slight policy change. The approach is different from my understanding of the Westminster strategy unit's adding-it-up strategy, which is more evidence based. The adding-it-up implementation group has said:

"Main areas for further improvement identified by the AIU Implementation Group include: continued promotion of greater openness (transparency being a powerful lever for evidence based policymaking)".

The structures that you just outlined do not have that transparency.

Andrew Goudie: Ministers decide how they make matters transparent. Various opportunities for doing that are available. One is through the

functional committee structures in which such matters are discussed. Another is through the main parliamentary debates that take place. Ministers can make such announcements in other ways, too.

The process that I described is a forerunner by which ministers try to understand how they may improve how things are done before making decisions. Of course they will make those decisions at some point, but I am describing a process by which knowledge is gathered through and analysed in the system. Various groupings in the system advise ministers about the possibilities for improvement and ministers hold conversations bilaterally or collectively. At that point, ministers determine how they transmit that to the wider community.

Jeremy Purvis: I will return to that point.

Does the structure that you have outlined link with local authorities? Is it purely linked with Executive spend and Executive departments? I presume that it is linked with the health service, although that has its own internal structure. That leads on from questioning of previous witnesses. Many deliverers of public services are not within the Executive's direct remit. An element of local accountability is involved, which means that local decisions are made to fit local circumstances. How does your structure accommodate that?

Andrew Goudie: You are right to say that a significant proportion of the partnership agreement is in the hands of third-party deliverers. We are capturing the assessment of people in the Executive who have responsibility for different areas of government, wherever implementation takes place. For example, when the implementation of key partnership agreement targets sits in local government, responsible officials in the Executive monitor or sponsor those parts of local government. They report on progress towards meeting those targets.

Jim Mather: I am keen to return to a more macro level. Growing the economy is the top priority. Recently, the new chain-linking method of calculating Scottish GDP was adopted. That made little difference to the data from 1971 to 2001—the average rise in GDP over that period has moved up from 1.6 per cent to 1.62 per cent. However, the method produced an apparent initial improvement to Scottish GDP data in the short term, although that petered out in the fourth quarter of 2003.

The fundamental point is that that cries out for comment when considered through a business analogy. If a business sold, disposed of or de-emphasised a damaged division or subsidiary, it would face a loss on disposal of assets, redundancy payments and reorganisation costs.

Its cost of borrowing would probably go up. Its share price would probably come under threat. The competition would be aiming for its jugular, and others might even be moving in to try to take over what would be seen as a failing operation.

There is a second business analogy on which I want you to comment, and that is that no business would be allowed to rebase its performance comparison on a date as recent as 2000. That would show the corner shop and Tesco converging on the index of 100 from wherever they have come, which would be an amazing coincidence, then not diverging much from it in such a relatively short period of time. Why, when that would not be acceptable in the corporate arena, is it acceptable for Government to do that and to display data in such a way?

Andrew Goudie: The analogy is not particularly helpful, given that when we measure GDP we estimate rates of growth in a huge number of different sectors of the economy. The key question is how we take those rates of growth from 300-plus different sectors and weight them together into a single measure. If we go back to pre-chain-linking days, the weights that were used, which reflected the shares of the different sectors in the economy, were at best three or four years out of date, and at worst seven or eight years out of date. At that time, those were the only resources that were available to us in those areas.

The key issue, on which most people agree, is that the weights that should be used are the most recent ones that are available, because they reflect the current structure of the economy in the most acceptable way. The move to chain linking is fundamentally a way of trying to make those weights as current as possible. In practice, there are lags in producing data. We still have a lag of something like three years, but we hope to maintain that and, if possible, reduce it to two years. The reason for doing that is that fundamentally we believe that we will get a much more accurate reflection of the rate of growth in the economy by balancing the different weights of the different sectors.

On your point about companies, the key issue is that we are not trying to diminish in any emotional sense the effect of one part of the economy being in decline or reducing its output. We are simply trying to reflect its contribution to the economy. If over a period of years one sector declines very rapidly for whatever reason—you probably have in mind the electronics sector over the past few years, but we could take many other sectors—we want to capture that as accurately and as quickly as we can. It is not a question of trying to minimise and devalue the change in the economy; it is simply a question of trying to capture the relative importance of sectors.

Jim Mather: I hear exactly what you are saying, but if I were running a conglomerate and were able to have that same flexibility, I would never fear an annual general meeting, because I would always be able to emphasise the positive and de-emphasise the areas that were in decline and damaged.

To look at it from a different angle, GDP is clearly the only measure we have at present to monitor economic performance yet, in the recent Allander series of lectures, Nicholas Crafts told us that if Scotland could just achieve the same, relatively low, level of life expectancy that the rest of the UK has, we would enjoy a 21.3 per cent uplift in our GDP. What does that say for our current GDP figures and the confidence that we can have in them?

Andrew Goudie: In my mind it does not affect the degree of confidence that we have in the GDP figures. The point that Nicholas Crafts was trying to make was that were Scotland more successful in improving the health of the people, such that life expectancy in the country improved, the proportion of people who operate in the work force increased and their productivity increased, the total production and consumption of the country would increase, which is true. That does not necessarily have any bearing on the methodology that we use for measuring GDP.

Jim Mather: The thing that worries me about that is that a 21.3 per cent uplift would put Scotland well ahead of the UK average on published data. That sits particularly uncomfortably with real data on the movement in population, life expectancy, average incomes, new car registration, the value of houses and so on. It does not compute.

Andrew Goudie: I have no doubt that most of the things that you mention would have an impact on GDP per se because most of them will generate incomes in different ways; personal income is a key component of GDP so that will be picked up in our estimates. I am sorry, but I do not see how that relates to the methodology that we adopt—that is simply saying that if we had a different set of policies or there were different outcomes in terms of how people participated in the work force we would count more people, more production and more expenditure in the classic GDP manner. The methodology is independent of those particular policy successes.

