FINANCE COMMITTEE

Monday 20 November 2000

£5.00

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now
trading as The Stationery Office Ltd, which is responsible for printing and publishing
Scottish Parliamentary Corporate Body publications.

CONTENTS

Monday 20 November 2000

FINANCE COMMITTEE

26th Meeting 2000, Session 1

CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Mr David Davidson (North-East Scotland) (Con)
*Rhoda Grant (Highlands and Islands) (Lab)
*Mr Adam Ingram (South of Scotland) (SNP)
George Lyon (Argyll and Bute) (LD)
*Mr Kenneth Macintosh (Eastwood) (Lab)
Alex Neil (Central Scotland) (SNP)
Mr Keith Raffan (Mid Scotland and Fife) (LD)
*Dr Richard Simpson (Ochil) (Lab)
*Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Charles Armstrong (Aberdeenshire Council)
Councillor Raymond Bisset (Aberdeenshire Council)
Bill Boyes (Grampian Health Board)
Alan Campbell (Aberdeenshire Council)
Dr Peter Collings (Scottish Executive Finance Department)
Graeme Dickson (Scottish Executive Finance Department)
Colin Donald (Scottish Enterprise Grampian)
Ed Gillespie (Scottish Enterprise Grampian)
Dr Adrian Graves (Robert Gordon University)
Amanda Harvie (Aberdeen Chamber of Commerce)
William Howie (Voluntary Service Aberdeen)
Councillor Len Ironside (Aberdeen City Council)
Ken Ledingham (Voluntary Service Aberdeen)
Richard Lochhead (North-East Scotland) (SNP)
Lewis Macdonald (Aberdeen Central) (Lab)
Professor Frank McIntosh (Robert Gordon University)
Angus MacKay (Minister for Finance and Local Government)
Mr Mike Ord (University of Aberdeen)
David Palmer (Scottish Executive Finance Department)
Douglas Paterson (Aberdeen City Council)
Barry Richards (Voluntary Service Aberdeen)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Graeme Elliot

LOCATION

Aberdeen Council Chamber

Scottish Parliament

Finance Committee

Monday 20 November 2000

[THE CONVENER *opened the meeting at 09:51*]

Budget Process

The Convener (Mike Watson): I welcome everyone to the 26th meeting of the Finance Committee. As I always say at the start of our meetings in Edinburgh, please ensure that mobile phones are switched off and that pagers are set to silent.

It is a great pleasure to be in Aberdeen. This is the first time that the Finance Committee has met outwith Edinburgh. It is not the first time that a Scottish Parliament committee has done so, but it is the first time that a Scottish Parliament committee has taken evidence from a minister at a meeting outwith Edinburgh.

The Finance Committee regards today's meeting as the start of a process within the annual budget process. At stages 1 and 2, we plan to visit parts of the country to take evidence on the budget proposals. It is important that the people of Scotland connect with their parliament and with the budget process that will affect all their lives in due course.

I thank Aberdeen City Council for making us very welcome today. We have a heavy programme this morning and the Minister for Finance and Local Government will be with us in the afternoon. I am sure that we will have a productive day.

We have had apologies from committee members Keith Raffan, Alex Neil and George Lyon.

We will get down to business by hearing from our witnesses from Aberdeen City Council. I understand that Councillor Len Ironside will say a few words.

Councillor Len Ironside (Aberdeen City Council): Thank you. I welcome the committee to Aberdeen. We are delighted that the Scottish Parliament is reaching out to places such as Aberdeen. That is tremendous for democracy.

We welcome the opportunity to comment on the spending plans for Scotland for the next three years. We support, in principle, the key priorities for local government, in particular the modernisation of the local government finance system to achieve grant distribution that provides more stability and transparency, and takes account of need. Our director of finance, Gordon Edwards, was a member of the Convention of Scottish Local Authorities-Scottish Executive strategic issues working group that considered those issues.

We note that the grant distribution figure for each council will be published in early December. Given that nearly all councils will take advantage of the change in regulations that will allow council taxes to be collected a month earlier than usual, budgets will have to be set in mid-February. As a result, there is a tight time scale between the announcement of the three-year grant figures and the finalisation of budgets.

The city council welcomes the overall increase in funding allocated to local authorities over the three-year period. However, the Scottish Executive needs to be open and transparent about the assumptions that it has made in the three-year figures for salary and wage increases. We also want full and transparent funding of the recommendations of the McCrone report.

There must be clear analysis of the proportion of grant increase that is hypothecated or ring-fenced for specific service improvements. How much is available for improving and maintaining services will become clearer, and it is important that the Scottish Executive and local authorities have a shared understanding of that. In the past five financial years, Aberdeen City Council has faced budget reductions in real terms of around £75 million. There is a huge backlog of work to be done, in particular repairs and maintenance of the council's infrastructure, which has suffered more than its fair share of budget reductions.

The city council welcomes the recent announcement of the abolition of the expenditure guideline figures, as long as local authorities set council taxes for three years and increases are not excessive. The Scottish Executive needs to issue clear guidance in advance on what it regards as excessive council tax increases so that local authorities do not fall into the trap of setting what they consider to be reasonable increases, supported by the local community through a consultation process, only to find that the Scottish Executive considers the increase to be excessive and imposes retrospective capping. If the local authorities must work in partnership with the Scottish Executive, both parties must know the ground rules in advance.

I will hand over to the chief executive of Aberdeen City Council, Douglas Paterson, who will outline the situation in Aberdeen.

The Convener: We have allowed five minutes for opening statements from the three organisations.

Douglas Paterson (Aberdeen City Council): I understand the convener's point about keeping the presentations brief. Our presentation is in three parts. We have circulated notes to support it. I will highlight the main points, which will allow us to stay within the committee's timetable.

The first part of the presentation highlights the key issues for the local council in Aberdeen. One issue is the financial pressure that all public sector agencies in Aberdeen and the north-east are under because of the way in which funds are distributed. Within Aberdeen City Council, the issue is the net income per head of population, which we derive primarily from grant-aided expenditure and also from council tax. That is set out in the figures in the notes. The closest comparison among other cities is Edinburgh. If we had the same level of income as Edinburgh, we would have a net increase in our budget of £11 million. The increase goes up in comparison with other cities.

Aberdeen does relatively badly compared with other cities on other sources of income. We have set out the main charitable organisations on page 1 of the notes. Members will see that the north-east and particularly Aberdeen are not drawing in comparable levels of funding from the major funding bodies. The outflow of business rates is another issue. The city does not qualify for the bulk of European funding. Taken together, that means that funding for the public sector in the area is tight, which has the knock-on effect of making it difficult to lever in private sector money.

The second area that has been highlighted in the notes is the technical issues that Councillor Ironside raised. The particular GAE allocation problem for Aberdeen City Council is the social work allocation. Social work expenditure runs at around £8 million or £9 million more than GAE. Despite attempts to control the budget and to use the money in the most effective manner we can by working in partnership, in particular with the health authorities, there is a real difficulty. Research that has been done by Professor Midwinter seems to confirm that the budget is about £8 million below what is required to deliver the services in the city. That is probably the biggest single item. There are other items on which we are spending well over grant-aided expenditure; the biggest of those items, in percentage terms, is probably concessionary travel for older people.

There are technical issues that lead to the problems that are highlighted in section 1. On the issue that is of primary concern to the committee—the consultation process on "Making a Difference for Scotland"—Aberdeen City Council is very supportive of the direction in which the Scottish Executive is moving on three-year budgeting, and of the openness and transparency with which it is approaching the process.

10:00

Councillor Ironside mentioned the implementation costs of the McCrone recommendations. Our concerns about arts and sports are linked back to our inability to access money from some of the major funds for the future of arts and culture in the city, and we would like to see that area being developed. On enterprise and lifelong learning, there is clearly a buoyant economy in the north-east, and all parties want to ensure the long-term future of that economy. There are questions about whether we are geared up nationally to support success, as opposed to responding to failures, in the economy.

Housing stock transfer is a major issue for us at the moment. There are distinct differences between the situation in this area and that in the central belt; members may want to explore those differences with us. We support the processes that are under way to encourage social inclusion and to protect the environment, although the costs of greener methods of dealing with waste are high. Transport infrastructure is a major funding and policy issue in the north-east.

We are somewhat disappointed in the rural affairs section of the document. There seems to be a lack of focus on the fish catching and fish processing industries. That is a long-term and an immediate issue, both in the city of Aberdeen and in the wider north-east. The ramifications for employment if the industry were to face any disastrous cutback in fishing capacity would probably compare with the closure of Ravenscraig in central belt terms. On a pro-rata basis, that is what we could be facing.

We are moving rapidly on the modernisation programme and we would welcome any financial or policy support on that. We welcome the resource accounting and budgeting process, which we feel is a much more realistic way of dealing with issues. It also links back to investment in infrastructure, both maintenance and development. We have responsibility for the fire and police budgets, which is another area that we feel is underfunded in the north-east; that, too, requires investigation.

The Convener: Thank you, Mr Paterson. We will take all three opening statements before we begin to ask questions, so I invite Raymond Bisset of Aberdeenshire Council to make a statement.

Councillor Raymond Bisset (Aberdeenshire Council): Aberdeenshire Council also welcomes the opportunity to discuss the Scottish Executive's proposals with the Finance Committee. We agree with the three-year spending plan and with the minister's statement on flexibility. However, we believe that it is imperative that any proposed funding covers all the existing costs plus any new responsibilities that arise; I refer in particular to the McCrone report.

As far as additional funding is concerned, there is also a need to differentiate between the normal grant settlement and any money that is available to be bid for or as a specific grant. We need more detail on that, as we are not sure exactly how much is there for the grant settlement and how much is there to be bid for.

I want to expand on Aberdeenshire Council's current expenditure difficulties. We have specific concerns about the local distribution of grant, as opposed to the overall national picture. As far as we are concerned, there are tremendous problems associated with the present grant mechanism. It is inequitable and unduly complex; there are around 100 factors that influence the outcome. It favours traditionally high-spending councils and produces major differences among similar councils, giving some very perverse results. You will hear more about that from the director of finance.

The consequence of that grant system for us is that, over the past five years, we have had a major cash reduction of £57 million. That has to be balanced against the fact that Aberdeenshire has had one of the lowest expenditure-per-head figures in the whole of Scotland and one of the lowest council tax levels in Scotland.

When it comes to the national picture, we are also concerned that local government's share of the public service budget has been reduced from 40.1 per cent in 1996-97 to 36.5 per cent in 2000-01. In real terms, that represents a decrease in funding of 7.9 per cent for local government. If new money initiatives, such as the excellence fund, are included in the total, that also means less money for the existing services that we want to put money into.

We welcome the three-year spending plan, but we have grave concerns about the overall local authority settlement and, in particular, the failure to address inequalities in the grant settlement. We welcome the move to abandon GAE guidelines from 2001-02, but we would go further. We would remove all controls on revenue and capital expenditure, because we believe that there is a control through the gearing effect on the council tax level.

We do not think that the present options for simplifying GAE address the problems of the present system; there has been a lot of discussion with COSLA about that recently. There are two options: the block and formula option and the population update option. We do not think that that is the way ahead. We believe that what is needed is a system that regains the credibility that the present system has lost. What we have got at the moment should not form part of the new arrangements. What exists at present should be replaced by a simple formula based on eight factors, and I shall defer to our director of finance to expand on those. We accept, of course, that there would have to be a safety net to ensure that any council tax increases were acceptable.

The Convener: Thank you, Mr Bisset. I am rather concerned that we are taking up a lot of time with opening statements, so I ask Mr Campbell, the chief executive of Aberdeenshire Council, to be brief. Mr Bisset said that you were going to cover eight points, which suggests that your statement might take a little more than five minutes.

Alan Campbell (Aberdeenshire Council): I shall be very brief indeed, convener, and simply pass you on to the director of finance, Charles Armstrong.

Charles Armstrong (Aberdeenshire Council): I shall try to be brief, although not quite so brief as the chief executive. The convener of Aberdeenshire Council has outlined our concerns and I will speak briefly about distribution.

We recently commissioned a study by Albert Tait, the former deputy chief executive of COSLA, to investigate why Aberdeenshire seemed to be doing so poorly compared with many other authorities. Our expenditure per head of population is one of the lowest in Scotland—in 1999-2000, it was £1,236. Of course, Aberdeenshire's spending needs will not match the needs of many other councils. We are not in the same league as Glasgow City Council or the other central belt authorities.

We should consider Aberdeenshire Council's position relative to similar councils, as defined in the Accounts Commissioner's family of rural authorities. Even when Aberdeenshire's spending guideline and GAE are compared with those of other councils, its grant per head of population is 13 per cent below the Scottish average. Of the other councils in the same family of rural authorities, Argyll and Bute Council, for example, is 16 per cent above the Scottish average and Highland Council is 11 per cent above the Scottish average. There is a gap of some 29 per cent between the highest and the lowest in what are supposed to be comparable councils. We feel that that situation defies explanation by any logic.

The allegedly simplified system that is proposed for the distribution of GAE and grant between councils will perpetuate that situation regardless of whether the block and formula option or the population update option is chosen. The factors used in both those options have been specifically designed to replicate the existing distribution mechanism as far as possible. That is done with the laudable intent of minimising turbulence, which is worth while in its own right but not if it sacrifices equity for the sake of preserving the status quo. It also fails to address the question of convergence.

We contend that the distribution mechanism needs to be simplified. We have no difficulty in accepting in principle the eight factors that the Scottish Executive has identified as taking us forward in the distribution of grant, although the weighting of those factors needs some justification. We feel that using those factors alone should be sufficient to gain an equitable distribution of grant.

We accept the need to avoid excessive turbulence between councils and feel that that should be done not by preserving the existing system but by installing a suitable safety net that would prevent large losses by any individual council. Aberdeenshire Council has no way of knowing how a change to the distribution system would affect the council but we felt that, if the grant were distributed on a simpler and more understandable basis, the distribution process would have much more credibility than it does now.

The Convener: I ask Bill Howie, of Voluntary Service Aberdeen, to make a statement.

William Howie (Voluntary Service Aberdeen): I thank the committee for giving me the opportunity to make a submission this morning. VSA welcomes the substantial additional public expenditure outlined in "Making a difference for Scotland". Despite the city's affluent image in the media, many people in Aberdeen face social isolation and life on poverty incomes, including many older people and one-parent families. We warmly support the drive towards social inclusion, which is a major objective in our work.

The moves by the Scottish Executive to combat child poverty are strongly supported. Local authority social work intervention for children is inevitably targeted at the most critical cases—children at risk of being taken into care. Our social work team deals with 1,000 one-parent families each year. The families live mostly on a week-to-week basis, need help to buy shoes or clothing for their children and have limited social support networks. Our intervention is short term; it fixes the current problem and saves lots of families from debt. To prevent families from coming back in six months' time, more could be done to build up parenting and social skills, develop confidence, open up new opportunities and create routes out of poverty.

The significant extra funds that are being devoted to the care of older people in the community are warmly welcomed. Extra resources are needed to support people in their own homes. We acknowledge from our experience the continuing need for residential and nursing care homes, which also need proper funding. The Department of Social Security rate for those with preserved rights is some £50 to £60 a week below our economic charge. If housing benefit were available to meet accommodation costs in care homes, local authorities would have more to spend on such services. Local authorities need to be in a financial position to fund those and other essential services. Services with a proven track record need to be cherished as much as exciting new initiatives.

The proposal to establish a Scottish commission for the regulation of care is welcomed. However, the regulations at present can force older people to move from sheltered housing into residential care and on to nursing care as they become frailer, at a time in their lives when they can least cope with change. We want the system to be more flexible and to offer regulated services in different care settings.

Sound standards and good-quality services depend on well-trained staff. There is no proper and coherent funding system to enable the voluntary sector to train its growing work force.

We welcome the implementation of the Beattie report on post-school education and training for young people with additional support needs. VSA runs Linn Moor residential school, which deals with children from across Scotland with complex learning disabilities and challenging behaviour. The need for specialist post-school education and care provision for that group is one of our priorities to enable students to make the transition to adult life.

The significant strains on local authority finance over the past five or six years have had an effect on the voluntary sector as well. All too often, a standstill in grant aid meant a cut in services for vulnerable people who were dependent on them. We therefore welcome the improvements that are envisaged for local authority budgets in the coming years.

Members will be aware of the concerns of charities about the proposal to phase out water rates relief. If implemented, that would cost our agency £40,000 a year—another crippling charge on top of the VAT that is routinely paid, the new charges for refuse collections and the proposed charges for criminal record checks, which would be substantial for us, as we have 650 volunteers.

The Scottish Executive's positive approach towards working in partnership with the voluntary sector is welcome. In the north-east, the voluntary sector has played a vital role in developing new community care services. It is important that the general community regards us as partners, not simply as agents of the Government who are subsidising statutory services. We need to be able to retain our full independence and the support and good will of donors and volunteers to deliver the added value that the voluntary sector can offer. In the voluntary sector, there is a real willingness to play a part in providing good-quality services on an enterprising, flexible and non-profit-making basis.

10:15

The Convener: I thank both councils and the VSA for the submissions and supporting statistics that they have provided to members of the committee.

We now move to questioning. In addition to members of the Finance Committee, we are joined by local MSPs Lewis Macdonald and Richard Lochhead, whom I welcome. In the Scottish Parliament's committee system, any member of the Parliament can sit in on any committee and, with the permission of the convener, participate in the proceedings. They cannot vote, however, although that is not an issue today.

The Finance Committee can operate in respect of the budget process only within the total size of the cake. We have the power to propose an alternative budget at the end of the process—which is an interesting prospect—but we are not planning to do so this year. If money is to be moved from one area to another, that must be specified.

