

## FINANCE COMMITTEE

### AGENDA

18th Meeting, 2001 (Session 1)

Tuesday 11 September 2001

The Committee will meet at 10.00 am in Committee Room 2 to consider the following agenda items:

1. **Declaration of Interest:** The new Committee members will be invited to make a declaration of any interest.
2. **Committee Business:** The Committee will consider whether to take agenda items 6 and 7 in private.
3. **Financial Reporting Advisory Board (FRAB):** The Committee will consider a letter from the Minister for Finance and Local Government.
4. **Police and Fire Services (Finance) (Scotland) Bill:** The Committee will consider a paper on the Bill's progress at Stage 1.
5. **External Research Projects:** The Convener will update the Committee.
6. **2002/03 Budget Process:** The Committee will consider the arrangements for Stage 2 of the 2002/03 Budget Process.
7. **PFI/PPP Inquiry:** The Committee will consider a paper from its adviser on the structure of the inquiry.

Callum Thomson  
Clerk to the Committee  
Room G.6, Committee Chambers  
Tel. 0131 348 5215  
Email: [callum.thomson@scottish.parliament.uk](mailto:callum.thomson@scottish.parliament.uk)

The papers for this meeting are:

**Agenda item 3**

Joint letter to the Minister for Finance and Local Government FI/01/18/1

Response from the Minister for Finance and Local Government FI/01/18/2

**Agenda item 4**

Paper on the Police and Fire Services (Finance) (Scotland) Bill's progress at Stage 1 FI/01/18/3

**Agenda item 5**

Letter from the Minister for Finance and Local Government FI/01/18/4

Response from Professor Arthur Midwinter FI/01/18/5

**Agenda item 6**

Options paper for meeting outside Edinburgh PRIVATE PAPER

Draft guidance for subject committees at Stage 2 of 2002/03 budget process PRIVATE PAPER

Paper by the Clerk PRIVATE PAPER

**Agenda item 7**

Paper by the Clerk PRIVATE PAPER

Paper by Professor Peter Jackson, Adviser to the Committee on PFI/PPP inquiry PRIVATE PAPER

**From the Conveners of the  
Audit & Finance Committees**

Angus MacKay MSP  
Minister for Finance and Local Government  
Scottish Executive  
Victoria Quay  
Edinburgh  
EH6 6QQ

May 2001

**Determination of Accounting Policies**

Thank you for your recent letters enclosing final drafts on the proposed form of arrangements for the Financial Reporting Advisory Board (FRAB).

The Committees have considered the drafts and have requested two additions to the terms of reference; namely at paragraph 2.1(f), that the FRAB annual report be sent to the Audit and Finance Committees in addition to the PAC and the Treasury Select Committee of the UK Parliament and at paragraph 3.1 that the independent economist be appointed after discussion with the Chief Economist at the Scottish Executive.

Subject to these additions the Committees were content with the arrangements.

**CONVENER**

**CONVENER**

Minister for Finance & Local Government  
**Angus MacKay** MSP

Victoria Quay  
Edinburgh EH6 6QQ

Andrew Welsh MSP  
Convenor  
Audit Committee  
The Scottish Parliament  
EDINBURGH  
EH99 1SP

Telephone: 0131-556 8400  
scottish.ministers@scotland.gsi.gov.uk  
<http://www.scotland.gov.uk>

30 May 2001

Dear Andrew

I have considered the matters raised in your joint letter with the Finance Committee dated 10 May 2001 and my officials have also consulted with Treasury officials.

Given the need to co-ordinate laying before the Westminster, Scottish and Northern Ireland Parliaments I believe this is best done by officials. The guidance covering reports, papers etc which Ministers wish to lay before the Scottish Parliament imposes the following requirements.

One copy is required to be formally laid, a copy is to be sent to the Minister for Parliament and a further 20 copies made available in **SPICe**.

Copies are to be provided to the Clerk of the relevant Committee which are sufficient to ensure one copy for each member and a copy for the Clerk.

Paragraph 2.2.d requires the Scottish Ministers to lay the Board's report before the Parliament. The arrangements above will ensure that the report of the FRAB reaches the Committees at the same time as it is laid before the Parliament.

