

## FINANCE COMMITTEE

### AGENDA

**19th Meeting, 2001 (Session 1)**

**Tuesday 25 September 2001**

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Committee Business:** The Committee will consider whether to take agenda items 5, 6 and 7 in private.
2. **External Research:** The Convener will update the Committee on the award of the research contract on Outcome Budgeting.
3. **Voluntary Sector Funding:** The Committee will consider an update report.
4. **2002/03 Budget Process:** The Committee will consider the response from the Minister for Finance and Local Government to its Stage 1 Report.
5. **PFI/PPP Inquiry:** The Committee will consider a revised paper on the structure of the inquiry.
6. **Annual Report of the Finance Committee:** The Committee will consider a draft Annual Report for the Parliamentary Year 12 May 2000 to 11 May 2001.
7. **Meeting outside Edinburgh:** The Committee will consider a revised paper.

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The papers for this meeting are:

**Agenda item 3**

Update Report on Voluntary Sector Funding

FI/01/19/1

**Agenda item 4**

Response from the Minister for Finance and Local Government

FI/01/19/2

**Agenda item 5**

Paper by the Clerk

PRIVATE PAPER

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

PRIVATE PAPER

**Agenda item 6**

Draft Annual Report of the Finance Committee

PRIVATE PAPER

**Agenda item 7**

Paper by the Clerk

PRIVATE PAPER

## Voluntary Sector Funding Update

### Background

At its meeting on 27 February the Finance Committee agreed reporters should be appointed to investigate the possibility of conducting a fairly rapid and limited review focusing on the main issues of funding for the voluntary sector. Donald Gorrie MSP agreed to come back to the committee with a remit for the Committee to consider.

After considering a paper at its meeting on 27 March, the Finance Committee agreed a two-stage remit for the reporters. The first stage was to respond, before the summer recess, to the Scottish Executive consultation paper, *Review of Funding for the Voluntary Sector – Direct Funding from the Scottish Executive*. The second stage was to feed into the Scottish Executive's proposed wider strategic review in due course.

### Progress to date

At its meeting on 26 June, the Committee finalised its submission to the consultation document. The submission was the result of views presented by voluntary organisations on the specific questions posed in the consultation document and also served to inform discussion on the proposed wider strategic review.

The timescale and remit of the wider strategic review have not been announced by the Scottish Executive, however there is a plenary debate scheduled for 26 September on the Executive's support of the voluntary sector. It may be that details of the wider strategic review will be announced then.

The Social Justice Committee are currently beginning a limited inquiry into various aspects of the voluntary sector which they hope will act as a 'snapshot' or 'health-check' of the sector, with the intention of highlighting areas which that Committee could concentrate on should it decide to embark on a full inquiry. The question of funding is one of the issues to be considered as part of this limited inquiry. The Social Justice Committee intends to report by Christmas.

### Recommendation

The Finance Committee is committed to undertaking its inquiry into PFI/PPP, which will run into the New Year and in addition has the draft budget and the Budget Bill to consider.

As the Social Justice Committee is undertaking its "snapshot inquiry" and expects to report by the end of the year, it is suggested that the Finance Committee awaits the publication of that report and reconsiders at that time whether it wishes to take any matters forward.

David McGill  
Acting Clerk to the Finance Committee



## SCOTTISH EXECUTIVE

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August 2001

### FINANCE COMMITTEE 10<sup>th</sup> REPORT 2001

I am writing to respond formally to your Committee's 10<sup>th</sup> Report. When we debated it on 28 June, I set out the Executive's initial response since we had only received the Report a day or two previously.

I was pleased for the Committee's acknowledgement of the improvements we have made in the Annual Expenditure Report. I want to continue to improve it both in terms of its content and presentation and in shifting the emphasis more towards what we achieve with expenditure rather than the amount we spend. That is, however, a continual and gradual process. We cannot make a quantum leap in a single year.

I also mentioned in the Committee's debate that we would be happy to learn from each experience elsewhere in the world. Nevertheless, we already publish more information and at greater length than other administrations. But we can learn from the experience of other countries in dealing with both equality in budgeting and in budgeting for outcomes.

Finally, I would say by way of introduction that the budget process has significant costs for the Executive, both in terms of the opportunity cost of Finance and departmental staff and in the publication of documents. This year's Annual Expenditure Report has twice as many pages as last year's and we also published a summary report for the more general reader. Many of your Committee's current recommendations come with a potentially large price-tag. There may be potentially more cost-effective solutions to some of the recommendations that I would like to explore before taking them forward.

For ease of clarify, I have set out the 14 conclusions and recommendations contained in your report followed by the Executive's response.

## Principal Conclusions and Recommendations

**1. It is evident that the Annual Expenditure Report (AER) is a better document than *Investing in You* (last year's equivalent). Most importantly from our perspective, for the most part, subject committees were able to undertake a review of the activities of the Departments which they shadow, something which largely did not happen last year due to the failings in content and presentation of *Investing in You*. (paragraph 5)**

I agree that this year's report is a better document. However, I was disappointed that recommendations of committees were again about process rather than the substance of the budget itself.

