

**FINANCE COMMITTEE****AGENDA****8th Meeting, 2001 (Session 1)****Tuesday 27 March 2001**

The Committee will meet at 10.00 am in The Hub, Castle Hill, Royal Mile, Edinburgh to consider the following agenda items:

1. **Committee Business:** The Committee will consider whether to take agenda items 5 and 6 in private.
2. **Budget (Scotland) Act 2001:** The Committee will consider a letter from the Minister for Finance and Local Government.
3. **Budget (Scotland) Act 2000 (Amendment) (No. 2) Order 2001:** The Committee will consider a letter from the Deputy Minister for Finance and Local Government.
4. **Voluntary Sector Funding:** The reporter, Donald Gorrie, will update the Committee.
5. **Budget Process 2002/03:** The Committee will consider arrangements for Stage 1 of the Budget Process.
6. **Timetabling of committee meetings:** The Committee will consider a paper on timetabling of committee meetings.

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The papers for this meeting are:

Agenda item 2

Letter from Minister for Finance and Local Government FI/01/8/1

Agenda item 3

Letter from Deputy Minister for Finance and Local Government FI/01/8/2

Agenda item 5

Letter from Minister for Finance and Local Government PRIVATE PAPER

Paper from the Clerk PRIVATE PAPER

Agenda item 6

Committee paper: timetabling of committee meetings PRIVATE PAPER

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March 2001

I agreed to respond to in writing to a number of questions raised by the Finance Committee as part of the 2001-02 Budget Bill Parliamentary Process. On 8 February an email provided answers to 13 of these queries. It has taken some time to get satisfactory answers to the two remaining questions, however, I am now able to supply you with a complete set of answers.

ANGUS MACKAY

RESPONSES TO QUESTIONS RAISED AT FINANCE COMMITTEE 2ND MEETING, 2001

HELD ON TUESDAY 30 JANUARY 2001

RURAL AFFAIRS DEPARTMENT

1. Page 29 – Water Authorities

asked by Andrew Wilson

Q – *“The second point is about the interest that is coming from the water authorities, as outlined on page 38. Almost £29 million is paid to the Scottish consolidated fund. Will you describe what that is and how it is calculated? Could you also do that in relation to the line on interest to non-Scottish consolidated fund?”*

A - **Interest Payments to the Scottish Consolidated Fund (SCF) and non-SCF (Public Works Loan Board, National Loans Fund and European Investment Bank) are calculated based on the principal of the loan and the prevailing interest rate. All loans are maturity loans i.e. the principal is not paid off until the maturity date. The figures set out in the Budget Bill are the estimate of the total amount of interest to be repaid in-year to each of the various lenders, based on a forecast of the loans outstanding at the end of the year.**

DEVELOPMENT DEPARTMENT

2. Page 45 – Motorways & Trunk Roads

asked by David Davidson

Q – *“The top of line 43 appears to show a dramatic decrease in the capital budget for motorways and trunk roads. Is that because alternative funds have been provided, which are not included in the budget?...Have alternative funding streams such as private finance initiatives or public-private partnerships mad a difference to the figure?”*

A - **The decrease of £11 million in capital funding is due to the reclassification of roads improvement works under Resource Accounting and Budgeting. This funding now forms part of the operating budget which has increased by £73.433 million. The figures have not been affected by alternative funding streams such as PFI /PPP.**

3. Page 49 – Other Transport

asked by David Davidson

Q – *“On page 92, there are two lines: ‘Freight Facilities Grant’ and ‘Piers & Harbours Grants’. There is a major increase in those over three years. Can you indicate which programmes those refer to?”*

A – **Piers & Harbours Grant**

There are 6 piers/harbours to be assisted in 2001-02 (not 16 as shown in Budget Docs): Tarbert (Harris), Oban, Kennacraig, Tiree, Scrabster and Lerwick. Alternative or additional projects may be added since the allocation of provision for 2001-02 has still to be finalised.