In that context, I have a question for Aberdeen City Council. Your submission shows that the net income per head of population is considerably higher in Aberdeen than it is in the other major cities of Scotland. To what extent does the relative prosperity of Aberdeen necessitate less spending on council services? I am not suggesting that there are no people in need in Aberdeen, but are there proportionately fewer than in Glasgow and Dundee? Are there other, underlying reasons for that disparity that you want to comment on?

Douglas Paterson: The factor that you mention is one of the major criteria for the allocation of money. The question is whether the weighting that is given to that factor is appropriate. The specific issue in Aberdeen—which our director of finance highlights in the notes that we have provided for the committee—is that the social work indicator of social deprivation is not working properly. That is acknowledged nationally, although it has been difficult to find an alternative. If, according to that social work indicator, we were to receive the funding that is currently required to meet expenditure, that would to a large extent close the gap between provision in Aberdeen and in Edinburgh. You are right in identifying that factor, but the weighting that is given to it is too great. That overall principle must be questioned.

In the north-east, the issue for all the public sector agencies is to ensure the long-term success of the economy. Many jobs in the central belt—and therefore social exclusion and employment factors in the central belt—are related to the buoyancy of the energy industry in the north-east. The oil companies produce maps with different colour coding to show where oil-related jobs exist in the UK. There is a relatively intense concentration of jobs that are related to the oil and gas industry in the north-east, extending as far south as the English midlands. There is a close and identifiable interrelationship between the success of our economy in the north-east and the ability to tackle social deprivation in large parts of the rest of the UK.

The Convener: I now open up the meeting to questions from members.

Mr David Davidson (North-East Scotland) (Con): Thank you, gentlemen, for your presentation. I agree with the point that has just been made. In both council areas in the north-east, there are pockets of deprivation—that fact is not highlighted enough. The removal of the structural funds makes a difference. I have great sympathy with some of the comments that have been made. Would both councils like to comment on whether we should be examining what councils should be responsible for while we are considering how we produce a new funding formula, so that we can achieve clarity at the centre of the budget process?

Alan Campbell: You will appreciate that, over the past several years, funding has been an obsession in local government. Underfunding has been a major concern. The modernising agenda has been about community planning across areas and functions throughout the public sector. It would be useful to examine the range of functions that come under the control of a council. That would make sense in the context of the community planning agenda to ensure the best use of public resources by targeting them to areas where they are most required.

Douglas Paterson: Aberdeen City Council would echo what Mr Campbell has said. There is perhaps also scope for the change in emphasis that the question envisages to cover the shift to output-based budgeting as opposed to input-based budgeting. If we are to consider the delivery of services across agencies, perhaps the important issue is the delivery of service by the public sector in conjunction with the voluntary and private sectors. I understand that the Scottish Executive intends to move in that direction as part of the overall planning of service delivery. That would assist the process.

Elaine Thomson (Aberdeen North) (Lab): This question is for both Aberdeen City Council and Aberdeenshire Council. You have both mentioned some of the difficulties related to GAE figures and the current distribution formulae. What impact do those have? Local government finance has been reviewed. We will move forward to three-year budgeting, review the distribution formulae and put in place a more straightforward formula. How will that improve the process?

Charles Armstrong: I will refer to a couple of examples, one of which we have highlighted in the papers that we circulated. One of the perverse results of the distribution mechanism relates to school transport. A council such as Aberdeenshire transports a certain number of pupils a year. That works through to an allocation of a figure for school transport through the GAE mechanism. In one year, we generated income or GAE roughly equivalent to £200 per pupil. A comparable urban authority—Glasgow—generated on an equivalent basis a figure in excess of £600 per pupil. That means that one council generated three times as much GAE as another council for the same activity. The needs in Glasgow may be different from those in Aberdeenshire, but we do not understand why they would generate an excess amount of GAE by a factor of three.

An earlier example involves the amount of GAE that Aberdeenshire generated for accommodation for the elderly. Another authority in the central belt—a different type of authority with a greater elderly population over 75—generated less GAE than Aberdeenshire did. Those are two examples of the odd results that the current GAE mechanism returns.

Douglas Paterson: We concur with the representative of Aberdeenshire Council. We have seen anomalies from one year to the next. GAE figures in some areas of culture—I think that the figures were for libraries—seemed to fluctuate from one year to the next, which made planning difficult. More stable and longer-term planning would be desirable.

One of the major anomalies of the indicator, which I may have raised in the initial presentation, relates to concessionary travel—this may be easier to get one's head round. The figure for concessionary travel for older people is calculated on the percentage of the population that is over 65. It takes no account of the uptake of concessionary travel or the degree to which services are available. As there is no correlation between the funding and the uptake, some local authorities receive more GAE funding than they need, but Aberdeen City Council's GAE funding falls well below the cost of the uptake. We provided one of the more generous schemes in Scotland—the maximum fare was 20p—for £3 million a year. The GAE figure was £1.375 million, so we had to find nearly £1.7 million from other parts of our budget to fund the scheme. We reduced the provision last year to only a half-fare, but even providing our pensioners with what looks like being the new national standard of half-fares will cost £2 million a year, and our GAE figure will remain at between £1.375 million and £1.4 million. The criteria that are being used to calculate the grant allocation do not match the reality.

Richard Lochhead (North-East Scotland) (SNP): As I am not a member of the committee, I welcome its members to Aberdeen and hope that they will have productive deliberations. It is a refreshing change to be just two and a half minutes away from a committee meeting, rather than the usual two hours.

I will return to a theme that was touched on at the beginning of the meeting. The perception that the north-east is affluent has a severe impact on the funding formula. The perception is that the north-east has an oil and gas industry and low unemployment, which means that the formula does not benefit the area as much as it should do. The Robert Gordon University published two reports last year: "Deprivation amongst Affluence: Social Exclusion in the City of Aberdeen" and "Rural Deprivation in the North East of Scotland: the Case of Aberdeenshire". Both reports highlight difficulties with the current formulae, which rely too much on averages and aggregates. I ask the representatives of the two councils whether that has been a huge problem. What has the Scottish Executive's response to the debate in the north-east been in the past year? Are we moving forward in tackling the problem?

10:30

Councillor Bisset: You are absolutely right. The current deprivation indicators do not take account of the dispersed nature of rural poverty; indeed, Aberdeenshire does not qualify for social inclusion partnerships. The problem is that the current measures use regional average indicators and fail to reflect pockets of social and economic deprivation that extend right across the north-east of Scotland. Fraserburgh, for example, contains areas of deprivation that are among the worst 10 per cent in Scotland.

The problem is that the cost of providing core services in rural areas is far higher, because of the cost of transport, for example. If someone lives in a city and is socially deprived, they can usually at least get on a bus and go somewhere to get advice. However, if someone happens to be in Cabrach, way out in the western part of Aberdeenshire, with no public transport and no motor car, they cannot go anywhere.

I do not know whether the Scottish Executive and COSLA take account of the fact that rural deprivation very much exists in this part of Scotland. The problem, as I said, is that the measures used at the moment are regional average indicators.

Councillor Ironside: Small pockets of the city of Aberdeen qualify for some social deprivation money—in relation to the great northern partnership, for example. We do not qualify under the general heading, which is why we receive so little of that sort of money. We do not qualify for European funding for deprived areas because most of the criteria are based on unemployment. Our unemployment level is below 3 per cent. That seems good, but if someone is deprived in an area that has such high levels of employment and affluence, it is difficult for them to find their way through life.

A recent report showed that the pockets of deprivation in Aberdeen were among the worst 10 per cent in Scotland. It is not good to use average figures. Wages in Aberdeen are about £200 above the average wage, yet if we consider what women in Aberdeen earn, we find that they are incredibly badly off. That is not equitable and that is where we suffer.

Mr Adam Ingram (South of Scotland) (SNP): Let me focus on the grant distribution mechanism. You are expressing your concern about the current review and reform of the system. Are you content with the methodology involved in reforming the mechanism? It appears from your evidence this morning that you have concerns about it and that you feel that your voice is perhaps not being heard—that, at least, is the impression that we are getting. Will you elaborate on that?

Charles Armstrong: We have expressed our concerns. We feel that the block and formula approach that appears to be finding favour over the population-based approach assists certain authorities more than others. Apart from that, Aberdeenshire Council does not feel that either approach leads towards a fairer distribution of grant. That is because both approaches have been designed specifically to replicate the existing distribution mechanism, which, as we have tried to show, produces perverse results and, especially in the case of the north-east authorities, leads to unfair and inequitable distribution of the grant. We reinforce the comments that we have made that we are unhappy with the proposals as they stand.

The other matter that I should mention is that the weighting of the eight Scottish Executive factors that would distribute an element of the grant on a new basis is somewhat suspect. For example, the weighting given to deprivation in the proposals is 21 per cent. That seems at odds with earlier Scottish Executive figures that indicated that less than 2 per cent of the current distribution arrangements were weighted towards deprivation. There seems to have been a huge increase in the deprivation allowance or the weighting of the deprivation factor, which, at the moment, we are at a loss to understand. We have asked for clarification on that.

The Convener: In your opening remarks you said that Aberdeenshire Council has one of the lowest council tax levels in Scotland. Why is that?

Charles Armstrong: The answer is simple; Aberdeenshire has very low council tax because we have a low level of spending. That is because we inherited a low spending base from our predecessor authorities. In effect we have, over the years, been heavily penalised because our guidelines have been set close to GAE, unlike those of many other authorities, which are above GAE. In other words, our spending has been forced downwards over the years and, as a result, we are forced to levy a low council tax. That is not through choice.

The Convener: I note that Councillor Bisset wants to comment, but we must move on to accommodate further questions.

Mr Kenneth Macintosh (Eastwood) (Lab): I ask Mr Paterson why, as well as the difficulties it has had with GAE funding, Aberdeen City Council has had difficulty accessing money from other sources. Why should Aberdeen lose out and be unable to attract that money? Is the problem that the council is not attracting the money, or is it that the criteria that are used by funding bodies are weighted towards factors that do not apply to Aberdeen? I would also like to hear from Mr Howie about the voluntary sector. I imagine that the picture in that sector is similar.

Douglas Paterson: On other sources of funding, we have never—because of the low unemployment rate in our area—qualified for the big blocks of money that are available under European structural funds. That is perverse, because such money is often provided for projects that are not directly related to unemployment or social deprivation. However, we have had difficulty in accessing that money for major infrastructure projects.

As far as I know, no overt criteria relate to deprivation in the allocation of the other sources of funding that we have listed in our submission. There is a general perception that the north-east is doing okay and that resources should be directed elsewhere, but there is a lack of logic in that. Projects for which we have had applications for funding knocked back include the development of His Majesty's Theatre, which is a major cultural resource and a major resource in terms of economic development. When we talk to companies that are considering relocating to Aberdeen, we know that the provision of such a service is very important. We were knocked back on a scheme to develop Union Terrace Gardens as a major open space in the city centre alongside private sector retailing and office facilities. We do not think that an adequate explanation has been given for why we fail to secure other funding for such projects. We can only assume that it is down to a false perception.

Mr Macintosh: Do you submit the same number of applications for millennium or arts funding as places such as Glasgow and Dundee?

Douglas Paterson: My suspicion is that we might not be submitting as many bids. However, there is a resource consideration in that, too. The bidding process is very expensive—that is something that we are aware of and that we might need to address.

William Howie: Our experience in the voluntary sector is that it is difficult to raise funds from national trusts. We were successful in getting £500,000 over three years from the national lottery to fund an anti-poverty project in Aberdeen. There is no doubt that that money was needed, or that it was taken up effectively and that it has achieved some valuable aims. However, when we reapplied for that money, the lottery had identified certain areas of Scotland—not Aberdeen—where there was large-scale social deprivation, rather than general deprivation, at which it wanted to target anti-poverty money. When any national fund receives applications from Aberdeen and Glasgow for similar projects, it is liable to favour the application from Glasgow.

Members probably know that charitable giving is also becoming more concentrated on the top 200 charities in the United Kingdom. Money is going in their direction because they have a higher profile. Less money is being donated to smaller charities. Many UK and Scottish national charities do not operate at all in the north-east of Scotland, where most of the services that are provided by the voluntary sector are provided by local voluntary organisations. We are therefore not drawing in as much money from outside as perhaps other areas do.

Dr Richard Simpson (Ochil) (Lab): I would like to address hypothecation and accountability. It is generally agreed that discussion should focus on moving towards outputs rather than inputs. How would central Government hold local authorities accountable for the delivery of the Scottish Executive's programme over a reasonable period?

When Sir Stewart Sutherland appeared before the Health and Community Care Committee, he estimated that between £50 million and £70 million that should have gone to the care of the elderly was being used in other areas of social work, usually children's services. The money was being used by local authorities, but it was being used to address a different priority. The result is a massive problem with delayed discharges in all the hospitals in Scotland. How can we hold the local authorities accountable in our new system of outputs?

Councillor Ironside: We would prefer targets that had been agreed between local authorities and the Scottish Executive, rather than ring-fenced pockets of money that we could not redirect to areas in which we wanted to use that money. Agreed targets would be the preferable way forward.

Lewis Macdonald (Aberdeen Central) (Lab): As the constituency member for Aberdeen Central, I welcome the committee to Aberdeen today.

I want to ask Voluntary Service Aberdeen about the pockets of poverty that have been described by the local authorities and others. How much are those pockets the result of economic rather than social issues? In other words, how far are they related to the structure in certain parts of the north-east?

My second question is for the local authorities. How far does the funding that is available for economic development and building future employment prospects allow you to plan ahead—over the medium term—for what will happen as the local economy changes? How far does that funding allow you to tackle the structural problems of poverty that exist in Aberdeen and Aberdeenshire?

Barry Richards (Voluntary Service Aberdeen): I hope that my colleagues will help me to answer. I shall address the scale of the need first. Mr Howie referred to the lottery project, which demonstrated the scale of the need that was not being met before we received the money. It also demonstrated that some approaches that we thought would work, do work.

The lottery grant comprised funding that we would give to people in the form of small grants for essentials to mitigate the immediate impact of poverty. That was helpful in itself and enabled some people to lift their heads from the daily grind and its immediate anxiety and to look for a way out of poverty, through the help that we offered. We offered that help through qualified social workers. Very importantly, we also offered opportunities for group work, whereby people who faced a common problem, lived in the same area and experienced the same difficulties and limitations could build up their confidence collectively and find a way forward.

For example, a group might have consisted of eight women who were single parents who were experiencing difficulties with child care, employment and confidence and who had been on benefits for so long that they could not see any hope. In some of those groups, by the end of the group-work period, everybody either was in paid employment or had a place on a college course. We could see that the groups worked. It is tragic when grants for such groups are cut off.

As Mr Howie said, for many of the funding bodies, the emphasis seems to have shifted from people in need to areas in need. That definitely penalises the Aberdeen area. We need to be responsive to the concentrations of poverty in Aberdeen.

10:45

Councillor Ironside: I shall answer the question on economic development. First, any general underfunding of local authorities will also hit the economic development budget of the local enterprise companies, and the recent cutbacks have put their budgets under severe strain.

Secondly, infrastructure is a big problem in this part of the world. We have recently created a joint plan to examine the transport infrastructure and a £247 million investment is needed for the whole of the north-east. The idea for a joint plan came up after work had been done between councils. Clearly, such funding is way beyond the capabilities of local authorities, which would be hit by under-investment. We cannot fund the peripheral route that we want to be built and we can see that other areas have had peripheral routes and bypasses funded. That has not happened in this part of the world and it is the cause of great concern for people in the north-east.

The business rate is important. The net outflow from the business rate in Aberdeen is about £30 million. If we were allowed to keep a portion of that, it would help the budgets of local authorities greatly. However, it all goes elsewhere.

Elaine Thomson: I want to continue on the theme of economic development. As Mr Paterson mentioned in his initial submission, the economic vibrancy of the area has positive impacts on the rest of Scotland and the UK. As Councillor Ironside said, it results in a net outflow of about £30 million a year. Will the substantial increase in local authority expenditure in the next three years give councils the flexibility that they need to develop the kind of infrastructure that Councillor Ironside referred to?

In the previous discussion, we talked about the distribution formulas, which are about to be reviewed. Is there a need to increase the importance within the formulas of the focus on economic development and the provision of infrastructure that would stimulate economic development? The support of local authorities is vital.

On the crucial issue of the ability of companies to attract staff to Aberdeen, I am aware, having talked to local companies, that the first thing that potential new employees ask about Aberdeen is what the schools are like. Schools are, of course, a local authority function.

Alan Campbell: I have been in local government in the north-east since 1968—just before the discovery of oil. We were able to provide infrastructure such as housing, water, education, roads and so on in the 1970s and we were able to do that because we had a greater degree of flexibility than we do now. I have often asked whether, were the oil and gas industry to arrive today, the current arrangements would enable us to provide the infrastructure in the same way that we did in the 1970s. There is a big question mark over that.

In the north-east, we maximise resources by getting the two councils together with the local enterprise company and the chamber of commerce. We are keen on that, but we feel immense frustration because we are finding it extremely difficult to tackle the decline in agriculture and the problems that face the fishing industry, particularly the white fish industry. Peterhead is the largest white fish port in Europe, but we know what will happen with quotas that relate to catching white fish in that area.

RAF Buchan will close in four years' time with the loss of 300 to 400 jobs and there are question marks over the future of Peterhead prison. We can envisage what will happen, but have neither sufficient control of the levers nor the flexibility to be able to respond.

The answer to Elaine Thomson's question is that we feel that we need to devote more to economic development.

Obviously, the oil and gas industry has plateaued—the number of jobs in those industries is declining by about a thousand a year, and will continue to do so for the next 30 years. We need to take steps to take account of that now, rather than in 15 years, when we will be reduced to a situation similar to that which occurred with Ravenscraig, to which my colleague referred.

The Convener: I must end the questions there. If any point has been made clear to me, it is the last point that was made about jobs in the fishing and the fish-processing industry.