**2. We recommend that the Executive produces a document, with timescales, setting out how progress is to be made on moving towards a system of outcome budgeting and in establishing independent performance evaluation measurements to facilitate comparisons between elements of programmes. (paragraphs 37 and 38)**

I am happy to have a continuing dialogue with your Committee about a move towards improving our budgeting. As your Report acknowledges, it will take years to deliver fundamental change in the way we consider our budgets. Having recently met the Finance Minister of New Zealand (where steps towards outcome budgeting are ahead of most countries) I am in no doubt of the difficulties and the time this will take.

We will need to amend our current budget plans following the UK Spending Review next summer. I would like to take that opportunity to make the first moves towards a budgeting system that gave more emphasis to outputs and the impact of expenditure. Perhaps once that has been completed, we can review progress and consider future action. However, I believe it would be very difficult to set out a document with timescales at present.

As part of that process, I also want to see an improvement in our performance indicators. I am not convinced, however, of the need for independent measurement of these. The data on which our performance indicators are based are largely collected by the Government's Statistical Service. I would, however, be happy to discuss this with the Auditor General as the Committee suggests.

**3. The Parliament and the Executive must work together to ensure that the objectives of the budget process are achieved. We recommend that the Minister for Finance and Local Government should impress upon his colleagues the importance of standardised presentation of information within the budget process. (paragraph 13)**

I would be happy to emphasise to my colleagues the need to standardise certain information in our documents. However, your report also recommends (recommendation 12 below) that we should substantially improve the level of detail of information in the health and local government chapters next year.

To some extent, I agree with both recommendations. We do need to improve consistency of information in its presentation between chapters. However, I also believe that the detail in the larger spending departments should be greater than those in the more minor departments. (I do however have another point to make in response to recommendation 12.)

**4. We recommend that a leaflet, outlining the main aspects of the expenditure plan, is produced and distributed widely and that the Executive undertakes research to ascertain the effectiveness of the existing AER formats and reports the results to us. (paragraph 8)**

As I mentioned in the debate, we produced a leaflet last year but it considered it to be too concise and therefore produced a summary document for public consumption. As I mentioned in my introduction, this is an expensive process. One option would be to encourage more of a move towards electronic documents to cut our printing costs on the large reports. I will also ask my officials to investigate the cost of undertaking research to assess the effectiveness of the existing formats.

**5. Although fundamental changes in relation to the provision of outcome information in next year's AER are not expected, further changes are required within the existing parameters to increase transparency and accountability next year. (paragraph 40)**

As I mentioned previously, I am happy to work to improve the transparency in the accountability of our documents each year.

**6. The clarity of next year's AER would be aided by the inclusion of a table showing clearly (not netted out) the sources of income from; last year's budget, comprehensive spending review consequentials, UK budget consequentials, Barnett consequentials, end year flexibility, UK DEL reserve, Scottish DEL reserve, non-domestic rate and other similar income. (paragraph 41)**

I think, strictly speaking, the Committee's interest is in sources of funding rather than income. I am happy to consider a table that brings together our sources of funding. The list contained in your Committee's recommendation is, however, a little curious. Many of the sources of income mentioned are the same source. We already include separately the amount of end-year flexibility that will come into the budget and our non domestic rate income. Funding from the Scottish DEL reserve is not income since it is already shown in our spending plans. The others mentioned (last year's budget, Comprehensive Spending Review consequentials, UK budget consequentials and Barnett consequentials) are all effectively the same thing. I will nevertheless endeavour to explain our sources of funding as clearly as I can.

**7. Next year's AER should also provide, for each chapter, a table showing funding for new burdens, to cover anticipated levels of inflation and new or expanded initiatives (para 46) and the PFI/PPP table containing information on the capital spending on private sector projects be reinstated. (paragraph 62)**

(This appears to relate to paragraph 45 of your Report rather than 46 as it states.) I do not believe it is possible to separate out funding for new burdens, inflation or new initiatives in the simple way suggested. If subject committees wish to concentrate upon scrutiny of increased funding for initiatives, I believe they would be better doing so through engagement with their departments rather than seeking it in a highly condensed form in a document such as this. In relation to the PFI/PPP table (which appears to be mentioned in paragraph 61 rather than 62) I would be happy to reinstate this.

**8. Policy areas specified by departments as priorities in the AER should reflect evidence of consultation having taken place, including commentary on any changes vis-à-vis comparable levels of priority among competing policy areas and any consequent changes in funding proposals. Consultation on policy matters must be done “with the price tags attached”. (paragraphs 16 and 17)**

I am very keen to encourage Departments to make as clear as possible the financial implications of policies when they consult on them. Indeed, when policy proposals come to Cabinet, they must include the costs. As Peter Peacock pointed out to your Committee, financial memorandums must also set out the public expenditure implications. I cannot, however, see the value in repeating a consultation exercise in the AER or in producing a commentary, which would undoubtedly be fairly lengthy, on the priorities that were considered against this and the potential costs. Again, I believe that if a subject committee has a particular interest in alternatives to policies, they should ask their department for particular evidence on that policy. (That process need not necessarily happen at the same time as the AER is being considered.)