You asked that paragraph 3.1 be amended such that the independent economist be appointed after discussion with the Chief Economist at the Scottish Executive. Treasury is strongly of the view that they wish to retain sole responsibility for this nomination. I do not believe the matter is sufficiently important to press the Treasury further. The present appointee is Professor David Mayston, Professor of Public Sector Finance, Economics and Accountancy of the University of York. Extending such a right to one would mean conceding it to Northern Ireland, possibly the Health Sector and other groups which are planned for inclusion within the FRAB's remit.

I believe that with a say in the selection of the Chairman and 2 Scottish nominees we have ample representation.

In the light of the above I would hope that your Committee would now be able to indicate agreement to the arrangements attached to my letter of 17 April 2001.

A copy of this letter goes to Mike Watson, Convenor of the Finance Committee, and to the Clerk to the Audit and Finance Committees.

**ANGUS MACKAY**

## **Police and Fire Services (Finance) (Scotland) Bill**

### **Background**

The Parliament agreed to designate the Local Government Committee as lead for consideration of the Police and Fire Services (Finance) (Scotland) Bill and that the Bill should also be considered by the Finance Committee and the Justice 1 & 2 Committees.

Under Standing Orders Rule 9.6.1 the Finance Committee is not obliged to report on the Bill, it merely has the option to do so. At the Finance Committee meeting on 12 June, it was agreed that since the Local Government Committee was to have a number of evidence-taking sessions, an update would be provided for this Committee after recess.

The Justice Committees have decided not to report on this Bill.

### **Consideration by the Local Government Committee**

At its meeting on 26 June 2001 the Local Government Committee took evidence on from—

- Iain Gray MSP, Deputy Minister for Justice
- Bill Hepburn, Head of Branch 1, Justice Department, Police Division 1
- Bill Giles, Head of Branch 1, Justice Department, Fire Service and Emergency Planning Division
- Alan Williams, Solicitor, Office of the Solicitor to the Scottish Executive.

The evidence taken related to the way in which the Bill seeks to amend the Police (Scotland) Act 1967 to provide for the carry forward of unspent police funds by joint police boards (which was a recommendation of the 1998 Accounts Commission Report, "Credit to the Force").

The Local Government Committee will be taking evidence on 4 September from:

- Chief and Assistant Chief Fire Officers' Association
- Association of Chief Police Officers in Scotland
- Accounts Commission
- COSLA.

I shall update the Committee on 11 September on the nature of the evidence taken by the Local Government Committee on 4 September. The Local Government Committee is intending to finalise its Stage 1 report by 18 September with publication to follow shortly thereafter.

## **Recommendation**

The opportunity to take evidence on the implications for the police and fire boards as well as local authorities as a result of this Bill would appear to be fully covered by the lead committee's Stage 1 inquiry.

Accordingly, the Committee is invited to agree that it shall not report on this Bill.

Mike Watson  
31 August 2001



# SCOTTISH EXECUTIVE

j ããíÉÑé-cã~ãÄÉ-C-i çÄ-ãdçîÉcãã Éái  
 ^ãÜ ëj ~Äh~óçj pm

s áç cá-nì ~ó  
 bÇãÄì éÜÜ-be S-Sn n

Mike Watson MSP  
 Convenor  
 Finance Committee  
 Room 4.6  
 Parliament Headquarters  
 Scottish Parliament  
 Edinburgh  
 EH99 1SP

qÉãÉ ÜçãÉVMNPURRS-UQMM  
 éÄçíãÜM ããíÉççj éÄçíã-ãÇÜéãÜçî K á  
 ÜíéWì ì ì KÄçíã-ãÇÜçî K á

g áÉ-OMN=

Thank you very much for your letter of 23 May which enclosed your committee's external research report by Professor Arthur Midwinter and Jim Stevens of the University of Strathclyde. Your letter asked for a response by 12 June and, in particular, asked for my view on four recommendations to increase the information contained in the annual budget publications.

In general, I believe that Professor Midwinter and his colleagues have done a thorough job for the committee. I have asked my officials to look at the analysis of UK price inflation and spending trends. If we have any detailed views, I will provide them to you in due course. However, I agree with Professor Midwinter's conclusion in paragraph 6.16 where he says; "In our view, GDP deflator provides as good a guide to the likely level of inflation as any."