I thank the two councils and VSA for giving evidence and answering questions, which has been an important part of the process. In particular, I thank Aberdeen City Council for hosting the meeting. I must end the first evidence-taking session, although one or two members have indicated that they would like to ask more questions. We are already ten minutes behind schedule and we have two more evidence-taking sessions.

10:50

Meeting adjourned.

10:56

On resuming—

The Convener: We will now take evidence from Mike Ord of the University of Aberdeen, Frank McIntosh of the Robert Gordon University and Bill Boyes of Grampian Health Board.

Mr Mike Ord (University of Aberdeen): The Scottish higher education sector is generally pleased that the Scottish Executive has recognised in the enterprise and lifelong learning key policy priorities the strategic link between a dynamic, modern economy and strong, vibrant universities. Higher education is now rightly regarded as crucial to wealth creation and vital to the development of a knowledge-based economy. Universities are key partners in the drive for a fairer, more inclusive society.

At Oxford last year, Tony Blair encapsulated the position. He stated:

> "Universities are wealth creators in their own right. This is shown in the value they add through their teaching at home; in the revenue, commitment and goodwill for the UK they generate from overseas students—a market we need to exploit as ambitiously as possible; and in their research and development which is of incalculable impact to the economy at large."

Universities' message to the Scottish Executive is direct: a vibrant Scottish higher education system, which maintains quality and is capable of supporting Scotland in the global economy, will be sustained only if there is a boost in the level of public investment in the short term. Without such investment, future success is at risk.

How do spending plans for the enterprise and lifelong learning programme map on to that aspiration? It will be helpful to highlight some of the key findings of the Scottish Higher Education Funding Council's financial analysis of universities' strategic plans over the Scottish Executive's spending period.

That analysis reveals a worrying decline in the higher education sector's operating position between 2000-01 and 2003-04. I will outline some of the key points of the analysis, which the committee might find interesting.

11:00

The figures show that the operating shortfall of the sector will be about £27 million from 2000-01 onwards, and that the operating surplus of the sector on aggregate is less than 1 per cent of income. The funding councils in Scotland and in England and Wales estimate that universities need an operating surplus of around 3 per cent of income per annum. However, as an accountant, I feel that even that benchmark is modest by the standards of industry and commerce. Within the overall figures, seven of the 18 higher education institutions in Scotland forecast deficits for 1999-2000, which means that 40 per cent of the sector is operating in continuing deficit.

Those tight operating margins reflect the impact of higher costs throughout the sector. Those costs have an especially heavy impact on the capacity of universities to make the investment that is necessary to maintain and enhance the quality of provision for students.

Sensitivity analysis shows that a small change in key assumptions would have a significant impact. In particular, cumulative annual reductions in public funding per student of 1 per cent would result in a decline in funding for the sector of about £6 million per annum.

It is forecast that liquidity, including short-term investments, will decline over the next three years from 53 days, as it is at present, to 21 days.

The condition of the estate has worsened significantly; 48 per cent of the estate is in the bottom two categories—C and D—of the Royal Institution of Chartered Surveyors classification system. However, capital expenditure on universities' estates infrastructure is forecast to decline from the current annual amount of £91 million to £69 million by the end of 2002-03, which represents a fall of more than 30 per cent.

The present level of recurrent grant funding and net contributions from universities' other income-generating activities is insufficient to finance all capital expenditure. However, the ability of universities to take on extra borrowing is constrained by our capacity to repay from operating cash flow.

The projected 8 per cent year-on-year cash increase in the allocation for the SHEFC for 2001-02 is very welcome in the enterprise and lifelong learning programme spending plans. That increase represents the first real growth in higher education grant allocation for several years. However, the planned cash increases for 2002-03 and 2003-04 are broadly in line with the gross domestic product deflator. After the costs of projected additional student places, widening access initiatives and so on—which we welcome—are allowed for, it appears that there will be little new money in the system.

If the spending plans are confirmed, the higher education sector will be in a significantly worse position in Scotland than the sector is south of the border, where David Blunkett—the Secretary of State for Education and Employment—last week pledged to reverse the fall in spending per student over the past decade and promised to boost university funding by £1 billion a year by 2003-04.

Bill Boyes (Grampian Health Board): We welcome the opportunity to address our comments on the spending proposals to the Finance Committee.

I want to say a few words on the budget cycle. We had initial concerns about the impact of the Scottish Parliament's process on budget announcements. However, the budget cycle this year, which has enabled us to be notified of our initial allocations in September, is helpful. That is several months earlier than on some past occasions; the earlier that we have that information the better. I ask that when national announcements are made on any additional funding, they are converted into what they mean for local organisations as quickly as possible, although we acknowledge the due process that must be followed.

The increased resources for the health service are welcome. At around 7 per cent, the annual increase for 2001-02 is a very reasonable settlement. Health boards have been issued with initial allocations, which are on a cash basis only. We await the resource accounting basis, which we understand will follow in due course. The year 2 and year 3 allocations have yet to be converted to a health board area. We understand that those will follow and will coincide with the launch of the Scottish health plan within the next few weeks.

I want to mention a couple of specific items on health and its interrelationship with other programmes. The early announcement of the continuation of the £10 million per annum for local authorities over the next three years, to help reduce delayed discharges, is helpful and will enable a sustained programme to be put in place to address that issue. Equally, the increased investment over the next three years in the Food Standards Agency ought to have a knock-on benefit on health and on the demand for health services.

A major part of the health allocation is the hypothecated tobacco tax of some £26 million per annum. That converts into just over £1.1 million per annum for this area in the current and next three financial years. That will enable us to continue and enhance our existing investment programme in improving health.

The proposals to invest in capital infrastructure are positive and key, both for capacity and for the quality of service. A word of caution, however, is that capital investment invariably brings with it a revenue tail. It would be helpful if national planning decisions took that into account in addressing the revenue implication.

On the extent to which the service can be enhanced and developed, we are at an awkward stage, as the general level of pay awards for the next financial year is not yet known. We understand that pay review bodies are likely to report in December or January.

There are significant issues regarding the working time directive. It is extremely positive in addressing the terms and conditions of key staff in the health sector, notably in relation to further reductions in junior doctors' hours and improvements to consultants' terms and conditions, including compensatory rest for disturbed rest periods. The calculation of holiday pay entitlements for nurses and others who routinely work shifts and are paid additional enhancements is a significant issue, the impact of which will be known in the next two to three months. Major planning decisions will have to be deferred to some extent until those issues are clearer.

Professor Frank McIntosh (Robert Gordon University): Good morning, ladies and gentlemen.

We strongly support the statement made by our colleague from Aberdeen University. We welcome the additional funding, but note that it is front-loaded. We are concerned about longer-term commitment and the sustainability of the funding pattern. Over the past 15 years, there has been a significant fall in the unit of resource in the sector as a whole. That has occurred during a period of increased productivity in the higher education sector.

In order to sustain an enterprise culture we need to recruit and retain highly qualified staff. That is becoming increasingly difficult, especially in certain high-technology areas, because of external private competition. Unlike many other universities, we are not sitting doing nothing about it. We are strong on enterprise. My university has three companies that provide funding support for the university and we are considering exporting education. We have highly successful contracts in many parts of the world, where, for example, we are exporting the oil and gas knowledge that we have acquired over the past 25 years. That not only benefits those countries, but acts as an income source for us.

In so far as we see a university contributing to the community and to the economy, there are some initiatives that we applaud. One welcome initiative, for example, is Scottish Enterprise and the proof of concept fund, which enables research ideas to be developed into concepts, thereafter—we hope—attracting external investment. We are aware, however, that that fund is fairly limited. I understand that the total fund requirement of finalists—if we can call them that—in the current round exceeds what is available by a considerable amount. I believe that that good form of funding should be encouraged and developed.

We agree with the Enterprise and Lifelong Learning Committee that the funding council should reduce the amount of top-slicing, especially on research funding. When top-slicing occurs for particular projects, it can have an effect on the university, in that the university incurs an additional revenue commitment. In addition, there is the simple opportunity cost of having to respond.

We would like certain of the research funding applied generally across the sector and particular attention paid to encouraging and developing new areas of inter-disciplinary research. The current funding mechanisms are—quite rightly—centred on excellence and putting research in Scotland into a highly competitive position with the rest of the world. However, there is a downside to that, in that new growth can be stifled.

We welcome the moves to enhance student support and the drive to implement the recommendations of the Cubie report. However, we strongly believe that, at £10,000, the threshold for loan repayment by graduates is set too low. We would encourage the committee to consider whether a higher threshold could be applied.

We are committed to increased participation and social inclusion. However, that carries an additional cost and means that certain statistics in universities—for example, retention rates—look less favourable. If we go for a high level of social inclusion, we have to take into account the additional commitments required and the possibility of lower success rates. We are involved with our colleagues in Aberdeen on a specific project on social inclusion in certain postcode districts in the city.

Estates and capital funding have been mentioned. We are concerned about the absence of capital funding, not only for major projects, but for smaller upgrades and maintenance. Without that funding, universities must look after their estates using their own indirect revenue. Some resources are available, such as the joint infrastructure fund, but that is directed towards research, and vocational universities that concentrate on teaching do not necessarily benefit from that fund.

We welcome today's announcement of special funding for social inclusion. I understand that that will affect about 12,000 students in the sector. We applaud that.

Universities across the sector are being funded at about 3 per cent per year, but because of costs that they cannot control, we are running downwards at about 1.5 per cent. We would like a reduction in top-slicing and an even distribution of higher education funding.

11:15

The Convener: I thank the witnesses for their submissions. It was noticeable that both Mr Ord and Professor McIntosh talked about the link between the local economy and a vibrant university sector. Mr Ord judiciously quoted one of the few remarks that the Prime Minister has made with which I do not think that anybody on the committee would disagree—that wealth creation stems from universities. What is the effect on the local economy of the universities as employers? I imagine that the two universities contribute quite a bit to the local economy. How important are they?

Professor McIntosh: I am sorry, but I will have to speak a little from memory. Robert Gordon University as an organisation has a turnover of about £60 million a year from the funding council and other sources. Our direct funds from the funding council, through block grant and fee income, provide just over 50 per cent of our budget, so it is interesting that nearly 50 per cent of our activities generate funding from other sources.

The university is a fairly major employer. The university and its students in Aberdeen create a considerable gearing effect. As members will know, we have embarked on an ambitious capital building programme, which alone has an impact on the economy.

Mr Ord: I will supplement that. The University of Aberdeen's department of economics undertook work to establish the impact on the local economy of university activity across teaching, research, student accommodation and the spin-off companies. I do not have the figures to hand and I am reluctant to try to quote from memory. However, the committee might be interested in accessing that research.

As Frank McIntosh suggested, the multiplier effect is significant. My memory leads me to believe that the multiplier effect of the University of Aberdeen's impact on the local economy is about two and a half times turnover. The university's direct turnover is £110 million, so more than £250 million of economic activity is generated by activity that is undertaken by the university, both directly and indirectly.

The Convener: How many people are

employed by each university?

Mr Ord: We employ 2,500 people.

Professor McIntosh: We employ about 1,800 people.

The Convener: Professor McIntosh, you mentioned twice the top-slicing of research projects, which you want to be reduced. Will you say more about that and its effect, particularly on your university?

Professor McIntosh: The top-slicing on research moneys is put towards such items as research and development grants. The original concept behind those grants was to establish research infrastructure in areas that needed an additional boost. Over time, the grants have tended to go down the same route as the mainline funding on research—the research assessment formula funding. I agree that we must fund research selectively and that we want Scottish higher education to form part of the international scene of excellence and research, but my concern is that we may forget about new areas of growth or interdisciplinary research, which also need funding. It costs quite a lot of money in opportunity costs to respond to the various projects. We must direct research money to excellence, but we must also remember that two thirds of the current formula-driven research money goes to three universities.

The Convener: And one of them is not Robert Gordon?

Professor McIntosh: Obviously not.

Dr Simpson: I have a couple of questions on health. We are told that the Scottish health index is not much use prospectively and is so far of help only retrospectively. One of my concerns is that the substantial additional funds that are proposed for health for the next three years are the proportion that is likely to be swallowed up by the issues that the witnesses mentioned, such as addressing junior doctors' hours, the consultant situation, working time directive matters and holiday pay. What is your guesstimate of how much of the additional money will be swallowed up? Would you like the system to move towards two and three-year pay awards along with the two and three-year budgets, to provide some continuity of planning?

One of the concerns that the Health and Community Care Committee and the Finance Committee have had is that it is difficult to dig into the health budget, because it is in such huge chunks. We do not hold the health boards accountable to Parliament, as we might like to. Does Grampian Health Board publish budgets and have public hearings on how it proposes to spend its budgets? Will it shift resources to primary care and mental health? That does not seem to have occurred, despite their having been priorities for the past nine or 10 years.

Bill Boyes: I will try to deal with those questions in order. The working time directive is a mesh of complex arrangements. In my introduction, I said that their impact would not be known until about December or January. Our sense at the moment is that it may cost between £4 million and £5 million to deal with junior doctors' hours, consultants' terms and conditions, and holiday pay in Grampian. Some of the national detail is still awaited, so final calculations cannot be made, but that is our sense of the impact.

Three-year pay awards would be extremely helpful in developing financial plans beyond the annuality that exists now. They would allow us to know the extent to which year-on-year allocations could reflect the impact of the pay awards. I defer comment on the logistics of that to others.

We present our budget proposals at regular public meetings as part of our budget-setting process, including one when we present our budget proposals to our board for approval. That is the culmination of a process of wide consultation with local NHS trusts and trusts outwith Grampian, which also treat some of our residents.

Dr Simpson asked about the investment in mental health. I can speak only for the Grampian area where, for each of the past four or five years, we have made explicit investment decisions on mental health. We have made service enhancements as well as conducting a considerable reconfiguration of services to improve existing arrangements both in hospital and in community settings, the latter of which are increasingly the locus for care.

Mr Ingram: What proportion of Grampian Health Board's increased resources do you understand the estimated £4 million to £5 million to represent?

Bill Boyes: The proportion is around 20 per cent of our increased resource, and that money will be taken up in the three areas that were mentioned.

Andrew Wilson (Central Scotland) (SNP): I have a brief question for Mike Ord. Could you clarify whether you were suggesting that spend per student was going to rise or fall in the coming period? What are the implications of David Blunkett's commitments, to which you alluded, for your area?

Mr Ord: My information comes from last Friday's *Financial Times*, in which a headline indicated that the budget south of the border would be increased so that the funding per student would increase in real terms—the headline figure quoted was £1 billion. On a quick calculation, it appeared to me that that £1 billion increase, which, according to the *Financial Times*, is an annual increase, would represent a 10 per cent cash increase in funding. After adjusting for pay and prices inflation, that would represent a real increase of perhaps a little more than half of 10 per cent, which contrasts with the situation in the enterprise and lifelong learning budget forecast for the planning period.

Andrew Wilson: In which case, will expenditure per student continue to decrease?

Mr Ord: Spend per student is likely to increase next year, but that is dependent on the extent to which the 8 per cent increase is top-sliced, which is the point that was being made. We do not yet have the detail of how that 8 per cent is to be applied. If the 8 per cent were to be made available to assist universities with the cost of providing academic services, it would represent a fairly significant real increase in per capita funding.

Andrew Wilson: I am afraid that the Finance Committee will have to ruminate on this issue regularly, as we live in an era of record public spending—in cash terms, more is being put into health services and the education sector. However, we are concerned with trying to work out how much that money is buying. One side of the coin is as important as the other.

I have a question for all four witnesses. How is cost inflation within their sectors broken down? For example, we know that 70 per cent of spending in the health sector goes on salaries or labour costs, and that there must be an increase of 5 per cent just to stand still in relation to average earnings. Could you explain how the cost inflation will break down in relation to labour and other costs in your university, Mike?

What do the witnesses think cost inflation is running at in their areas? In other words, how much do they need to be able to stand still?

Mr Ord: I will kick off by responding for the University of Aberdeen.

As far as the past financial year is concerned—that is, the year to 31 July 2000—60 per cent of our costs were pay-related and our pay and prices inflation was 3.2 per cent. The cash increase in funding from the Scottish Higher Education Funding Council for our core activities was 1.8 per cent. That gives you a measure of the real-terms reduction in per capita funding.

Andrew Wilson: Did you say that the cost inflation in relation to pay and prices was 3.2 per cent?

Mr Ord: Yes. That was our measure of pay and prices inflation over the past financial year.

Andrew Wilson: Does that measurement include the increase in labour costs that you paid to your staff?

Mr Ord: Yes.

Andrew Wilson: As the increase in average earnings last year was 5 per cent, does that mean that you failed to keep pace with average earnings?

Mr Ord: That is right. That is the point that Professor McIntosh made. We have difficulty retaining and attracting staff, particularly in those parts of academia where the skills and experience of staff are attractive to the outside world.

Andrew Wilson: Therefore, what is true for public services in general is probably more marked in the high-technology areas to which you referred.

Mr Ord: Yes.

Andrew Wilson: Is your experience different, Professor McIntosh?

Professor McIntosh: I concur with what Mr Ord said. Probably 70 per cent of our organisation's costs are staffing costs, although other factors have quite an effect. We have tried to fund our capital projects and developments from various sources, but that indirectly has a revenue effect on us. It is not that we are standing still on that issue, because we are active in seeking funding for enterprise from various sources, but we are staff intensive, which is a problem.

Dr Simpson: Are you moving towards resource accounting and budgeting?

11:30

Professor McIntosh: My university is developing activity-based costing within the university to inform better our whole planning process, so that we can analyse carefully which core activities are financially beneficial and which are not. A strategic decision can then be made whether to support certain activities because we believe in them.

Andrew Wilson: Can Bill Boyes comment on the extent to which cost inflation is higher than general inflation?