Freight Facilities Grant

A number of applications are under consideration for funding in 2001-02. £4.5m has already been committed via awards announced previously and for projects where construction work will continue into 2001-02 such as BP’s WH Malcolm’s railhead projects at Grangemouth and the renovation of Lochaline Pier, Morven by Innesund Paperboard.

4. Page 50 – Grant to Caledonian MacBrayne

asked by

Q – The budget for this Programme was reduced from £6.3 million in 2000-01 to £0.371 million in 2001-02. Where will the additional capital funding for the operation of lifeline sea services come from once the Executive is in the position to go out to tender? Is this likely to happen during 2001-02 or in later years?

A – **Under European rules, the former system of grant aiding the construction of new vessels for Caledonian MacBrayne has to end. We are in discussion with the Commission on how the new system will operate. Once we have reached agreement we will consider the funding implications of the new system.**

5. Page 65 – Community Ownership

asked by Andrew Wilson

Q – *“...can I ask about page 65, which shows that capital expenditure on regeneration and development is taking a considerable tumble? I do not remember that from previous budget consultations, at any stage. I expect that to be of interest to the Social Justice Committee. Can I request further information on that as it becomes available?”*

A – **The reduction in the capital budget is partially offset by the increase in the operating budget. There is an additional £44 million of resources available to repay debt which is not shown in the budget figures.**

6. Page 73 – Social Exclusion, Equality and Voluntary Issues

asked by Donald Gorrie

Q – *“On page 74, there is a line called “Voluntary Issues” and another called “Equalities and Equality Development”. Could you give us a rough idea which voluntary issues are dealt with under that heading? I assume that there are voluntary activities that would come under the education department and so on.”*

A – **The Executive will give around £35 million direct grants to the voluntary sector in 2000-01. This includes the Voluntary Sector budget of £7 million for generic voluntary organisations by Executive Departments. A database of these grants has been placed with the Scottish Parliament Information Centre. Indirect grants to the sector total around £270 million, for example through Health Boards, Scottish Homes, Local Enterprise Companies. Voluntary Issues covers resources on the following:**

- **Voluntary Sector - to provide grants to the Scottish Council for Voluntary Organisations, Volunteer Development Scotland and to the material networks of Councils for Voluntary Service and Local Volunteer Development Agencies.**
- **Councils for Voluntary Service network – to develop the strategic role and build capacity in the national network of Councils for Voluntary Service.**
- **IT support – to provide resources for investment in IT, in particular sustained IT support and training.**
- **Active Communities – on implementation of the Active Communities Initiative.**
- **Scottish Criminal Record Office – payment for work undertaken.**

Resources could be allocated to voluntary organisations although generally the Equalities budget would not directly fund the voluntary sector. The Executive wants to encourage the involvement of the voluntary sector in promotion of mainstreaming and equal opportunities. The Equalities and Equality Development budget is used to:

- **support departments in the development of mainstreaming;**
- **develop an equality communications strategy including a framework of national guidance on translating and interpreting;**
- **develop effective mechanisms of consultation and dialogue with equality interests and communities;**
- **support the development of tools, guidance and training on mainstreaming;**
- **develop research and information to support the mainstreaming of equality;**
- **devise equality performance indicators and monitoring and evaluating frameworks; and**
- **promote equal opportunities in the wider Scottish context.**

There are voluntary activities under other departments including the Education Department.

EDUCATION DEPARTMENT

7. Page 105 - Scottish Public Pensions Agency

asked by Andrew Wilson

Q - *in the case of NHS superannuation, for example, the contribution from employees and employers will rise from 66 per cent to 75 per cent. That means that there will be a proportionately greater contribution from employees and employers. What is driving that change?...An extra 10 per cent call on the employees represents quite a big shift."*

A – **The estimated NHS pension payment figures for 2001-02 are a product of the Comprehensive Spending Review (CSR) which was conducted on a three-year cycle. Therefore, the budgeted figures do not take account of unknown and sometimes discretionary events, such as lump sum payments to retiring staff, which fluctuate from year to year. In future the estimated pension figures will be determined annually. Pensions is a reserved matter with any shortfall between pension payments and contributions being met from the UK Consolidated Fund therefore employees contributions will not rise by 10% in 2001-02.**