**9. Future AERs should make reference to other policy documents and should show clearly the linkages between policy development and expenditure allocations (paragraphs 48 and 50)**

I am happy, where appropriate, for future AERs to make reference to other policy documents. I do not believe that it should, however, become an encyclopaedia of everything that the Executive publishes. I did not, however, read paragraph 48 of your report to recommend this. It contains a criticism of the Health Department implying that policy is being made with no idea of the costs of implementing it. As you can imagine, I am very keen to improve the financial discipline attached to policy making.

**10. Equality matters must advance beyond discrete policy documents to become embedded in the budget process and thereby mainstreamed. We look forward to incremental improvement in next year’s AER and recommend that the Equal Opportunities Committee liases directly with the relevant departments on how its recommendations can be taken forward and to specifically agree a realistic target for inclusion in next year’s AER. (paragraphs 23 and 24 and 26)**

I also agree that we should see incremental improvement in next year’s AER in terms of its dealing with equality matters. Rather than see this become embedded in the budget process, I am very keen that it becomes embedded in our policy process and that the policy flows through into Finance. I would also be happy to see the Equal Opportunities Committee liase with the relevant departments on its recommendations.

**11. A more robust approach to target setting is needed and particularly in areas of big spend, more disaggregated information is required. (paragraphs 56 and 57)**

I agree with the Committee’s recommendations on improving our target setting. We have work under way to improve this and I would be happy to see subject committees propose better performance indicators or targets covering their areas.

**12. The Health and Community Care and Local Government Committees should enter into dialogues with their respective departments and the finance division to substantially improve the level of detail of information provided in those chapters and agree in advance what is to be included in next year’s chapters. (paragraphs 50, 57 and 58)**

I am happy for the 2 Committees mentioned to liase with their respective departments. It will undoubtedly improve consideration of our budgets as subject committees gain more of an

understanding of the departments they cover. However, I am not convinced that every single piece of interaction or reporting need be covered in one document. It may be of more help if committees were to indicate directly to departments the type of information they wish to see. That could be put forward in either the AER (perhaps where it followed our general format) or in a separate memorandum to the Committee. Given the difficulties we have in producing our budget documents to a tightly constrained timetable, it may also be possible for subject committees to gain this information on a slightly different timetable.

**13. The nature of Treasury involvement in end year flexibility considerations should now be made absolutely clear and greater clarity on the types of circumstances where it will be appropriate for bids to be made to access the UK reserve should be provided. (paragraphs 67 and 69)**

I have tried to make it clear that on a number of occasions, and on the record, how access to the UK reserve works. It is contained in the Statement of Funding Policy which is a public document. I do not believe that the existence of unallocated funding in our own departmental expenditure limits threatens our access to the UK reserve. All Whitehall departments are encouraged to have similar reserves. Over recent years the Treasury has encouraged departments to live within their own provision and will generally only give access to the reserve in extreme circumstances and if departments seem likely to have spent all their existing funding by the end of the year. As I said in the debate, we may be called to use our own reserve this year or next year to fund additional costs of Holyrood. That is certainly not a matter where we would get additional funding from the UK and, if it were not for our own reserves, we would have to cut planned spending on some of the Executive's priorities to meet a call for higher spending by the Parliamentary Corporate Body.

The Treasury involvement in end-year flexibility is quite simple. The Westminster Parliament votes a grant to Scotland in the same way as our Parliament votes money to Scottish Ministers on an annual basis. If we do not spend it one year, it must be voted for the following year. We therefore have to notify the Treasury of our underspend in one year and seek an increase in our grant for the following year. The overall UK EYF comes out of the Treasury reserve and it is voted by Westminster in a Supplementary Estimate. When our grant has been enhanced, we allocate the money to expenditure in Scotland through a Budget Revision submitted to your Committee. I trust that this clarifies matters.

**14. We recommend that officials from the finance division meet with colleagues from spending departments to go through the reports of the subject committees to agree on what issues are to be addressed by which department to ensure that all conclusions and recommendations (throughout this and the subject committee reports) are responded to by the end of August.**

I have asked my colleagues to respond to the subject committee reports by the end of August. The Finance Division is currently co-ordinating an exercise to ensure this is taken forward.

I hope that you find the above comments generally helpful. I believe we share the same agenda in improving the rigour with which you manage public spending in Scotland. Where I have disagreed with your Committee's recommendations, it is generally in terms of the process to reach that end. I would be happy to discuss any of these in more detail if you wish.

**ANGUS MACKAY**