Bill Boyes: As has rightly been said, pay accounts for about 70 per cent of costs in the health service. In the local trusts that provide community services, because of the profile of their care, that figure is nearly 80 per cent.

The national pay awards over the past year were a given for the health service. Across all types of employees, the pay awards were in excess of 3.7 per cent on average. General price inflation tends to be around 2.5 to 3 per cent. However, in specific areas of the health service budget—especially drugs—the real level of inflation is significantly higher. In some cases, it is around 9 or 10 per cent. Inflation therefore has wide-ranging effects in the health service.

Mr Davidson: I would like to hear from all the witnesses on future budget allocations. People are talking about different formulas and so on. In the health service, we are considering the effect of Arbuthnott's recommendations in the Grampian Health Board area, where there will be a comparative reduction in the budget. What triggers or factors are missing from the fair funding formula from the centre?

Bill Boyes: The final "Fair Shares for All" report acknowledges a number of issues, of which I shall mention two. The first is the care data that have been used to assess the need for service. For many of the care programmes, the levels of activity in the report are patient and hospital based. That is understandable, given the lack of information on some of the community services. The report acknowledges that significant work would need to be done to incorporate the community side of the health service into the full formula. A health board's involvement in community services and community care programmes may have a significant effect on the outcome of the formula in its area. Without the community data it is difficult to speculate on the effect that it would have, but it would be an issue.

A second factor in the formula is levels of unemployment. During the consultation process at the first stage of the report, we made the point that not only levels of employment, but the nature of employment might be significant. For example, in this area the volatility of employment in agriculture, fishing and, increasingly, the oil industry—which is seen as a positive but may become a negative over time—may have a significant impact on people's health.

Mr Davidson: The representatives of the two universities flagged up that other universities may get more research funding and that Robert Gordon University has more intensive technical teaching costs. What triggers and factors do they think need to be brought to bear in a funding formula for higher education in Scotland?

Mr Ord: We would wish to highlight the need to invest in capital infrastructure. There have been specific arrangements—such as the joint infrastructure fund—that allowed universities to bid for funding available at a national level. However, there are substantial on-costs to putting together a bid, which act as a disincentive, particularly because the availability of funding is significantly below the demand for it. There are no earmarked capital funds available to universities.

Given the pressure on the unit of resource, which has declined by between 30 and 40 per cent on a per capita basis over the past decade, universities find it difficult to generate internally the level of surpluses needed to finance capital investment. If they borrow, that of course puts additional pressure on revenue. We would like an increase in the unit of resource to match price inflation, with an element to ensure that quality improvements can be achieved and with additional funding for capital investment to replace existing assets and develop new assets.

Dr Adrian Graves (Robert Gordon University): I would like to reinforce what Mike Ord said. The redevelopment of our capital infrastructure is a good example of the stresses and strains on us. We want to develop the Garthdee site because the university is on six campuses and in old, inefficient buildings that are costly to run.

We want to have an energy efficient infrastructure and to consolidate our campus sites so that they function efficiently. To do that, we have had to scrimp and save over many years. We have run the organisation very prudently so that we have a substantial reserve to draw on. We also hope to sell some property on the Kepplestone site. Even so, we are still having to borrow substantially to act in a way that is in the interests of the cost structure of the delivery of higher education in this area. More support to engage in that would have been helpful as we have had to divert funds from our core activities to achieve that outcome.

Research is another area where there is a dysfunctional distribution of funding in Scotland. I would like to reinforce what Frank McIntosh said. In Scotland, there are two major problems in research and development. I do not think anyone disputes that investment in research and development has a direct connection to economic development. In Scotland, the private sector engages in a much smaller proportion of research than it does in the rest of the UK. In terms of spending on research, the higher education sector here performs proportionately better than does that in the rest of the UK, but the vast majority of research is funded from UK, not Scottish, funds, which means that the pattern of research investment is not determined according to Scottish values, aspirations and strategies.

The result is that investment in research in higher education goes largely to three universities rather than to the whole sector. That is appropriate at one level, because the universities of Edinburgh, Glasgow and Strathclyde have particular research strengths, but research investment is largely at the theoretical and conceptual level, rather than at the applied level, because that is where Glasgow and Edinburgh's strengths lie.

Our research on the impact of unit of resource on research demonstrates that immediate impacts can be gained from research in the applied area. In my university we have found that research in the technical areas, where there is co-operation with local firms, can lead to marginal cost reductions and a significant rise in profitability. There would be a serious point in Scotland beginning to develop a nationally focused research and development strategy that would ease up or address some of the dysfunction in research funding and distribute funding to the applied area more than is currently the case.

The Convener: We are very short of time and three other members have indicated that they want to ask questions. I am afraid that I will therefore not be able to fit in Richard Lochhead or Lewis Macdonald during this round of questions, but I can allow Ken Macintosh to ask his question.

Mr Macintosh: I can see that the three universities you mentioned attract a lot of the research funding. Is the gap widening between the funds that those universities are attracting and the funds that Robert Gordon University and the University of Aberdeen are attracting?

Mr Ord said that universities are constantly in deficit. Have you always been in deficit? Is that deficit worsening? Are you building for the future on an expectation of increasing your deficit?

Mr Ord: I shall answer your second point first. The deficit is worsening. In my introductory remarks, I quoted figures for the sector as a whole. Last year, for the first time for many years, the University of Aberdeen had an operating deficit of £1.7 million. Part of the reason for that was that we had to finance significant capital investment and the improvement of facilities from internal reserves.

Returning to your question about the widening gap in research funding, I think it is generally true that there is polarisation. You will have followed stories in the press on the borrowing that the University of Edinburgh has undertaken. The University of Glasgow is also borrowing, but under a different type of arrangement. Those universities have the capacity to take on additional borrowing to invest in research and across the waterfront, which can create difficulties for institutions that have a less strong balance sheet. Over time, unless support can be provided to institutions that have a niche capability—often a very strong one—it will be difficult for them to compete in research activity. That would be disappointing and a loss to the nation.

Professor McIntosh: As members will know, research funding comes as a result of research assessment, which uses a scale from 1 to 5, with a score of 5 indicating international excellence. It tends to drive the funding formula upwards, and the big become bigger. There is then a requirement to try to maintain the unit of resource for the excellent research departments, but that can be done within a fixed envelope only by sacrificing those who are on the growth curve. That presents us with a difficult question about how we can move forward.

Robert Gordon University and the University of Aberdeen collaborate on what is known as the north of Scotland teaching company scheme, an academe-industry interrelationship. Some studies that have been done on the outcomes of such relationships show that they lead to increased productivity and increased employment. Those statistics show that the most successful schemes were run by collaboration between departments and industry, with the departments having a mid-range research assessment of around 3. There is a type of research that is very effective in the sector and can directly affect the economy.

The Convener: The committee would have liked to put more questions to you, but we are always time constrained. Thank you for your submissions and for answering our questions so fully. Your evidence has been of great assistance to the committee.

We shall now adjourn for a short break. I invite our guests to join us for a cup of coffee.

11:45

Meeting adjourned.

12:03

On resuming—

The Convener: We now enter the third part of this morning's meeting. I am pleased to welcome witnesses from Aberdeen Chamber of Commerce and Scottish Enterprise Grampian. Amanda Harvie, the chief executive of Aberdeen Chamber of Commerce is going to begin.

Amanda Harvie (Aberdeen Chamber of Commerce): I am delighted that the committee has come to Aberdeen and I welcome the opportunity to give evidence to members.

I will make some general comments on "Making a Difference for Scotland" and how we compare it with "Investing in You". Like many of the Scottish Parliament committees, we found it difficult to draw conclusions from the figures in "Making a Difference for Scotland" in comparison with those in "Investing in You" because of the change to resource allocation and budgeting. The concept of including a capital charge to cover depreciation and cost of capital, to give a more accurate total cost of Government activity, is welcomed in principle. We would want to know whether that means that, over time, the Executive will be able to build a reserve from which maintenance and repairs of capital assets such as roads, hospitals and schools can automatically be funded. We liked the concise presentation of key policies in "Making a Difference for Scotland", although there seemed to be differences from the presentation in "Investing in You".

I have a few comments on the devolution settlement and Scottish Executive financing. I recognise that the Executive does not have the freedom to flex fiscal conditions either to create a more competitive environment for Scottish business or to reap the reward of that competitiveness. At present, the only income source not from the UK Exchequer is from non-domestic rates. That is a simple but crude way of gathering a proportion of wealth generated by business. It is also unresponsive to local and national economic conditions.

We would support funding of specified major capital investments through borrowing, to create more flexibility in the Executive budget to finance essential social expenditure, but we would be against any general relaxation in control of borrowing, especially by local authorities to finance revenue expenditure. However, we would like local authorities to be encouraged to be enterprising and visionary. We would like to see controls developed under which authorities could borrow externally to fund agreed capital programmes, rather than wait for Executive funding.

In general, we would support such capital programmes because they would reduce on-going revenue expenditure. That would apply to transport in particular, where it is vital that a sustainable and modern transport infrastructure is available to the public and business before prohibitive charges and restrictions are introduced. Members will appreciate that transport is a key issue for businesses in our economy in Aberdeen and Grampian. A similar approach could apply to water; the Executive gives significant capital support to the North of Scotland Water Authority to finance the investment drive to meet EU standards.

I would like to reiterate our concern about and opposition to the loss of the unified business rate between England and Scotland. The chamber of commerce regards that as a backward step, which is potentially damaging to the Scottish economy and to the competitiveness of business. We do not support elaborating on the system through small business relief or supplementary business rates, for example. We understand that the Local Government Committee is to review financing and would support more radical approaches that would allow Scotland to tap into the wealth generated by its businesses without becoming a competitive burden. For example, could the Executive retain a proportion of Scotland-generated VAT? I offer that as a proposition that might be worthy of further investigation.

I would like to consider additional spending plans following the spending review and the chancellor's statement on extra finances. Following our consideration of "Investing in You", we responded to the then Minister for Finance, indicating our concern that insufficient resources were going to key areas of transport, education, skills development and rural affairs. It appears to us that the first two matters are receiving more funding under "Making a Difference for Scotland", although we agree with the relevant parliamentary committees that it is difficult to see how much will be spent and where.

We are concerned that rural affairs is insufficiently supported, given the current problems in rural areas. We recognise that the split of rural spend between departments and the impact of European funding makes it difficult to see the full picture. We have a general concern about the planned sharp increase in expenditure in 2002-03 and 2003-04: either it will not be supported by real resources on the ground—in which case the money would not be spent—or we will have a skills squeeze due to shortages. That could adversely affect Scottish business performance.

We could find little evidence to suggest that the Executive is becoming more joined up in its thinking. Examples that suggest that that might not be happening to the extent that we would desire are fragmented tourism support across several bodies, public transport funding included in local authority spending—the total transport spend in Scotland is unclear—and rural spend scattered across several departments.

The last point that I shall raise in my initial presentation concerns performance management and benchmarking. It is essential for all departmental programmes to contain performance indicators and milestones, so that proper scrutiny of achievement against a plan is possible. I would like evidence to show that departments are benchmarking their own processes and those of the agencies they fund against departments in other parts of the UK and in similar countries in the EU and elsewhere. That would improve confidence in the fact that Scottish public spending is delivering value, and it would be an attraction to businesses.

That is all that I have to say in my opening remarks. Thank you very much.

The Convener: I am exhausted just listening to you. Thank you for packing so much into your opening statement.

Amanda Harvie: Did I keep it within five minutes?

The Convener: You did indeed. We will now hear from Mr Gillespie.

Ed Gillespie (Scottish Enterprise Grampian): Good morning. I add my welcome to Amanda Harvie's. I shall take a slightly different tack in my presentation.

This year, Scottish Enterprise Grampian has an annual budget of some £18 million. The population of the Grampian region is around 9 per cent of the population of Scotland and the £18 million is about 7 per cent of Scottish Enterprise's budget, which gives us the smallest budget per capita in the Scottish Enterprise network. That is an issue for Scottish Enterprise, but it puts our spending into context.

We are concerned mainly with the enterprise and lifelong learning budget, but other budgets are of major interest—Amanda Harvie has commented on transport and rural issues, for example. We know that the budget for enterprise and lifelong learning is set to increase by 9 per cent next year and by 15 per cent over the next three years. By contrast, the Scottish Enterprise budget will stay the same next year and will increase by only 5 per cent over the next three years. However, we understand the many reasons for that.

The activities of Scottish Enterprise Grampian come under three headings: developing businesses, people and the environment in the north-east of Scotland. Our core industries in the oil and gas sector are in maturity and two of our traditional industries—fishing and farming—are in great difficulty. Over the past few days, we have all been made aware of the problems that face the fishing industry and I suspect that we will hear more about those in the days to come.

What do we do with our budget? We help organisations to change and grow; support internationalisation, innovation, research and development; try to diversify from our core industries of oil and gas; internationalise techniques; support the commercialisation of academic research, which the previous witnesses commented on; and ensure that there is inward investment by technology-based companies. It is interesting to note that some 30 per cent of the software that is written in Scotland is written in the Grampian region. We are promoting e-awareness among companies and encouraging entrepreneurial attitudes. One of our key roles is in enabling new business start-ups. Some 550 businesses are starting up in the Grampian region this year, which is one of the highest levels of business start-up in Scotland.

To achieve those objectives, we need to stimulate our population to enter lifelong learning. Modern apprenticeship trainees and skillseekers represent about a third of school leavers in the Grampian area—some 2,500 people. We are trying to increase the e-enablement of our learning providers. We have been working hard to facilitate inclusion throughout the region by introducing learning houses in deprived areas, where people can have access to modern technology and the opportunity to become e-enabled. We work closely with our partners and local authorities to provide the appropriate infrastructures, whether that involves technology such as asymmetric digital subscriber lines or a modern transport system—which Amanda Harvie and the local authorities have commented on—although that will require innovative funding. Industrial land supply is a specific issue for Aberdeen, and Scottish Enterprise Grampian has a vital role in helping to sustain the prosperity of the Grampian region.

12:15

In summary, what are the key issues for Grampian? Oil and gas, our core industries, are in their maturity phase. We estimate that some 19,000 high-calibre jobs will be lost to this economy in the next 15 years. Fishing and farming are in decline. Some 2,000 fishing jobs could be in jeopardy if the much-talked-about closures of fisheries come to pass.

Although this area is generally prosperous—with 1.9 per cent unemployment in the city and 2.3 per cent unemployment in the shire—there are pockets of deprivation. I could take you to places in the city where unemployment is more than 10 per cent and to places in the shire where unemployment is also in double figures—the average numbers confuse the whole. That is set against a backdrop of rural skills deprivation. Our rural population has less access to infrastructure. Grampian is also disadvantaged in terms of European regional selective assistance funding.

We need to continue our investment to ensure that there is no decline in what is still a prosperous region. We intend to do that against a backdrop of partnership with the chamber of commerce, our two local authorities and the emerging forum.

The Convener: Thank you. I will direct my questions to both of you.

Mr Gillespie, you raised a point about regional selective assistance. The Enterprise and Lifelong Learning Committee mentioned in its response to "Making a Difference for Scotland" that indigenous businesses might be losing out. You suggested that that is particularly true in relation to Grampian. Would you say a little more about that? That committee also mentioned that the spend on enterprise and lifelong learning in Scotland might not match the equivalent growth rates in England and Wales. Are your organisations aware of that and is it having any impact in the north-east?

Ed Gillespie: The situation as regards RSA affects one major local company, which operates in the food industry, and proposals for two major inward-investment opportunities that have substantial back-up. It would be much easier to secure the future of the local company in the area—it is thinking of moving—and to get the other two into the area if we had access to RSA. The attrition to those bids is considerable. Of the three companies, I estimate that I will be doing well if I manage to secure the future of the one that is already here. I think that the inward-investment projects—both of which have specific needs that tie them to this region—will be lost because of the lack of RSA.

The Convener: Will they be lost to Scotland?

Ed Gillespie: One might be kept in Scotland but the other is almost certainly destined for the north of England because of distance to market.

It is easy to agree that overall investment should be higher. However, it would be difficult for me to supply the committee with detailed evidence on that point this morning.

Amanda Harvie: It is frustrating that the schemes are not applicable in this area. The macro conditions in our economy do not meet the criteria that are applied, although, as Ed Gillespie has pointed out, we have pockets of deprivation and investment is particularly necessary in our rural industries and fishing. We need to find a mechanism that allows us to invest in success and that encourages wealth creation. This area suffers from the fact that, overall, the needs-based methodology suggests that Aberdeen and Grampian do not require special consideration. However, it is crucial to the economy of Scotland that the economy of this area is supported. That applies equally to other areas where a successful wealth base needs to be nurtured. A way to do that needs to be identified.

Richard Lochhead: Are you saying that the north-east is subject to a double whammy because it receives neither regional selective assistance nor a fair share of core funding from the Government? Today we have heard that the local authorities and the health board feel that they do not get their fair share of funding per capita and now we hear that Scottish Enterprise Grampian does not get its fair share of funding per capita. As you have mentioned, the north-east faces many challenges, such as problems in the traditional industries of fishing and farming and the fact that our infrastructure has fallen behind the times. Does that mean that the north-east cannot respond to changing economic conditions as quickly as we should? Is the lack of support due to a perception that the north-east is an affluent area of Scotland? We must change the funding formulae. Do the Government's spending plans offer any comfort at all?

Ed Gillespie: On a point of clarification, at no point did I say that I do not receive a fair share of the Scottish Enterprise budget—I said that I get one of the lowest shares. If we had the opportunity to discuss the overall budget, I would say that it would be nice to receive a greater share. However, I was simply pointing out the proportion of the budget that we receive for the task in hand.