ENTERPRISE AND LIFELONG LEARNING DEPARTMENT

8. Page 119 – SAAS: Expenditure within DEL

asked by David Davidson

Q – *“Page 119 refers to performance targets. Could the Minister explain how he and his department will audit those targets, and what the cost of doing that will be to his department?”*

A – **In 1999/2000 both Audit Scotland and the Scottish Executive Audit Unit (SEAU) scrutinised the validation of performance against targets and arrangements for Corporate Governance. SEAU is due to conduct a further audit of these areas in February this year. SAAS reports its performance against key targets in its annual report and accounts each year.**

9. Page 129 – Scottish Enterprise

asked by Andrew Wilson

Q – *“...on page 129, on Scottish Enterprise, that the number of jobs that are associated with inward investment projects is targeted to fall from 19,300 to*

8,000. That is a substantial drop of 11,000. That is neither ambitious nor challenging. Would you pass a request from the committee to the Minister for Enterprise and Lifelong Learning to review why she seeks such a considerable fall?"

A – The annual target for 1999 onwards of 8,000 ‘jobs associated with assisted inward investment projects’ was set prior to knowing what was achieved in 1999-2000. Locate in Scotland’s activities are now increasingly targeted towards high-value projects, which are often associated with the creation of smaller job numbers and the target of 8,000 planned jobs for 2000/2001 reflects this.

HEALTH DEPARTMENT

10. Page 154 - Hospital, Community and Family Health

asked by David Davidson

Q – “...the second line refers to income from a variety of sources, but there is just a single figure. A range of things have been lumped together, including commercial activities and taxation in the form of prescription charges collected by dispensing doctors, pharmacists and hospitals. It would be very helpful to have a breakdown of those major sources of income. A single figure for prescription charges would be helpful, for example...”

A – The income figure (£38,697k) can be split between prescription charges (£33,524k) and other income (£5,173k). It is not possible to break down the other income figure as it relates to miscellaneous income from a number of bodies and this information is not currently collected.

SCOTTISH EXECUTIVE ADMINISTRATION

11. Page 203 Administration

asked by Andrew Wilson

Q – “It appears that the share of the budget spent on administration has risen this financial year, even though reducing that figure was one of last year’s targets. Why has that figure risen this year, and on what basis do you think you will reduce it next year?...why is it going up this year and how it was going to be reduced for next year.”

A - The reason the share of the budget spent on administration has risen in 2000-01 is due to the take up of underspend carried forward from 1999-00 which is required to meet running cost pressures in 2000-01 and 2001-02 as a result of devolution. A 3-year settlement for administration has been agreed that will result in a declining share of the budget being taken up by

administration. That will arise through a range of efficiency measures and modernisation of the way the Executive conducts its business.

12. Page 205 Administration

asked by Andrew Wilson

Q – Do you have any more information about the total costs of the SAH refurbishment in previous years and the year covered in the documents? Likewise can you provide information on the related costs for capital developments such as Victoria Quay

A - **St. Andrew's House Refurbishment Project** – approval for the project was given in August 1998 with a budget of £20 million. We expect the project to be complete late in 2001 within budget. The main areas of work covered by the project are the installation of Impressed Current Cathodic Protection to arrest corrosion of the steel frame, the installation of a shallow raised floor to facilitate modern information and communication technologies and the replacement of the original window frames, heating distribution and lighting systems. Expenditure to date is broken down as follows: 1998-99 £1.5m, 1999-00 £7.1m, 2000-01 (projected) £5m. We expect that of the £20 million budget £12.8 million will be capital expenditure and £7.2 million will be current expenditure.

Victoria Quay – was not a Scottish Executive capital project. It was purchased by Property Holdings Scotland (part of the Department of the Environment responsible for the management of the Government Estate) for occupation by the then Scottish Office. The purchase price was £46.78 million pounds excluding VAT.