I also endorsed the report's view that its acceptability within government and the ability to compare inflation across programmes and across the UK means it is the measure of inflation we should continue to use in our budget documents.

I was also interested to read the report's review of programme expenditure. It is difficult to be precise in any one year, of the scope for changing programme expenditure. But the report makes a convincing case that the scope for making change is constrained by a number of factors.

I have some difficulty, however, with some of the recommendations for specific changes in terms of information that should be included in our "annual budget framework document". The remainder of this letter deals with these points.

I think we could provide a rough assessment of the scale of resources available for allocation across programmes. That would, however, needs to be a rough estimate based on my judgement. The



report sets out various constraints against making rapid savings. Part of my job is to judge what is possible within those constraints and there is inevitably a large amount of judgement in that. If your committee was willing to accept these caveats, we will attempt to provide that information.

I believe, however, that the second recommendation on presenting a package of budget options would be much more difficult. I agree with the element of the recommendation on outputs: we need to make more clear in all of our budget documents the output that the Executive plans to deliver for its spending. However, the role of the Executive is to decide the best set of options to make use of the Scottish budget and to present it to Parliament. However, I would be happy for individual committees (or the Finance Committee as co-ordinator for this) to producing their own options for the Executive. I would gladly provide the resources to cost those options to the best of our ability. But I believe the initiative should come from the Parliament in the first place. If it was possible for committees to work together on options during the first phase of the budget process, we would have some time during the summer recess to consider the options and to cost them in time for presenting the draft budget in the second phase in September. I hope that you can identify why I believe this case would be more in line with the respective roles of the Executive and the Parliament.

I think it would also be feasible to provide an annual statement for each capital programme outlining its existing commitments. There is a fair element of forecasting in this since we published the Annual Expenditure Report a year ahead of the financial year beginning. Some slippage in capital programmes could take place during the intervening period. Nevertheless, we would try to provide the best possible estimate.

I was a little uncertain about the form of the final recommendation. It appears to suggest that the Executive's budget document should identify a programme of expenditure reviews of cost cutting programmes. Nevertheless, the text of the document makes it clear that these reviews would be undertaken by committee's. Again, I believe that it should be for the committee's themselves - perhaps with the Finance Committee in the lead proposing and conducting their own reviews. While committee's would no doubt wish to take formal evidence from Ministers and officials, I would also be happy to help in informal ways in establishing these reviews.

As your letter mentions, we are due to meet to discuss the budget process. I would be happy to discuss any of the above comments at that meeting.

**ANGUS MACKAY**

27 July 2001.

Mike Watson MSP,  
Room 4. PHQ,  
Scottish Parliament,  
Edinburgh EH99 1SP.

Dear Mike,

Thank you for the copy of Angus McKay's response to our report. You will not be surprised to learn that I am very pleased with both the complimentary comments and the positive response by the Minister. He goes a long way towards accepting our conclusions.

Moreover, the Minister's concerns over the recommendations regarding 'options' and 'expenditure reviews' can be easily addressed. He has *misunderstood* my recommendations! (Probably my message was not clear enough).

Let me clarify further. Firstly, my budget options proposal is *exactly* what the Minister is proposing. That is,

- (a) the Executive should recommend its proposals to Parliament, made clearer with a statement of outputs; and
- (b) the Committees should generate additional options (around 1%) for consideration and comparison with the Executive's set of options. Committees can then highlight and recommend alternatives on an informed basis.

This is precisely what I recommended. I think the Minister is assuming that we want the budget options package to be *wholly* generated by the Committees. This is not the case, and what *he recommends is in line with our report.*

Secondly, a similar confusion arises over the expenditure reviews of cross (not cost!) cutting programmes. Our suggestion *is* that the *finance committee* should have the lead and conduct these reviews – not the Executive in its budget documents.

The Ministers response offers a solid basis for development, and is a good example of what can be achieved when a Committee adopts a non-partisan approach and bases its conclusions on solid research. I am simply delighted with the outcome, which will further strengthen parliamentary control of the public finances.

Yours sincerely,

Professor Arthur Midwinter

cc. Jim Stevens