Clearly, we have an economy that is split in two. Much of the economy is very buoyant—that cannot be denied—but there are outlying and deprived areas that have immediate needs. The key issue for all partners in the north-east—we work in partnership—is that we must cement the future economy after our core business falls off. Following the Ravenscraig example—waiting until there is a dead brownfield site—is not the best and most cost-effective way to do that. We must tackle such issues by developing well thought out plans now. Such plans need an element of spend to support them. It is for others to decide on the relative spend, but it must be sufficient to enable us to secure the economic well-being of the people of the north-east.

Lewis Macdonald: I welcome Amanda Harvie, Ed Gillespie and Colin Donald to the committee. My questions for them are similar to the ones that I pursued with the local authority. Tackling poverty and promoting economic development are the key tasks that face the Scottish Parliament. Perhaps Ed Gillespie will expand on his comments about the pockets of poverty in Aberdeen. I would like to hear about the character of that poverty, the difficulties that it poses and how the enterprise network and the chamber of commerce contribute to its alleviation.

How do you anticipate dealing with the economic developments on the horizon? You mentioned the difficulties that the fish industry faces. You will agree that the areas of Aberdeen that will be hit hardest by a loss of jobs in fish processing are the same areas of the city that have levels of unemployment well above the regional average. In your economic planning, how will you tackle the specific problems arising in such neighbourhoods, which are related to their dependence not just on oil, but on other traditional industries?

Ed Gillespie: Aberdeen has a corridor of deprivation and poverty that runs through the northern entry route to the city. That has existed for many years. There are some areas in which families are in the third and fourth generation of a no-work ethic. Those areas are deprived in terms of infrastructure and skills. The unemployment statistics for certain wards are in double figures. That gets lost in the overall unemployment figure for the city of 1.9 per cent. From afar, it is easy to say—as Holyrood often does—that a rate of 1.9 per cent means that there is no unemployment issue in Aberdeen. However, within that 1.9 per cent, there are wards that have unemployment rates of 12 or even 14 per cent.

We are trying to tackle that by going into those areas, in partnership with the council, to help to provide people with the ability to ready themselves for work. One of the new concepts promoted by Scottish Enterprise Grampian is learning houses. Learning houses have been situated throughout those deprived areas, following a pilot scheme at Middlefield. We take a council house, put all the modern e-enabling technology into it, staff it with the appropriate learning people and make the resources available to the community. There are two important tricks. First, the learning house is managed by a local lady, who has access to the local community and knows the people; she can make the environment work. Secondly, we make the learning experience a family learning experience. There is clear evidence to show that if mum, dad and the kids learn together, the parents are more likely to enter work for the first time. Learning with their children is very powerful for parents.

We started with Middlefield Learning House and we now have five such houses. There are waiting lists to gain access to the houses—people are queueing at the door. The environment is warm and comfortable; the houses are properly funded and staffed and situated within the community. People do not feel that they are going to an alien place to start the learning process. The scheme really works.

We are moving such projects from a context of urban deprivation to one of rural deprivation—double-figure unemployment rates also occur in places such as Huntly and the corridor west of Fraserburgh. Those areas do not enjoy the economic conditions of the rest of the city and other parts of the shire. We are trying to use the same technology as in learning houses. We are considering recreating our science and technology park—an incubator park for new companies, which has been a huge success—in a rural area to see whether we can make one work in a rural environment. We will make it e-enabled and situate it somewhere in Aberdeenshire, such as Insch, that has good north, south, east and west transport. There are areas of deprivation in Aberdeenshire, and I would be happy to take members to visit them if they have time.

The Convener: I was interested in the idea of a learning house. Do any other local enterprise companies operate similar schemes?

Ed Gillespie: No. Learning houses are unique to Grampian, where they were invented. When Wendy Alexander was the Minister for Communities, she visited a learning house and was very much in favour of the scheme. The scheme is working.

Mr Davidson: You have mentioned the skills base and infrastructure requirements. The name of the game is horizon planning. We are talking about a budget process. What are the missing triggers for investment and how should the Executive consider delivering those triggers?

Ed Gillespie: To answer that, I would have to go back to a point that Amanda Harvie made. The budget process must contain something in addition to needs budgeting. I am not sure whether I have the solution but I know that some part of the planning process must identify near and far opportunities and reasons for decline. With a devolved Parliament, we can take a broader, more long-term view of budgeting. We should see that an area is currently doing well but will have needs in the future, and take that into account. The challenge is how we do that. I do not have a ready-made answer, but I urge you to think in terms of concepts. However, with all the intellect and passion that I can muster, I say that simply planning for and addressing current needs is not sufficient to meet the needs of the future.

Amanda Harvie: We must approach the issue from several levels. There is an issue of the time scale and strategy that we adopt in Scotland to address economic development and the creation of a competitive business environment. We have alluded to time scales but, if we work on a short-term basis, we miss the opportunity to take an overarching approach to developing a strategy for Scotland and ensuring that we invest successfully in wealth creation.

How do we do that? Tough choices will be required and priorities must be identified. We may also have to revisit our assessment of where our funding comes from. I mentioned that we should be considering innovative ways of generating funding for investment in capital projects, perhaps with private sector involvement and perhaps by encouraging and rewarding enterprise and successful financial management, particularly in local authorities. We want to create a cycle in which we are responsible for our own wealth creation and for the success of our economy, and in which that is rewarded. The current structure and settlement are restricted. They do not incentivise us at a national or local level.

12:30

Andrew Wilson: I share those views. More generally, the idea of Aberdeen being wealthy but having pockets of severe difficulty is becoming one of the themes of this meeting. It is a tough one for us to deal with in the context of the budget, but it is even worse for the Executive. Far be it from us to be overly kind to the Executive, but there are severe problems with the rules. RSA, for example, is both regional and selective by definition. The whole point of it is to help regions with difficulties. How do we change the rules? Is there a problem with the structure of funding, which prevents you from using the budget at your disposal in the ways that you would like to use it? Are you overly restricted in how you manage your devolved budget?

Ed Gillespie: Sadly, there are some constraints. In lifelong learning, we have a responsibility to deliver national training programmes. A major proportion of my budget of £18 million is pre-ordained—almost £5 million of it is pre-ordained to national training programmes.

Please do not get my comments wrong. I am not saying that those training programmes are a bad thing—not at all. However, within the confines of my overall budget, a proportion is predestined to provide mandatory training programmes, which takes a fair amount of my available budget away from the bigger issues. That becomes a problem if, for example, there are big inward investments, two of which I have mentioned, or if a major company is in difficulty. The sums that are involved over any unit of time become large rather quickly and go beyond the annual budget.

It is possible to make propositions to Scottish Enterprise to access contingency funds—I have done that and I continue to do it—but it is a lengthy process. In a business environment, which is the world that I have come from, decisions may need to be taken quickly, which is not necessarily possible. There are therefore constraints, although they are not all-encompassing.

Andrew Wilson: It is difficult to see how to get round that with any central budget. It is a problem across the public sector. Do you have any evidence to support what you said about the faster growth of enterprise funding in England and Wales than in Scotland?

Ed Gillespie: I think that it was the convener who made that comment.

The Convener: To clarify, I should point out that that assertion was included in the Enterprise and Lifelong Learning Committee's report on stage 2 of the budget process.

Andrew Wilson: Given that, and given what you said about uniform business rates, enterprise is not keeping pace with other areas in the overall budget, for good reasons. What would you rather see: a cut in business rates or an increase in enterprise funding?

Ed Gillespie: I will let Amanda Harvie answer that one.

Amanda Harvie: That is a tough question, and I am not sure that it is necessarily appropriate. It points to the more fundamental difficulty that we have been discussing this morning.

When we consider the parity of funding allocations for enterprise development in Scotland, compared with other areas of Britain, there is a concern that we are spending less of an allocation. Fundamental questions have to be asked. What priority are we prepared to put on enterprise development and on the creation of a competitive business environment in Scotland? We have to send clear signals about that, not least to the businesses that are locating here, but which are seriously considering where else in the world they might locate.

We also need to encourage inward investment, and—

Andrew Wilson: I am with you on this in a big way, but the problem is that we have a fixed budget.

Amanda Harvie: I appreciate that.

Andrew Wilson: Given that restriction, what do we do?

Ed Gillespie: I could happily use more enterprise spend.

Andrew Wilson: What would you argue, Amanda?

Amanda Harvie: Are you asking me what we should do with the—

Andrew Wilson: We have a fixed budget. If we want to touch anything, we are forced, for good reasons, to show where the money will come from. There are two broad methods of providing subsidy to enterprise: direct subsidy spending and a reduction in the business rate. One is specific; the other is untargeted, or across the board. Which is best?

Amanda Harvie: That is a tough question, which I will not answer until I have given it further thought. Allow me to consider the question and come back to you.

The Convener: We note Mr Gillespie's plea for additional funding.

Rhoda Grant (Highlands and Islands) (Lab): My first question concerns how you deal with areas of poverty and unemployment. Highlands and Islands Enterprise has a social remit. Would you be better able to tackle poverty and unemployment if you also had a social remit?

Secondly, what problems do you face in trying to encourage inward investment? It is clear that the costs of setting up businesses are higher in this part of Scotland, because of the presence of the oil-related industries that have made the local economy so buoyant. How do you encourage new industries to come here in a context of high business rates, high rental rates and high property costs?

Ed Gillespie: I will start with the social question. It is correct that our colleagues at Highlands and Islands Enterprise have a social remit, while the Scottish Enterprise network does not. As a result, the SEN does not necessarily have the skill sets for such social provision.

Personally, I would not have a problem with our having responsibility for such social provision at some time in the future, but that would need to be properly funded and we would need to review our skill sets to provide the appropriate people and resources. Whether we should take on that social remit is a moot point. Other agencies have existing skill sets and have made such an undertaking. I suppose that that should remain the case, but Scottish Enterprise can still work at the inclusion interface, in the area of economic inclusion. That involves preparing people to return to work by enhancing their skills so that they become more able to get back into a competitive environment. Frankly, there is plenty there to keep us busy at the moment, and I think that we should stay with our current position.

Our track record on inward investment in this part of Scotland is good, and there are key reasons for that. It is about people's desire to cluster around target industries. If a company's target industry is oil and gas, clearly that company is likely to come to this area and that makes a great deal of sense. We also have a couple of universities that specialise in some innovative niche areas, and they are helping people to build up new business. Despite those positive points, there are a lot of disadvantages here, including a high-cost infrastructure and a significant lack of available serviced land. The latter is a particular problem for Aberdeen, and we are working hard to address it.

This is a high-cost area. In certain skill areas, there is a shortage of labour. I suspect that that will be helped, in a perverse way, by the problems of the rural community. Scottish Enterprise Grampian is beginning to view the use of the labour that becomes available from the farming sector and, in the very short term, from the fishing sector, as our No 1 priority. If, as is likely, there is prevention of fishing in the North sea, there will be substantial short-term availability of labour. Ironically, the labour comes primarily from the deprived areas of the city, and generally has a low level of transferable skills. There is a need that we will be addressing within days, rather than weeks.

I am sorry for the long answer.

Amanda Harvie: I do not want to disappoint Andrew Wilson by walking away from answering his earlier question. While Ed Gillespie was talking, I managed to gather my thoughts.

I suggest that the answer is to do both: it is not a choice between direct subsidy spending and a reduction in the business rate. A reduction in the business rate would be used to encourage business growth and inward investment. The enterprise budget could be increased, but it would have to be ensured that the extra money was spent in key, priority areas, and not simply across the board. As I said earlier, we have to make some tough decisions about whether we want to attract high-tech, high-skill, communications-based businesses. If we do, that is where the focus should be.

We should also reduce duplication in the spend; I alluded earlier to the concern that there is not as much of a joined-up approach as we would like. Pockets of money are hidden in transport and tourism spending across different departments, which should be sorted out. We should also allow borrowing for capital projects and encourage innovative partnerships with the private sector, which would free up budget for social spend.

Mr Macintosh: We are all interested in what you said about the Middlefield Learning House project. It would be useful to have more written information about that.

Ed Gillespie: We have a video that I would recommend that members should watch if they have time. We are happy to provide you with any information you need.

Mr Macintosh: If you could send a copy of that video to the committee, that would be fantastic.

Ed Gillespie: Consider it done.

Mr Macintosh: You talked about finding new ways of funding investment in infrastructure. You said that you want to encourage borrowing, but that you are cautious about not lifting controls on local government. Can you expand on that a little? Lifting borrowing controls is obviously a contentious issue, but one that is important for areas such as Aberdeen city and Aberdeenshire, which do not have the same potential as Glasgow or Edinburgh to borrow huge sums to finance roads, for example. How would you do it? Would you involve the private sector?

Amanda Harvie: We must differentiate clearly between supporting the concept of borrowing for capital projects, as opposed to revenue spend. There is a concern that some local authorities may not have the project management skills that would be required to ensure the effective management of that process, so some mentoring support or additional help may have to be instigated. I offer that comment as a suggestion that is worthy of consideration.

In this area, as you are aware, our plans to develop and deliver a modern transport system will cost £247 million over 16 years. Ideally, everybody here would like the Scottish Executive to stump up 100 per cent, but it is clear that that will not happen—certainly not this year. We need to consider involving the private sector, possibly in public-private partnerships, to ensure that there is freedom to move those initiatives forward.

I am aware that a committee is considering all those options, and the business community would certainly support that if improved efficiencies could be achieved and if time scales could be accelerated. One of the frustrations is that, for many capital projects, particularly in relation to transport, the time scales are very long. Let us bring on board private sector initiatives, so that we can do things more efficiently, more cost-effectively and in a quicker time scale.

Mr Macintosh: I am not sure that I agree with you entirely. Local government has a pretty good record of delivering roads—

Amanda Harvie: Please be clear that I am not offering those comments as a criticism of local government. I am simply making a sensible business observation about the importance of instilling good project management skills.

Mr Macintosh: I am sure that we would all encourage good project management. What I was not sure about, however, was who would run the projects that would be funded by the greater capital borrowing that you want. Would it be local government or the Scottish Executive? Who would be in charge of building those new roads?

Amanda Harvie: Different solutions need to be considered. It may well be that we have to look outwith Scotland for models, and I cannot offer a model for consideration today. It is horses for courses, but we should not be frightened to look elsewhere to see where similar projects have been delivered and how they can be delivered most effectively. We may need to set up a stand-alone organisation or company that would be accountable to local authorities but would have private sector investment. There are several possible models and I would encourage people throughout Scotland to be innovative in benchmarking the models that they adopt for delivering those efficiencies.

Ed Gillespie: Transport infrastructure is a priority for this area, and I believe that our local authorities have the project management skills to manage such projects and the responsibility to do that properly. They should be the agencies that project-manage those projects and I am confident that they can do so. How we pay for those projects is another issue and one that we could debate all afternoon and into the night.

I simply want to state that transport is an economic priority for the area and that we are working in partnership with the chamber of commerce, local enterprise companies and the two councils. We brought our proposals to the Parliament and to the appropriate minister and we await the outcome. We are trying to do what was asked of us. We are ready. We have an integrated transport strategy. We are not designing it; it is here and you can have it now.

Mr Macintosh: If the Executive blocks your plans for capital borrowing, how will you go ahead with the plans that you want to progress as a priority for your area?

Ed Gillespie: The Executive has not yet blocked the plans. It has joined the partnership, which is most welcome, and is moving things forward. We need to get the final answer. If there is partial funding or suitable funding, that is good and we will move on. If funding is blocked, the community will have to sit down and consider another way of approaching the problem. First and foremost, we are looking for the Scottish Executive to pay for our ring route, as it has paid for others.

12:45

Amanda Harvie: There are two issues: blocking plans and achieving finance. If the plans are accepted, it is still important to pool finance round the table. This is a total project that, as Ed Gillespie has said, the partners in the north-east Scotland economic development partnership are working on closely. I am pleased that, following our meeting with Sarah Boyack on 29 September, we have a closer level of engagement with the Scottish Executive. Sarah Boyack herself endorsed our vision for a modern transport strategy. That is a very good beginning and I hope that we can move forward quickly to closer partnership to deliver what we need for this area.

Elaine Thomson: One of the challenges that we will shortly be facing in this area is the same challenge that will be faced throughout Scotland: skill shortages in the highly skilled and highly educated end of the market. However, many people are underskilled or lack basic skills. As has been mentioned, our fish processing sector is in a poor state and many of the people who work in it are from our less well-off areas and have fewer skills. Addressing that issue will be a challenge for us. Significant increased amounts of money are being invested in skills development and learning opportunities in an attempt to widen access to education across the community. Do you think that that approach is adequate to address the challenges that you will face in reskilling and re-employing many of the people who may lose their jobs in the fish processing sector?

My next question is for Amanda Harvie. The witnesses from the University of Aberdeen and Robert Gordon University talked about how research and development spending and investment by the private sector can contribute to an area's economic vibrancy. They said that, in Scotland, such funding levels are relatively low. What do we need to do to change that?

My final point is about the oil and gas industry, where there are real skill shortages. Surely that is an area in which there should be increased collaboration between the private and public sectors, with more investment from the private sector to tackle some of those skill shortages.

Ed Gillespie: I would like to comment on the question about the fishery sector. If the fisheries are closed and the supply of raw material evaporates, as I suspect may happen, there are two things that we must do. First, we must consider the provision of raw material from other sources. Scottish Enterprise Grampian is conducting an industry study to try to identify what proportion of the companies at risk could be supplied with fish from other sources. That would mean that a buying consortium would be needed, and refrigeration and transport costs would also have to be taken into account. There are lots of issues to examine, but I think that there is an economic way of saving some of those businesses from simply closing. That needs to be pursued, and we are doing so in conjunction with our two councils. That is part of the answer.

On skilling, there is an area mismatch between skill shortages and availability; it would be remiss of me to present a scenario this morning in which the available or nearly-available labour could be moved to where the skill shortages exist. Frankly, that will happen in small part, but not for the most part. The availability of resources for skilling is, as Elaine Thomson said, quite considerable, and is adequate for the current problems.