FORESTRY COMMISSION

13. Page 235 Forestry Commission

asked by Andrew Wilson

Q – *“I want an explanation of the £45million and £46 million sums under cost of capital. ...how the forest is valued. Is it the timber value or the recreational use?”*

A – **The capital charges in relation to the FC were calculated by the standard method of applying 6% to the estimated average value of assets. The estimated average asset value [fixed assets + net current assets (excluding cash)] applied for 2001-02 was £770 million. Valuation of assets (Forest Estate) is carried in line with the Agency's Accounting Policies, that is:-**

“the forest estate and land classified as plantable reserve is revalued every five years by regional valuation panels, taking account of the species mix, age, yield class and other relevant factors. The open market value assessment is carried out on the basis of the forest estate being sold in an orderly manner as between

a willing seller and a willing buyer in full accordance with public accountability and assuming its existing use. It is further assumed that no restraints exist, as they do in practice, from title, statute and environmental considerations. “

14. Page 235 Forestry Commission

asked by David Davidson

Q – *“What is the value of the business that the Forestry Commission has in timber production?”*

A - **The estimated total production in Scotland is 4.2 million cubic metres of which the Forestry Commission (Forest Enterprise) share, at 2.8 million cu.m. is about 65%. The FC forecast timber income of £36.3 million is netted off the operating budget and is therefore not shown on the face of the Budget.**

FOOD STANDARDS AGENCY

15. Page 243 Food Standards Agency

asked by The Convenor (Mike Watson)

Q – *“...the operating budget. It is lower in 2001-02 than 2000-01. Does that simply reflect start-up costs? The net operating budget is a bit lower. There must have been start-up costs. If there is another reason, I would be interested to know.”*

A – **Yes, the reduction in FSA Scotland’s Budget is because of the removal of start up costs.**

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7 March 2000

The committee raised a number of queries during the meeting of the Finance Committee on 6th February to which I indicated I would reply in writing.

I attach responses to the detailed questions on the Spring Budget Revisions.

I hope this is helpful.

PETER J PEACOCK

**RESPONSES TO QUESTIONS RAISED AT FINANCE COMMITTEE HELD 6th FEB
MEETING, 2001.****Scotland's Spring Budget Revisions (SE/2001/4)****DEVELOPMENT DEPARTMENT**

1. Page 18 – Development Department (Level 2- Local Government)

asked by The Convener

Q – *“the transfer of £31.7 million to the education department from the local government budget to cover payments for additional funds for schools. Will you, or one of your officials, explain the reason for that transfer?”*

A - This amount is an element of the UK Budget consequentials originally recorded during the Autumn Budget Revisions. It was distributed to LAs on a formula basis to enhance the budgets of all schools in their areas. As such it should more properly be regarded as a specific grant (outwith AEF) and this transfer formalises the accounting procedures for this method of payment.

It was originally received directly into the Education Vote during the Autumn Budget Revisions and transferred on to DD during the same exercise. This was done as it was believed the expenditure would be treated as part of RSG. As noted above the provision is more properly regarded as a specific grant and the provision was transferred back to Education as a result.

2. Page 18 – Development Department (Level 2- Local Government)

asked by David Davidson

Q – *“The top line of page 18 is: ‘Transfer from Health Department for Bed Blocking’. Is that a contractual payment, or is it an allocation system to local authorities only?”*

A - As announced by the Deputy First Minister on 4 July 2000, £10 million from the £34 million of the central reserve reserved for health-related initiatives was allocated to local authorities to provide community care services for the elderly and to tackle delayed discharges thereby freeing up blocked hospital beds. It is estimated that this additional funding will have bought about 1,000 home care packages during this year. For technical reasons the funding from the central reserve was taken up by the Health Budget at the Autumn Budget Amendment and transferred to the Local Authority Budget at the Spring Budget Amendment however this technical delay should not have affected the expenditure on the ground.