Jim Mather: I have one final question.

The Convener: This is becoming a bit of an academic debate.

Jim Mather: Okay. Let me make it less academic.

Coming from the prosaic world of accounting, we are always interested in the cross-adds to verify data. When cross-adds do not cross-add the balloon goes up. When Nicholas Crafts states that we could expect a 21.3 per cent uplift in GDP, does the balloon not go up within the Scottish Executive?

Andrew Goudie: No, I do not think so. I am not sure about the precise point that Nicholas Crafts was making, but I understood that it related to more people being in the work force and producing more if their health was better and they did not die younger. The Executive would accept the obvious nature of that comment and agree with it. That is the sort of analysis—although I admit that we do not usually come to it from that direction—that underpins the comment that was made earlier about why the Executive has strong targets on smoking, coronary health care and so on.

People accept that if we increase the health of the population, that has value in its own right and it also makes an important contribution to economic development, because more people are able to work and fewer people have to care for people who are sick and so on. The Executive is well aware of that linkage with economic development—a balloon does not go up, because we are aware of the issue, which is embedded in many of the partnership agreement commitments.

Fergus Ewing: The witnesses will be relieved to hear that I offer no prospect of any academic debate.

I read the document entitled “The Framework for Monitoring Delivery” and it left me with a sense of incipient bafflement. I listened to Andrew Goudie’s introduction, which—truncated though it was—increased that bafflement because he described a series of committees and bodies: the delivery unit; the analytical services group; the finance group; the management group; the performance innovation unit; the ministerial support group; and last, but presumably not least, the Office of the Permanent Secretary.

Without being facetious about all that, if we want to try to achieve efficiency—to me, as a fairly simple person, that means making savings somewhere along the line—are there not too many committees? Should there not be one committee, headed up by the Minister for Finance and Public Services, who reports to the Cabinet—or have I lost all contact with the reality of the situation within which we all operate?

Andrew Goudie: One of the important things that we try to do is to integrate the various people in the Executive who have different skills in this area. One key aspect is the monitoring process, which in one sense is a fairly technical part of the

system. The analysis is obviously about much more than the numbers and the sheer technical side of the process; it is much more complicated. The reporting side is also crucial—whether that is reporting internally to ministers or to the external world.

The picture is complicated, as delivery of policy is partly to do with policy and partly to do with the availability of resources, determining the best means for delivering policy and having the evidence that allows us to move towards the most appropriate means of implementing policy. Those are different sorts of skills. What we have done in the process that is outlined in the table entitled “The Framework for Monitoring Delivery” is to tie those quite tightly into one framework. There are several committees, but the process has several stages, which in practice it is worth identifying as separate parts. I hope that the table shows some of the key stages that we go through in trying to bring all the knowledge to bear. Ultimately, the most important part of the process is the final discussion in which ministers decide how to respond to that knowledge and how to use it within their departments to make policy more effective in the future.

13:00

Fergus Ewing: When will that ministerial discussion take place?

Andrew Goudie: The next discussion—Liz Lewis will correct me if I am wrong—will be on 12 May.

Fergus Ewing: Surely the process must come to an end at some point—at least I hope that it does. When is it anticipated that that process will come to an end? Or have I misconceived the process?

Andrew Goudie: We do not conceive that that process will come to an end. I presume that delivery will always be high up the agenda, so it will always have to be continually monitored and responded to.

Fergus Ewing: Let me ask a simple question. Does the Executive write to quangos to ask them for their assessments of how savings in the expenditure that is planned within their remits can be effected? For example—if I may pluck one example at random—does it ask that of SNH?

Andrew Goudie: I do not know about SNH in particular, but such assessments are an integral part of the spending review process in which the office is involved. The Executive has a set of commitments and targets that it hopes to meet. As part of the spending review, the Minister for Finance and Public Services talks with all parts of the Executive, including the NDPBs, and

challenges them on how they are delivering those targets and the cost effectiveness of what they are doing.

Fergus Ewing: What savings has that achieved over the past five years? Can you share that with us?

Andrew Goudie: No. Perhaps Richard Dennis can say more about that, but I am not sure that we capture that saving in a single number.

The Convener: I want to pick up on a couple things before we close. First, I would like the full text of Andrew Goudie's opening statement, only a portion of which we heard earlier. Secondly, picking up on Fergus Ewing's last comment, I think that it would be helpful to get a sense of how the arrangements that have been described to us today work in the context of the spending review. For example, who makes decisions and how are decisions made between different competing priorities? We would certainly welcome a submission on how that process links into the arrangements that you have described.

As Wendy Alexander pointed out, I think that the committee will return to this subject. We have had a consistent interest in performance review and I anticipate that we will want to consider the issues in detail once the Atkinson and Gershon reviews have been concluded. There might be an issue about the timing of when that information becomes available, so we would certainly welcome any input from the Executive that could help us to decide about the timing of any inquiry that we might hold on that.

I thank the witnesses for attending today.

Items in Private

13:03

The Convener: I hope that we can be quick with the remaining agenda items. Item 3 is to consider whether to consider in private at our next meeting the draft reports on the financial memoranda to the School Education (Ministerial Powers and Independent Schools) (Scotland) Bill and the Breastfeeding etc (Scotland) Bill. Do members agree to that?

Members *indicated agreement.*

The Convener: The final agenda item, which is consideration of an approach paper on our cross-cutting review of economic development, including consideration of advisers, will be taken in private.

13:03

Meeting continued in private until 13:20.

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