Liaison with the private sector, particularly the oil industry, is going ahead apace. With OPITO Ltd and others, we are examining how we can co-ordinate our skill spends with the industry and with the major providers, our two universities and commercial colleges, to try to tie them together into a cohesive whole. We will make good progress, because the industry, having gone through a period of being relatively in the doldrums, with oil at $8 or $10 a barrel, is focused on the fact that to implement some of its announced spend it will need people, and some of the people are not necessarily available, because they are globally mobile. If the spend in the north-east evaporates, they will go to Azerbaijan or the Caribbean at the drop of an aircraft ticket. We need to draw some of those people back and to get the blend that is needed. We are working on that, and it will go ahead okay.

In the short term, the big issue for me is how we retrain fish workers if their companies go out of business. That will need some special activity, so we are looking at that.

Amanda Harvie: Ed Gillespie has summarised most of the points that I wanted to make, but it is worth remembering that focused support is required to address the skills shortage here. The shortage of people in the high-tech-skills bracket is causing particular concern. The future of our economy, and the delivery of the investments that the oil majors announced recently, will depend on ensuring that the supply base is here to deliver that activity. People are key to that. For example, we know that high-skilled engineers are leaching overseas to take advantage of global opportunities in oil and gas. That is a key concern for business.

There is also a perceptional issue, which is part of the bigger picture. We need to ensure that this area is regarded as an attractive place for on-going business investment. That means ensuring that we deliver the transport and communications infrastructure that is required so that businesses can be encouraged to invest in this area.

I do not have to hand the statistics that show how research and development investment in this area compares with the rest of Scotland. Technology is what drives our economy, particularly in oil and gas, and it is also becoming increasingly important in the rural industries. If we could put more emphasis on improving fiscal encouragements, for example those for investment in research and development, that would be a positive step. There are also further opportunities for better partnership working. We have a lot of good examples that could be rolled out across the rest of Scotland, or certainly accelerated in Aberdeen and Grampian.

There was a question on public and private sector collaboration. That is happening, but there are probably opportunities for it to be extended or more focused and rendered more efficient.

The Convener: I thank both witnesses for speaking so openly and frankly. Do not apologise for the length of your responses; they have been extremely useful. I will not apologise to committee members for running over time; the overrun was necessary, because—as in the previous two sessions—there has been much that has been valuable.

We will now adjourn. We will resume in private session as near as possible to 1.30, because we want to get the afternoon session back on track.

12:53

Meeting adjourned.

13:58

On resuming—

The Convener: I have great pleasure in welcoming the Minister for Finance and Local Government to his first appearance before the committee. Angus MacKay's predecessor had many engagements with us, which we like to think were productive. I am sure that the same will be true as far as he is concerned. I welcome also the minister's advisers.

We had a useful morning session, at which we took evidence from a wide range of organisations from in and around Aberdeen. That will be of great assistance in informing our review of stage 2 of the budget process. We look forward to hearing from the minister, after which there will be questions from members of the committee.

The Minister for Finance and Local Government (Angus MacKay): Thank you, convener. To echo your remarks, I look forward to a constructive relationship with the Finance Committee. In a previous incarnation, I certainly had a constructive relationship with the Justice and Home Affairs Committee. The occasions on which we discussed legislation and on which that committee questioned me were some of my more enjoyable ministerial duties and I hope that that will be true in my new role.

14:00

It is a pleasure to be in Aberdeen. I should declare that I am a Hibernian supporter—the last time I was here, Aberdeen had just kicked us out of the cup in the semi-finals. On Saturday, we were dumped 2-0. It is always a salutary experience to come back to Aberdeen to be brought heavily back down to earth. In case the committee feels that it must do that, it has been done already.

I turn now to the business in hand. With the committee's indulgence, I will lean heavily on the advice and support of officials. I will make my opening contribution then move to questions.

I appreciate that, for a variety of reasons, the budget process this year has been difficult for the Finance Committee and for the subject committees. Two principal factors underpin that experience: the introduction of resource accounting and the UK spending review. Despite the fact that those factors have caused us some difficulty in conducting business, the latter is at least a welcome addition to the budget process of the Scottish Executive. However, I acknowledge that the scrutiny process has been interrupted.

The first matter to consider is why resource accounting and budgeting has been introduced at this point. RAB has been at the planning stage, which was started by the previous Conservative Government, for about 7 years. While we can manage our finances separately in Scotland, we have however, to deal with the Treasury in the terms that it sets for the entire United Kingdom. The Treasury planned that the introduction of RAB would coincide with the outcome of the 2000 spending review. For our budgets, therefore, the introduction had to coincide with the outcome of that review, which came midway between stage 1 and stage 2.

I appreciate that that means that it has been difficult for some subject committees to compare directly the figures that were presented at stage 1 with some of those from stage 2. My predecessor wrote to the committee to set out the changes that would take place to the programme baselines. I hope that that information has been useful in informing this committee and other committees about the main impact of the changes.

Peter Collings gave a presentation on RAB to members of the committee. I am happy for the department's officials to work with all the committees to help them with their questions on the change to RAB. I understand that the Finance Committee is conducting its own review of RAB. Despite the difficulties that RAB may have introduced into our process this year, the greater focus that it will bring to our deliberations should help us to deliver generally better value for money throughout the Scottish budget.

An example is that our budgeting now ensures that full economic cost, especially in the use of capital assets, is measured properly. That should make us improve our treatment of capital spending by introducing depreciation and the cost of capital into our budgets. That will require departments to report systematically on how resources were allocated to objectives in what will be achieved. That is a challenging part of the changes that have been made. It is important to acknowledge that we might not get it right first time, but I intend to continue to try to improve the way in which we link our spending to our objectives and to outcomes beyond the expenditure flow.

The second difficulty in the budget process—albeit a happy difficulty in the context of increasing budgets—has, I acknowledge, been caused by the UK spending review. We published our draft plans and a fairly detailed breakdown of figures in the spring. I know that the committee has particular concerns about that and I am keen to work closely with the committee to improve future publications. The written agreement requires that we propose a budget for the following year by 20 September. We acknowledge that that will be a difficult timetable, because the outcome of the UK spending review will not be known until mid-July. My ministerial colleagues and officials worked through the summer to reach decisions on the considerable addition of money—which amounts to almost £7 billion over the three years—to previous budgets. We managed to meet the deadline by publishing on 20 September the document that is currently being considered.

In the run-up to that publication, Jack McConnell wrote to the convener to say that we expected to have information available only at level II. I note that it has been a source of disappointment—to the convener, the Finance Committee and the subject committees—that more detailed information has not been made available to assist the process that the committee has been involved in. I regret genuinely the difficulty that that has caused this committee and the subject committees. That difficulty should not occur in any normal year, when we will not have the spending review.

However, decisions that are taken on budgets below level II are taken predominantly by ministers in charge of portfolios. In many cases, funding is allocated to bodies such as non-departmental public bodies outside the Executive. I am sure that members are aware of the wider issue about quangos and the funding that is allocated to them. That is under consideration by the Executive.

The situation is, therefore, that in some programmes, level III figures have not yet been finalised. The scale of changes that have resulted from the spending review 2000 has been far greater than was originally expected. Nevertheless, there might be areas in "Making a Difference for Scotland" on which committees wish to make strategic comments. I am happy to consider how we can improve our budgeting process to avoid such wholesale changes in future. There will, after all, be a further UK spending review in 2002. In the light of the experience of the current year, it would be sensible to try to plan now for what the circumstances will be at that time.

Although it is understandable, it is unfortunate that much of this year's discussion of the budget has been taken up with the process and its shortcomings, rather than the budget itself. I do not want to be overly party political at this stage, but the committee should bear in mind that the main result of that spending review has been to deliver a substantial, record level of public spending in Scotland, which will be sustained over a period of years. From this year to 2003-04, we will see almost 14 per cent real-terms growth in departmental expenditure limits. The challenge for the Executive and Parliament is to try to ensure that we gain the maximum possible benefit from that money for Scotland. To that end, I look forward to working with the committee in the coming months and years.

The Convener: We have a number of questions to put, some of which were intimated in advance in my letter of 15 November to the minister. I would like to kick off with one of those questions.

You observed that many comments have been made about the shortcomings in the budgetary process rather than its content. The view of the committee is that those are teething problems and that we see the first year as a learning curve. This is about fine-tuning the process and I hope that the committee's review of the process will contribute to that. I am confident that, in future years, the content of the budget will be the main interest of this and the subject committees.

We raised with your predecessor the question of cash and real-terms figures—it was an issue that we thought we had dealt with. If we examine "Making a Difference for Scotland", cash in real terms appears in each of the departmental sections of the document. It is noticeable, however, that those figures do not appear in tables 1 and 2 on pages 6 and 7. In one sense, that is a fairly minor issue—it would not take much to produce the real-terms figures. I simply draw the matter to the minister's attention. We hope that in future documents, cash and real-terms figures will appear side by side in an easily digestible form.

Angus MacKay: I understand that point, and I can certainly understand the desire of members—not only members of this committee, but of some, if not all, the subject committees—to have as much information as possible available in the most readily accessible and helpful form. When Jack McConnell was Minister for Finance, he tried to explain in his letter of 1 September that there was no time—between making decisions on the spending review 2000 and the date of the statement—to produce detailed level III figures, which was one of the committee's concerns. Throughout the short time between one announcement and another, he tried to ensure that information that would be useable and useful was available to committee members.

I believe that he provided cash and real-terms equivalents for tables 1 and 2 in his letter of 20 September to all MSPs. In that letter, I believe that he also indicated that he had—not exactly deliberately—not included real-terms equivalents of tables 1 and 2 in the document itself in an attempt not to cause confusion. In retrospect, given the comments that members of the Finance Committee and others have made, I can understand why one might think that having that information would have been more helpful than confusing. It is my view that there is no reason why such information cannot be included in future years and I am happy to accommodate that request.

If there are other issues to do with the information that is included and the way in which it is presented in particular documents, I am happy for officials to consider what offers the best trade-off between availability and clarity of information.

The Convener: Thank you for that clear answer.

I want to move on to an issue that you mentioned in your opening statement, which is related to the level III figures. We understand the problems that have arisen this year. However, you said that level III will not be a problem in normal years, but that it is likely that there will be a review of the comprehensive spending review every other year, which could put us in the same situation as we are in this year. As I am sure you are aware, the budget timetable is pretty tight and we have already extended by two weeks the time that is available to the subject committees to examine the figures. However, the committees did not have level III figures—a point that was raised recurrently in the committees' reports. Can you or your officials suggest how we might get over that problem in the years that you would not describe as normal years? The lack of those figures will be a source of irritation to committees, which are trying genuinely to do the job within the timetable that has been set for the budget process.

Angus MacKay: I understand that we are constrained by two factors. One is the date by which we must produce a document and the other is the date on which the Chancellor of the Exchequer, whatever his or her political hue, decides to publish his or her spending intentions. At one level, the best that we can hope for is to consider how best to manage the time scale between those two dates to see what preparatory work might be possible at the earliest possible stage. We could then move forward to being able to make specific announcements more quickly.

None the less, the problem is that, as announcements of additional moneys are made by the Treasury, individual ministers must make some detailed spending decisions. Those decisions are subject to further discussions and deliberations with ministerial colleagues and to wider soundings and advice being taken on expenditure patterns. I do not think that there is an easy answer. I am willing to examine the timetable to see whether we can put in place structures and practices that might get us further forward more quickly. Perhaps my colleagues can add something.

Dr Peter Collings (Scottish Executive Finance Department): We can provide information down to level III about what has been spent, which could be updated within the relevant time scale. Our difficulty is that ministers must take quite difficult decisions about what should be spent in the years ahead. However, I imagine that if committees had updated information on what had been spent at level III, and if they knew the level II figures for the years ahead, they would be able to come to a view on what should be spent at level III. They could include that in their feedback. That is just a thought.

Angus MacKay: This is not directly relevant, but a similar process will be set in train for local government. From this year, local government will have to deal with three-year spending reviews and make decisions within a relatively short time scale between December's announcements and the announcement of budgets in January or February. The problem will be replicated elsewhere.

The Convener: We will have to come back to that matter. We must find some way of narrowing the figures down and getting as much information as possible to enable us to meet the time scale.

14:15

Angus MacKay: I understand that and repeat that I am willing to work with the committee to examine what it might be possible to do structurally to change the position.

Dr Simpson: Given the complications that we have experienced, it is inevitable that we will continue to focus on the process, rather than on individual budgets. My question relates to the presentation of resource accounting and the implications for the budget, including the split between capital charges and services purchases. Despite Dr Collings's excellent presentation, the way in which the figures are presented makes it difficult to tease out real increases in funding because of changes in presentation. The situation may be a one-off, but can you explain it?

Angus MacKay: Having read my briefing papers, I believe that it was right to move as we did and to take account of depreciation in cost of capital. There is nothing unreasonable about that. I understand that that makes it difficult to make direct comparisons, but after this year, once we have a consistent process, year-on-year comparisons should be much clearer. The difficulty remains that, if one wants later to do a comparison with the base year when the changeover took place, there might be some room for conflict, although it might be possible to manage that in some way.

Dr Simpson: In future, do you think that capital charges will be indicated separately from the other figures? Will it be easier to tease them out?

Angus MacKay: The short answer is that I do not know—I will defer to one of my officials on that point.

Dr Collings: It is difficult to decide what to do. The experience from the NHS is that if one keeps presenting the two sets of figures separately, the capital charges do not get taken seriously. Given that no such distinction is made in the total budget that we get from the Treasury, we are allowed to spend more on capital charges and less on other spending commitments, or vice versa, as we wish—or rather, we will be once the new system is fully implemented. There is a strong argument for viewing capital charges as genuine expenditure, just like anything else.

For those reasons, we want to mix the figures in most publications. On the other hand, if there are specific figures that the committee would find it helpful to have, I am sure that we can see what we can do.

Dr Simpson: That leads me to my second question, which is on public-private partnerships and the implications of their removal from the capital stream. What implications will the inclusion of PPPs in the revenue stream have in each sector?

Angus MacKay: I will allow Peter Collings to respond to that question if he wants to. I can understand that that is a concern. I do not know what discussions have taken place on mapping the difference, but I am happy to examine the matter closely to see what information we could provide.

Dr Simpson: I am not looking for a solution today, but it would be helpful to pursue that issue.

Angus MacKay: I can understand why.

Andrew Wilson: Richard Simpson's point is important. "Making a Difference for Scotland" is meant to be an update of "Investing in You", but when one compares the two, what has been allocated under each budget heading is—for obvious reasons—very different, because capital charges have inflated the figures quite remarkably.

We need to separate out capital charges if we are to contribute to the process. I take on board Dr Collings's comments—it is fair enough that separate areas should manage their own budgets. However, if we are to contribute anything to the process, we must know specifically what is being spent in those areas. Capital charges can be separated easily from the other figures—we require that information urgently if the committee process is to have a serious impact. That is the first point to make if we are looking forward to the bigger questions on capital charges.

Angus MacKay: I do not want to set the Executive's face against that approach. It is clear that at least two of the committee's members are concerned that that information is required so that the committees can make a meaningful contribution to and inform the debate. I am willing to examine that issue further: if providing that information is not unduly onerous and if it genuinely represents a flow of information that has value and adds value to the discussions that are taking place, it is worth exploring. I am willing to discuss that request further.

Andrew Wilson: My specific question is more to do with the document itself.

Dr Simpson: The issue of capital charges is just a one-off. We will take on board Dr Collings's point for the future, but now we have a baseline against which we can measure changes. It might be better to keep the information together, but we require capital charges to be separated out this year, so that we can understand what is going on—[*Interruption.*]

Angus MacKay: I have clarified with Dr Collings that I intend to consider the request further. Perhaps we could have further dialogue within or outside the committee about how to map out the information that members are looking for.

Andrew Wilson: We will leave that issue to one side for the moment.

I would be interested in the minister's comments on the allocation within the overall budget of a reserve, which the committee considered at a previous meeting. The allocation is £18.1 million next year, rising to £53 million in both 2002-03 and 2003-04. Are contributions made to the reserve? In other words, has a balance sheet reserve been built up, or is that the state of the reserve at any particular moment? What rules do you use to govern that reserve? What goes into the reserve, and what governs your thinking when you take money out of it?

Angus MacKay: Dr Collings can deal with the first of your questions.

I am glad that Andrew Wilson raises questions about the reserve, because it is a subject of substantial interest to me. There is a strong case for having a reserve and for setting it at a level that allows us to be comfortable about risk management within annual budgets over the period of the comprehensive spending review round.

I want to do more work on trying to establish the level of such a reserve and on the basis on which we should make judgments about that level. I understand that no hard and fast rules for the reserve to which Mr Wilson referred are set out—it is a relatively recent innovation.

There have never been rules governing access to the UK reserve, so we are in interesting new territory. It is an important new area and it is appropriate and judicious that the Scottish Executive's budget should have a reserve. I am anxious to put some flesh on the bones, such as determining the size of the reserve, how it should be used and in what circumstances it should be used.

The Convener: You might want to deal with a point that is related to the reserve, because the committee also asked for an explanation of unallocated annually managed expenditure.

After looking at table 2 of "Making a Difference", one is tempted to ask, "What is the difference between unallocated annually managed expenditure and a reserve?" One might imagine that they were the same thing.

Angus MacKay: As I understand the shorthand, the reserve is ours, while the AME is not. The AME is allocated by the Treasury, to which it is returned if there is any excess from the funds that were allocated. We create the balance in our budget-setting process and it remains within the control of the Scottish Executive, on a beyond-annual basis.

The Convener: Does the Treasury supply the figures in table 2? How did you look forward over the next three years? The Treasury must have told you how much it would allocate.

Angus MacKay: I understand that the Treasury gives us an allocation year on year for specific purposes. As part of the CSR, it would have allowed for a specific amount of AME in each year for specific purposes.