EDUCATION AND LIFELONG LEARNING DEPARTMENT

3. Page 44 – Education and Lifelong Learning (Level 2- Scottish Higher Education Funding Council)

asked by Andrew Wilson

Q – *“Could you say something about the Open University overpayment, minister? Part (b) also says that £5 million is being transferred to the Department for Education and Employment in respect of Open University overpayment.”*

A – From April 2000 responsibility for financing the Open University student places in Scotland transferred to the Scottish Higher Education Funding Council (SHEFC). Discussions took place that involved SHEFC, their English counterpart the Higher Education Funding Council for England (HEFCE), DfEE and SEELLD to agree the cost of the Scottish element in order that DfEE could transfer the relevant monies to SEELLD. A figure of £13.454million was agreed and duly transferred during FY2000-01.

However, towards the end of the last calendar year we had some contact from DfEE concerning this transfer which was to be in respect of academic year 2000-01 funding (i.e. August 2000 - July 2001). HEFCE asked that DfEE recover from us the element that was transferred but doesn't fall to be paid in FY2000-01. They were within their rights to do this and our Finance colleagues agreed and arranged to return £5.014M as part of our Spring Supplementary process. The fact that the £13.454million spanned 2 financial years had been overlooked by all concerned at the time but this would have been taken into account in negotiating future year transfers.

HEALTH DEPARTMENT

4. Page 58 – Health Department (Level 2- Hospital, Community and Family Health Services)

asked by The Convener

Q – *“We will move on to deal with the health department. Minister, on page 58 the figure under the level II heading that jumps out and hits me is the £56 million decrease because of "Revision of NHS Trusts' External Financing Limit". What proportion of the total resources available to trusts does that represent? How was that figure of £56 million arrived at? How often might we expect to see revisions of that sort?”*

A - As explained by Deputy Minister for Finance to the Committee on 6 February, the reduction in the Budget element of the NHS Trusts' external financing limit does not represent a reduction in resources available to NHS Trusts but reflects a change to the way that Trusts are funding their capital expenditure. At the start of the year the Department budgeted that Trusts would be likely to increase the overall funds held in their bank accounts by just under £5 million. This figure is non-voted and therefore did not appear in the Budget documents which were presented to Parliament. NHS Trusts are now reporting that they estimate that,

in reality, they will be drawing just over £51.5 million out of their bank accounts in 2001-02. The reduction of £56.368 million (the difference between these two figures) shown in the Spring Budget Amendment reflects the movement from voted to non-voted funding. The NHS Trusts overall external financing limit has in fact increased from -£22.871 million at the start of the year to £10.256 million, an increase which reflects the additional £30 million for equipment that the Executive has put into NHS Scotland during the year. The National EFL will not be changed again in 2000-01 but it is likely that individual NHS Trusts' EFLs will alter in the run up to the year end due to slippage in individual projects. The EFL is a cash control mechanism and therefore with the introduction of Resource Budgeting from 2001-02 will no longer form part of the Health Budget.

SCOTTISH EXECUTIVE ADMINISTRATION

5. Page 86 – Scottish Executive Administration

asked by The Convener

Q – : *“I have a question on the same table in regard to the figure for the transfer of capital budget to current budget as a result of the refurbishment of St Andrew’s House. It is a fine art deco building and I hope that the refurbishment will maintain that. Where do the costs stand for that refurbishment, which seems to have been going on for some time?”*

A - Approval for the St Andrew’s House refurbishment project was given in August 1998 with a budget of £20m and we expect the project to complete late in 2001.

6. Page 86 – Scottish Executive Administration

asked by David Davidson

Q - : *“On the same point, will the note refer to the costs of the move out of New St Andrew’s House?”*

A - In relation to New St Andrew’s House the Scottish Executive had no continuing liability in relation to New St Andrew’s House. New St Andrew’s House was held on a lease by the Secretary of State for the Environment. The building was the responsibility of Property Holdings, part of the Cabinet Office, with the Scottish Office as the occupying Department. Under the Scotland Act (1998) New St Andrew’s House did not transfer to Scottish Ministers but remained the responsibility of Property Advisers to the Civil Estate (PACE, the successor Cabinet Office Agency to Property Holdings).

Part of the rationale for the move of the Scottish Office from New St Andrew’s House to Victoria Quay related to the cost of asbestos removal from New St Andrew’s House. This work was carried out and funded by PACE in advance of the negotiated sale to the Royal Bank of Scotland.