The Convener: So, are they Treasury figures?

Angus MacKay: Yes.

Andrew Wilson: If we do not allocate that money, as is suggested in table 2, what happens to it?

Angus MacKay: Do you mean the AME?

Andrew Wilson: Yes.

Angus MacKay: Any excess of AME is returned to the Treasury.

Andrew Wilson: Unallocated AME goes back to the Treasury?

Angus MacKay: Yes.

Andrew Wilson: Does that mean that, for the budget that is shown, more than £100 million will go back to the Treasury?

The Convener: It will if it is not used.

Angus MacKay: Yes. All that money would be returned to the Treasury.

Andrew Wilson: Convener, it would be helpful if the minister would comment on why that money was not allocated. I have no doubt that there will be good reasons, but could we hear from the Executive why the money was not allocated? Why was the money not taken up? Why did we not use it?

Angus MacKay: It is not a question of money being taken up, as there are agreed purposes for which AME is to be used. As I understand the situation, AME is identified and set by the Treasury, which then informs us for what purposes it is handing over that money. If the money happens to exceed the cost of the purposes for which it is set, it simply reverts back to the Treasury. However, that would not mean that those purposes would not be met in full, as per the original intention.

The Convener: Does the fact that that money is unallocated now mean that it could be allocated at some time between now and 2003-04?

Dr Collings: The money could be allocated, for example, if capital charges turn out to be higher than we expect. The two biggest items for which AME is used are spending under the common agricultural policy—the level of which depends on the number of claims and similar factors—and capital charges. We do not set the level of spending on either of those items, because they are pre-defined schemes. Therefore, if the level turns out to be higher, the allocated margin would be used to cover that excess.

Angus MacKay: If we underestimated spending in the spending review 2000, we would still have coverage from AME in each of the three years. However, we think that that would be unlikely.

Andrew Wilson: My last question on the status of the reserve is for Dr Collings. Is the reserve a flow or a stock?

Dr Collings: The reserve is the difference between the departmental expenditure limit, which is set by the Treasury for each year, and the total departmental expenditure limits for each programme that we set. In that sense, the reserve is a flow and is quite different from things such as the revaluation reserve, which will appear in our balance sheet.

Mr Macintosh: I have a supplementary question. When was the decision taken to run a reserve out of the Scottish budget? As I understand the situation, we have never previously had a reserve, but we could draw on the Treasury reserve if the need arose. I am trying to work out why we need our own reserve and whether that would rule out drawing on the

Treasury reserve.

Angus MacKay: I do not know the answer to Mr Macintosh's second question, although I understand that the Cabinet took that decision in September, when it decided what the budget roll-forward would be. I presume that that decision was based on the Minister for Finance's recommendation, that it was agreed by Cabinet and that it will be rolled forward. I do not know whether having our own reserve will preclude us from accessing the UK reserve, although I think that the answer is no—[*Interruption.*] We do not think that that excludes us from the UK reserve.

Mr Macintosh: The rules have not been drawn up. We have our own reserve and there is a Treasury reserve, but we do not have rules on when we should draw on our own reserve and when we should draw on that of the Treasury. The Treasury could turn round and say, "No—you have your own reserve." If we have our own reserve, the Treasury will never give us anything.

Angus MacKay: We have yet to encounter that situation, although I understand why you are postulating that such a situation might arise—it is not an unnatural assumption to make. That is why we must examine further the purpose of a reserve and the circumstances in which we could call upon it, which would give us considerable comfort in the context of the debate that you describe between the Treasury and the Scottish Executive.

Andrew Wilson: Can you clarify that the reserve, as an idea, was agreed by the Cabinet on the suggestion of the previous Minister for Finance, although the Cabinet did not discuss how funds would be added to or taken away from the reserve? Was it simply rolled forward and agreed to?

Angus MacKay: I was not present at that Cabinet meeting and cannot tell members what was discussed. I am not sure that I would be allowed to say, even if I did know what was discussed.

Andrew Wilson: That is up to you.

Angus MacKay: I am happy to try to get further clarification on where we are in relation to the reserve. I will write to committee members about that.

The Convener: Dr Simpson has another supplementary question.

Dr Simpson: It seems to me that it is crucial that we have clarity on what Treasury reserves should be used for on a UK basis and on what our reserves should be used for.

For example, the cost of the Lockerbie trial is £30 million and I understand that that cost is being met by the Treasury reserve. However, if we were to create our own reserve, it might be the case that we would have to pay such costs, which does not seem to me to be helpful to our budget. Can we encourage the minister to get clear rules for both of those reserves and for the interrelationship that exists between them?

Angus MacKay: I hope that members are not arguing against having a Scottish Executive reserve, but that they are arguing for clarity of purpose for the reserve. That would be absolutely right and it is my intention to provide that clarity.

Mr Davidson: My first point is supplementary to what has been said about capital. I would be interested in knowing—at some date, if not today—how you will value the capital base that is held in organisations such as local councils. Who will value the roads and other items? That is a technical question, which I have been asked. Somebody somewhere must put a value on the capital on which you will make charges.

Dr Collings: For the purposes of resource accounting and budgeting, local authority assets are treated as beyond the boundaries, so the Executive's transactions with local authorities are much the same as they were under the previous arrangements in cash. The UK Government is undertaking a project involving whole-of-Government accounts, which will endeavour to take in the information requested on capital charges, but that project is working on a much longer time scale.

14:30

Mr Davidson: I welcome the minister to the committee. You have a key role. We have already discussed some of the problems that committees have had with not obtaining figures. Do you have a responsibility for or merely an influence on how the departments work, the style of accounting that they use, how they report and how they account to the Parliament for what they do?

Angus MacKay: In a moment, I will invite Dr Collings to describe the situation. Mr Davidson asks an interesting question in the context of the discussions on best value for local authorities, the rest of the public sector and the Scottish Executive. Mr McConnell mapped out a desire that we should institute some form of best value rolling review programme for departments; I have recently started to examine that agenda. We need a proper review mechanism to allow us to examine services and service delivery department by department, sector by sector and issue by issue.

We should examine whether and how we are getting value for money, whether we can get more from the money that we are spending and whether we can do the same for less money. Part and parcel of that task is the requirement for an effective mechanism for assessing what is happening in the departments beneath the budget figures. I have started to have discussions with officials working with me in finance and local government about the mechanisms that we have in place and how they might be used to resource and support such a rolling process, which goes close to what Mr Davidson suggested.

Mr Davidson: I asked whether you had a responsibility for or an influence on how departments work. Can you command them to operate in a prescribed manner?

Angus MacKay: I was just about to ask Dr Collings to describe the current position.

Dr Collings: I will answer first on the narrow issue of accounts. Departments' basic accounts are presented to Parliament. The Parliament has been consulted on their format; I think that the Audit Committee had a session with Ian Smith and Alasdair McLeod to discuss that. In addition, other bodies—such as executive agencies and non-departmental public bodies—can be issued with accounts directions, which specify how the accounts are to be done. A routine part of our work involves updating the accounts directions to reflect present practice in doing accounts.

Mr Davidson: I asked the question because the Parliament needs to be able to see how programme spends are running at any time, particularly in relation to end-year flexibility. I asked about the minister's responsibility and about managing the process of information flows for transparency on spending. Will the finance department consider—however simplistic this may sound—developing a spreadsheet facility into which departments could feed figures to be published through the parliamentary website? That would allow members to track a programme at any point in time and find out whether the money had been spent and how much was unallocated or whether money had been diverted to or from the reserve, as appropriate. That would give us a day-to-day working knowledge of how the money was moving.

Angus MacKay: That sounds like quite an undertaking. I can understand why members would find it valuable to have a snapshot picture at any point during the financial year of where budgets were going and the likely consequences for end-year flexibility. However, I am not clear about whether we have the facility to deliver such an accurate capture of information as has been described. I am happy to defer to Dr Collings on that.

Dr Collings: We have an accounting system that gives us a continuing record of what money has been spent. Mr Davidson is interested in the money that has not yet been spent. We examine that periodically rather than on a rolling basis. If the committee wanted information such as that, we could see what we could provide.

Mr Davidson: Perhaps we could have a trial of a six-monthly viewing of that information, which could become quarterly in future. That would help us to balance what comes from the Executive in comprehensive spending review years, as we could track what is supposed to be happening as well as what might be new.

Angus MacKay: I cannot imagine that it would be impossible to gather that information. It seems appropriate in the proper management of departmental resources that there should be quarterly monitoring of where budgets are going. Mr Davidson's example of a trial on a six-monthly basis seems feasible. I will be happy to consider that proposal and decide how we would structure such an exercise.

Richard Lochhead: Speaking as someone who lives up the road, I welcome the minister to Aberdeen today.

The recurring theme of our witnesses this morning was the north-east's perceived affluence being a liability in securing Government funding. In local government, health and enterprise, there is less funding per capita in this area than in most other parts of Scotland. The Executive's use of aggregates and averages for the funding formula is seen as the reason why the many pockets of poverty in the region have been overlooked, which leads to the area losing out on a lot of public funding. Is the minister satisfied that the current formula is fair? Is he willing to review the formula to ensure that pockets of poverty in areas that are often perceived as affluent are not overlooked?

The rural affairs minister, who now terms himself the Minister for Rural Development—"development" being a much more substantial word than "affairs"—received a tiny fraction of the overall block. Moreover, he has flexibility over how only a tiny fraction of that fraction is spent, because most of his budget is linked to European funding. In the financial machinations of the Executive, how can we measure its spending in rural Scotland? Is there a case for giving the Minister for Rural Development more budget responsibility?

Angus MacKay: When we were having an informal discussion outside the chamber just before the public meeting, Mr Lochhead indicated that he wanted me to say, "I absolutely agree with everything that you have just said." Of course I will do that and am happy to do that, although I do not absolutely agree with everything that he said.

Mr Lochhead raises two important issues. In his first question, he asked whether we would be willing to review the distribution formula. I am not sure which distribution formula he was referring to, as there are several, which pertain to different services. At least two are being examined.

The distribution formula for local government is the subject of much discussion. We had intended to announce the basis for the new distribution formula last Thursday, at the same time as our meeting with COSLA to reach agreement on several other factors that affect local government finance. I took the decision to continue working on the matter for another seven to 10 days, as there was a wide range of views within COSLA about an appropriate distribution formula.

We recognise that local government in Scotland represents a variety of interest groups with different political and geographical concerns. The distribution formula is being reviewed and we hope to produce a simplified formula that is more transparent and fair. In the context of real-terms increases for local government budgets, I hope that that will start to ease some of the concerns that we have heard from various local authorities, not least in this neck of the woods.

I know from my previous incarnation as Deputy Minister for Justice that there were also concerns about police funding in this area. The distribution formula for GAE for policing is under discussion. The police have been considering what would be a fairer distribution among the various police authorities in Scotland. The difficulty is that each authority can argue that its case is especially pressing. In the past few days, I have heard different authorities saying that deprivation should be built into the local government distribution formula, as should sparsity, the special islands needs allowance, rural deprivation and so on. We have to strike a balance that satisfies all the competing interests. In the policing formula, Aberdeen can point to the oil industry and other pressures affecting the budget; Edinburgh can point to the pressures of the Parliament and the tourism industry; and Glasgow can point to the scale of the city within Strathclyde. I do not think that we can ever produce a perfect distribution formula, but we can perhaps produce a better one.

Work is already under way on local government and policing. In addition, a review was carried out relatively recently under Sir John Arbuthnott on the health formula. A programme of work has been and is being carried out on a distribution that will provide a fairer split.

Mr Lochhead's second point was on rural affairs and rural development. I was asked whether we could find a mechanism that would allow us to quantify rural spend. I am not sure about the answer to that—Mr Lochhead seems to be positing a complex piece of machinery to pull together disparate pieces of information. We would have to establish a firm base in order to know which areas and which items of expenditure we were including or not including. We would have to factor in items of expenditure that might be urban as well as rural. That seems a complex piece of work and I am not sure how we would go about it.

Mr Ingram: Both the councils that we heard from this morning expressed their fears. Aberdeen City Council spoke about its disadvantages in getting funding for, for example, social work. It felt that its GAE was too low to deal with the problems that it faced. Aberdeenshire Council felt that it was disadvantaged in a variety of respects. The reasons were, first, that the statistics for economic and social well-being showed that the area was doing well compared with the rest of Scotland and, secondly, that the proposed formula suggested that deprivation would be given a strong weighting. We have the odd situation of having severe pockets of deprivation in the city and the shire, but deprivation statistics that are low when averaged across the whole area. Somebody said that the mechanism for allocating funding was area based rather than people based. Can the minister or his officials give any reassurance that other factors will be taken into consideration to give a bit more flexibility?

Angus MacKay: A number of those issues were raised during the meeting last Thursday with COSLA, not least by the representative of Aberdeenshire Council, who had some specific concerns. Before this meeting, I had a private meeting with representatives of Aberdeen City Council and, after this meeting, I will be meeting representatives of Aberdeenshire Council, to discuss some of those concerns in advance of the announcement in December of the local authority spending allocations.

At the meeting with COSLA, we discussed a number of issues connected with the new distribution formula. It is right to say that, to date, COSLA's work has been based on a distribution formula that gave most consideration to population but had other factors built in. Quite properly, deprivation is one of those factors. An alternative approach—called block and formula—takes greater account of deprivation and some other factors and less account of population. There has been a lot of concern about those two different approaches. However, if we consider them objectively, the biggest margin of difference for any local authority between the two approaches is—at worst—0.7 per cent. That is not an enormous difference, although I appreciate that, once we stop talking about percentages and start talking about real cash, the figures are much more substantive.

My officials and I are working hard to find ways of satisfying competing concerns. As I said, it is impossible to envisage a distribution mechanism that will suit or satisfy everyone. Independent consultants, on behalf of the COSLA and Scottish Executive joint working group, have examined some of the rural deprivation issues that have been raised by a number of local authorities. Their conclusion was that it was difficult to separate the higher costs to local authorities that come with rural deprivation from the higher costs to local authorities that come with trying to provide services in sparsely populated areas. It is not necessarily possible to distinguish between the two and see where an additional cost is incurred that would not have been incurred anyway.

That research is helpful, as it starts to map out some of the issues that require further work, although it is less helpful in addressing the concerns of local authorities that the needs of their populations should be properly reflected in the distribution formula. As Mr Ingram said, councils would argue that their concerns are not necessarily taken into account in the current formula.

14:45

However, councils such as Aberdeenshire Council, which have argued over that past couple of years that it has been difficult to fund and maintain services, will be in an entirely different position from the next financial year onwards. That is partly because of the additional moneys to be announced, which represent real-terms increases in both revenue and capital and which must clearly ease the councils' spending constraints. It is also partly because of the non-cash items that will allow existing and new budgets to go much further. I am thinking specifically of the abolition of guidelines and the additional flexibility on council tax, which will enable local authorities to have a dialogue with their electorates on the appropriate balance between service delivery and development on the one hand and council tax levels on the other.

That is being done in the context of three-year budget settlements, so we are providing something for which local authorities have long argued—stability and predictability in their finances. Regardless of the level of the finances, predictability will allow councils to manage change and development much more effectively. A series of factors—the distribution formula, the overall structure of the finance package and the cash levels that will be announced for local authorities—means that Aberdeenshire Council and other councils in this area will have much more flexibility from next year.

Dr Simpson: I will come at this issue from a different angle. A piece of evidence this morning struck a chord with me—the need to anticipate decline as well as deal with real need. We have known that the textile industry, for example, has been declining for some time, but it is only when major plants close that we put in task forces and try to reskill people. It is expected that the restrictions on fishing that are likely to be announced in the near future will lead to an immediate problem and a short-term decline in fisheries and the fish processing industry. Beyond that, other problems are expected, such as the closure of the prison at Peterhead and the long-term decline in the number of jobs in the oil industry.

My question—I am sorry that it has taken a long time to get round to it—is: do you foresee a possibility, not in this budget but in the future, of introducing a mechanism that will deal with anticipated as opposed to existing deprivation, or is that a step too far?

Angus MacKay: It is difficult to envisage a mechanism that could satisfactorily give data that would be strong enough to allow us to make such allocations. I am not saying that it would be impossible, but it would be difficult. Some of the industry closures in different parts of Scotland were not predictable, so it is not always possible to anticipate decline. It might be possible to construct a mechanism to hypothesise changes in particular industries, but what happens if those changes do not materialise? We would have to think about that a lot more before I could fully answer the question.

Whether we move to a population basis or a block and formula basis in the distribution formula for local government, both have population strongly built into them. Forward projections for population are used, so there is the germ of something that could support Richard Simpson's request for a more proactive, forward-looking approach to resource requirements. That is on a narrower basis than the broader batch of indicators that he is suggesting.

Dr Simpson: That is welcome. The requirements would not necessarily be great, as we are talking about skilling and a specific, anticipatory programme. If a problem is likely to occur, which can be assessed in terms of local and global probabilities in some industries, we can begin to predict that there will be changes in the skills that are needed and we can put in place proactive measures on a more narrowly defined basis for the purposes of training, separately from European Union and other funding and from SIPs and the other things that we do for deprived areas. Sorry—I am going on a bit.

Angus MacKay: Again, that is an interesting point, but it takes us away from local government. One could envisage Scottish Enterprise and the local enterprise companies taking a role in that. My conversation earlier today with representatives from Aberdeen Council showed that they are enthusiastically engaging in cross-agency co-operation in a way that foreshadows the kind of approach that would be required to take that idea forward. The local authority, the LEC, the local health trust and the police are coming together not only to maximise the return on investment, but to look at the modernising government agenda of changing the structure of government, whether local government or non-council public bodies. That, to me, links to some of what Richard Simpson is saying about skilling and specific delivery of packages into areas where it is forecast that an industry is likely to go under or where a large employer, for whatever reason, is moving away.

Andrew Wilson: The treatment of capital charges is relevant to our review of resource accounting and budgeting. Specifically within the AME, where we assume the capital charges are sitting, we have an allocation outwith the block and formula arrangement. I am interested in the extent to which that will be affected by the convergence over time under the Barnett formula. What share of comparable departmental capital charges in UK programmes is represented by our capital charges in the Scottish budget? In other words, do we have 15 per cent of all health capital charges in the UK allocated in Scotland? Can we have that statistic?

Dr Collings: We can try to get it for you. We try to ensure that what we have covers the capital charges that we expect will arise for Scotland over the three forward years. I have not looked at how that compares with UK departments, but I can see whether we can get that information.

Andrew Wilson: You will see where I am going on this. I understood from previous briefings by officials to the committee that that would then become part of the block and formula arrangements and part of the departmental expenditure limit. Therefore, it is important to know one's base point.

Dr Collings: The base point will be the level of capital charges in Scottish spending at the time of that transition, if we assume that the transition takes place during the next spending review.

Andrew Wilson: The point is that, after this is included in the block and formula arrangements, any annual changes will merely be a population share of what happens in the rest of the UK, which would mean that we could lose our gain. However, it would be useful to find out about that.

My second question is more general and is for the minister. We had lengthy discussions with representatives of both local authorities and of the health board about cost inflation in the services that they provide. The committee is inquiring into that matter in its research programme. Will you co-operate with that research to find out the extent to which costs are rising? There are welcome record levels of spending in health and other budget areas, but costs in those areas are also at record levels. For example, labour costs represent 70 per cent of the health budget and average earnings are increasing by 5 per cent. Will you consider co-operating on research on cost inflation that goes beyond general prices to identify some of the specific costs? That would be helpful.

Angus MacKay: I am aware that this discussion has been floating around. I am not necessarily persuaded by the argument that you have presented, but I am happy to continue discussing the matter to find out whether what you suggest is constructive. The inherent risk is that we would lose comparability between budgets if we used different deflators all over the place.

Andrew Wilson: Obviously, I agree that a consistent deflator has to be applied—we do not suggest otherwise. However, it would be helpful to have an indication for each budget area of the extent to which various costs are rising. For example, 70 per cent of the health budget is taken up by labour costs; as average earnings are increasing by 5 per cent, that is a good indicator of cost inflation. The director of finance of Grampian Health Board said this morning that the drugs budget could increase by 10 per cent. The same must be the case across a range of policy areas.

Angus MacKay: Are you suggesting that GDP should be used as a deflator across budgets, but that there should be additional deflators?

Andrew Wilson: Yes. A consistent deflator should be applied but, when committees are examining the budget in their areas, they should be given an idea of where costs are rising and what the different pressures are.

Angus MacKay: I will give careful thought to that suggestion.

Elaine Thomson: This morning we took evidence from Aberdeen's two universities. Education is very important to Aberdeen, which also has Scotland's largest further education college. Developing a skills economy is important. The universities welcomed the fact that record amounts of money have been invested in further and higher education, but they had some queries. First, they were concerned about their ability to maintain some of their capital programmes. Secondly, they were concerned that the increased funding was front-loaded—the major benefit is in the first year but the increases are not so great in the second and third years. They also expressed concern about whether the sector would receive adequate funding in the long term.

Angus MacKay: Did you say that the universities were concerned that they would not be able to retain their capital programmes?

Elaine Thomson: No. The concern was whether they had adequate funding to progress their capital programmes. They said that some universities were running in deficit or were likely to run in deficit.

Angus MacKay: The university sector has been through a period of restructuring. The backdrop to that is the stability of three-year funding. An organisation that receives funding on an annual basis will have greater difficulty managing change than will one that can be sure of budgets over three years, even if there are concerns about how figures are distributed between years 1, 2 and 3. I understand that the higher education sector will receive a real-terms increase over the three years, so funding should be available to manage change.

I think that the Dearing report recommended that a margin should be built into budgets for efficiency savings by further education bodies. If institutions achieved those efficiency savings, that would allow them greater flexibility. Dearing thought that that was realistic and achievable. I am happy to examine the concerns that the university representatives raised this morning to establish whether anything can be done to assist them. The bottom line is that, if those budgets are increasing in real terms and there are realistic targets for efficiency savings, we have to look to those institutions to take the bull by the horns and make the most of their improved position.

Mr Davidson: I return to Adam Ingram's question on the funding formula. This morning, the two councils agreed that there should be a review of the responsibilities of councils. Do you have any thoughts on that view?

Two big issues that will arise are the rundown of RAF Buchan and the closure of Peterhead prison, both of which are related to Government and will have a huge economic impact. In planning, is it not easier for the Government to focus on such matters than on factors that are unknown or are over the horizon?

15:00

Elaine Thomson asked about universities. A problem is that research brownie points in Scottish universities tend to be based on high academic research achievements, and money follows those, but we are looking more and more to technology to solve Scotland's problems. Will the minister discuss with his colleagues whether the balance between academic and applied research should be reviewed?

Angus MacKay: Mr Davidson says that the councils were suggesting that it would be appropriate to review their responsibilities—I am not sure whether they suggested that they should have more or fewer responsibilities.

Mr Davidson: I asked whether they think there should be a review of that before we finalise the funding formula. They think that there should be.

Angus MacKay: The question was whether there should be a review of the range of responsibilities of local authorities before there is a review of the funding formula.

Mr Davidson: Yes.

Angus MacKay: I am not sure whether I agree that the two matters are directly related. Work is being done on the responsibility of local authorities because we are considering the possibility of a power of general competence. That work addresses questions about what local authorities are for and how they reinvent themselves in the context of the modernising government programme. I do not accept that such a review is needed to inform the distribution formula properly. The distribution formula is needs based. We are aware of the functions of local government and it should be possible to achieve a sensible new distribution formula without undertaking a review of responsibilities.

The second question was about Peterhead prison and RAF Buchan. I am glad to say that decisions about the Scottish Prison Service are the responsibility of justice ministers. David Davidson has made an important point about two matters that are firmly within the ambit of Government—albeit the air base is the responsibility of Westminster—and any decisions about their future should be more predictable. I cannot enlighten you about the future of the prison or the air base, as I do not have such information. On the general principle, I agree that where it is the Government that is making decisions about major employers in an area, the consequences should be much more predictable and, theoretically, more manageable over a longer lead-in period.

Finally, David Davidson mentioned universities and the balance between various further and higher education institutions and research awards. If there is concern about the basis on which the distribution takes place, it should most appropriately be discussed between the institutions. They are best placed to present arguments on that. I would expect them to do that before the Government took any decisions about changing the mechanism for distributing research grants.

Mr Davidson: In other words, that matter should be discussed within the SHEFC.

Angus MacKay: Yes. The institutions need to discuss among themselves what they think a fair and equitable distribution mechanism is. If some of the non-traditional universities have concerns, they should raise them with the other organisations, so that they can reach an agreed position. If they cannot do that, that would lead us into a different area of argument, but that would be a sensible starting point.

The Convener: I want to move into a slightly different area and cover two issues, one of which we flagged up to you in advance, which is the link between inputs and outputs and how that translates into outcomes. How will the measurements in "Making a Difference for Scotland" be made on a departmental basis? There are performance targets in the budget revisions document, which we will discuss later.

How do we translate inputs, outputs and outcomes? With resource accounting and budgeting, that will be more important. For example, an issue about investment in the promotion and encouragement of industry arose this morning. How can we be sure that those investments will deliver the desired outcomes? I know that you were not here this morning, so it would not be fair to discuss the details with you, but I am thinking about the local industry and enterprise issues that Scottish Enterprise Grampian and the Aberdeen Chamber of Commerce discussed with us.

Angus MacKay: That is a wide and detailed area and the bottom line is that we are talking about a long-term aspiration and are only at the foothills of trying to get anywhere near meeting that aspiration. The starting point needs to be the setting of clear objectives and targets. That probably needs to be rolled forward in relatively defined areas to begin with. For example, we have had much discussion with local government about its concerns over ring-fencing and hypothecation, which represent only 7 to 10 per cent of its budgets but cause disproportionate grief to the Executive, local authorities and other people who take an interest.

We are proposing to look at local outcome agreements so, instead of the Executive saying, "This money must be spent on X" we can start to agree with individual local authorities what we are trying to achieve in general terms and, as far as possible, in specific terms. If we can get those pilots up and running relatively soon—I am optimistic that we can, although there is a lot of work to be done—it will be possible to try to marry objectives in a way that allows greater flexibility, but starts to tie the outcome at the far end of the process to the investment at the beginning.

There may be lessons that we can learn for the broader objective of taking what has been published in "Making a Difference for Scotland" and assessing whether it is having its intended effect. At this stage, that is a slightly nebulous topic for discussion, because we do not have the apparatus in place that would allow us to do anything else at this stage. So my short answer to the representations that you received this morning and the other concerns that people have is that we need to start with the smaller building blocks. Once we have examples not so much of best practice as of working practice, which genuinely allow us to look at outcomes in a meaningful way, we can start to roll out that process across other parts of the public sector.

Dr Simpson: I can give an example that you might want to pilot: spending less than grant-aided expenditure on the care of the elderly, the outcome of which is delayed discharge in the hospital sector. That outcome rolls on to another area. This is a classic situation in which money, amounting to £50 million to £70 million, that was supposedly allocated for one area—certainly according to the evidence that we received from Sir Stewart Sutherland—was underspent on that area and spent instead on another: children's services rather than care of the elderly. That had a direct consequence on another area of the budget, which was not allowed for.

The question that I asked Councillor Norman Murray when the Convention of Scottish Local Authorities appeared in front of us, and which I got no answer to so I will put it to you, is that if you end up with public service agreements, or something equivalent to them, that have an outcome measure, what happens if the outcome measure or its trend is moving in the wrong direction? Do you say that you will withdraw some of the funding? What is the stick and carrot that you will use? If you are going to get rid of hypothecation, what are you going to put in its place to deal with the situation when the outcomes are not being met in an agreed way?

Angus MacKay: That is a fair question—and a difficult one to answer because it is far ahead of where we are now. It concerns one of the issues that we have to discuss when we are trying to pull together local pilots. It is not dissimilar to the questions that arise in the context of ending guidelines and whether we should go straight to capping as a big stick to force local authorities to do various things in relation to expenditure and council tax.

Given that we are discussing local government, my recent discussions with my colleague, Susan Deacon, may be of interest to members. I imagine that she had a similar discussion with Richard Simpson in another context, as she spoke quite forcefully about examples of outcome agreements that are being worked on and developed in the health sector.

Richard Simpson made a point about money that had been allocated to community care in broad terms but that had not been spent. Models are developing in other areas which might have some import for our discussion, and his point on community care may be being addressed already.

Dr Simpson: I have one more question—on voluntary organisations, one of which appeared before us this morning—and then I will shut up. A major concern of the voluntary sector in budgeting is that voluntary organisations are often on relatively short-term funding, although they are also eligible for excellence funds, challenge funds and other innovative bid arrangements.

Many voluntary organisations believe that, over the past few years, they have been subjected to cuts by local authorities and central Government. At the national level, where the Government is responsible for funding those organisations, will you consider implementing a clock mechanism to prevent funding running out? In other words, decisions should be taken when three months of funding is left—a so-called three-month clock system.

Perhaps I should explain that in a little more detail, as I see the minister is looking mystified. For some projects, European funding ran out in April and new funding was not going to be available until September. Your predecessor kindly implemented bridging funding to allow those projects to proceed. Redundancy notices were being issued in a number of worthwhile projects, although it looked as if continuation funding would be made available.

The situation is often repeated: funding runs out before decisions are made and redundancy notices must be issued. Sometimes, projects are funded beyond the end of the funding stream in the hope that they will be picked up at some point. Such situations are unsatisfactory, particularly if there is to be a genuine compact with the voluntary sector.

At a Government level, will you consider introducing a mechanism that will always provide three months of funding after a decision whether to continue a project is taken?

In your discussions with COSLA and in the light of the increased funding that will be available to local authorities over the next three years, will you ensure that local authorities treat voluntary organisations on a similar basis—which would be much better than what happened in the past—to permit good human resource management?

Angus MacKay: Richard Simpson makes a number of interesting points. I had not heard of the clock proposal before and I am happy to go away, find out more about it and consider it further. I understand the benefits of that proposal to those who are trying to deliver services in the voluntary sector and I am keen to put on the record my strong support for the work of the voluntary sector in Scotland, in which I started my employment career.

I can envisage disadvantages in having such a clock mechanism, as it would send a message to funding providers about what might be available if funding decisions are delayed, but I am happy to examine the proposal further.

I am conscious of the fact that if we give local government three-year budgets with real-terms increases, those who deal with local government will look for extra stability. There is no reason why the voluntary sector should be excluded from that process.

It is true to say that, in the past, the voluntary sector was a relatively soft touch when it came to making budget decisions. After all, the staff of voluntary organisations are not the staff of local authorities. I am also anxious that, wherever we go with three-year funding, we should seek to preserve the independence of the voluntary sector—its capacity to be distinctive from the mainstream public sector—which is fundamental to the quality of the services it delivers.

There is no doubt that three-year funding gives local authorities greater flexibility. It also enables them to take an independent view about the circumstances and the best shape of service provision. That must be preserved whatever path we go down.

15:15

My perception has been shaped heavily by my experience of having responsibility for the Scottish Executive's policy on drugs. An issue that I was dimly aware of became much clearer to me: the complicated and sometimes conflicting streams of funding from the Scottish Executive and other bodies, not only public bodies, can cause the voluntary sector tremendous difficulty because the funding comes with strings attached or requires certain measures, which are not necessarily part of the core work of the institution or voluntary body, to be in place. Cash might be available and certain bodies might have access to it, but they might not necessarily be the bodies that need it at a given point in time.

Although I cannot promise anything fantastic, I would like to examine how funding that emanates from the public sector reaches the voluntary sector, to what extent it may conflict and whether we can streamline the funding and make it more flexible. I am not sure of the extent to which that will be possible, but I am enthusiastic in my desire to examine it and see what we can do.

Elaine Thomson: This issue has been raised previously: it is difficult to understand correctly how much money has been spent on a policy area such as drugs. Another sector, which was mentioned by the Enterprise and Lifelong Learning Committee, is tourism. Could more be done to allow financial information to be presented in several ways so that we can see how much money is being spent on drugs issues or tourism, even though it is spent across several departmental headings?

Angus MacKay: As I am in the middle of reading into my new ministerial brief, I am all in favour of simplified information that allows us to understand what is being spent where. In some circumstances budgets are necessarily complex and difficult to access. That does not mean to say that we cannot try to find ways of making the information more usable and accessible.

In respect of the drugs issue, the Executive policy unit produced its own research paper on the global amount that was going out the door of the Executive. That has helped to identify where revenue streams come from and go to. I am not sure that it is possible to do that for every aspect of expenditure or every cross-cutting area. Perhaps it is more practical in the cross-cutting areas because there are fewer of them. It is probably not a feasible instrument for openness and transparency in every aspect of public sector spending. In some circumstances it can throw light on disparate items of expenditure that all feed into the same overall objective. Spending on the drugs issue includes some health spending, local government spending, prison spending, justice department spending and not quite Executive but related spending.

More work can be done on that, but I am not sure that it is a one-size-fits-all solution that would satisfy everyone’s need or desire for more information on every issue. Over time we could attempt to simplify how we present information and address pressing areas where it is felt that a more transparent approach to funding streams needs to be put on the table in order to inform the debate.

Rhoda Grant: My first question is a supplementary to one that was asked a while ago. You talked about three-year funding for local government and said that it would be up to individual authorities to set their council tax. A concern that was put to us this morning is that it might be capped retrospectively, if the level is not to the Executive’s liking. Will you answer that?

Angus MacKay: That question raises an interesting issue. I read in a newspaper—either over the weekend or at the tail-end of last week—that a director of finance, or a chief executive, is claiming that this is an assault on local democracy.

I do not understand how the abolition of capping guidelines can be an assault on local democracy. In fact, it would seem to be a significant step forward in genuinely reintroducing flexibility, democracy and political discussion to what goes on around local government. I think that that is both healthy and welcome.

Over the past two or three years, councils have shown responsibility: council tax levels have, by and large, been reasoned and reasonable. However, local government has wanted for a long time to be able to act with greater autonomy; it has wanted to quantify the requirements for service delivery, expansion or reorganisation in given areas. It is appropriate, in a context of three-year figures, which we are giving to local authorities, also to provide the flexibility on guidelines themselves.

Now, the more important dialogue should be not so much between local authorities and the Executive as between local authorities and their electorates. That is the place for discussion on what the appropriate council tax level is, on the money that will be received from the Scottish Executive and on the services that councils wish to provide and that we all, as members of the local population, seek to use.

I have been asked two things. First, under what circumstances will the capping powers that remain—as a sanction of very last resort—be used? We really have to feel our way forward on that. Secondly, I have been asked to indicate what I expect council tax levels to be. The whole point of abolishing guidelines and creating flexibility is to allow local authorities to make the running on that question. If a council seems to be running seriously out of control on its expenditure or council tax, we would seek to have discussions with it on the matters that are forcing it down a certain path, or on the reasons for which it feels certain levels of expenditure or council tax are necessary.

I do not wish to give a hard-and-fast rule, specifying circumstances in which we will intervene. That is essentially capping, or guidelines by another name. I genuinely want local authorities to take advantage of the current opportunity to show responsibility in budget setting and council tax setting, and to show flexibility in shaping their services in the context of three-year budgets.

Rhoda Grant: The council representatives who spoke to us this morning said that if, after consultation, they had agreed with the people for whom they were providing services on the services to be provided and on the rates of council tax, they would feel uneasy about such a level of autonomy being taken away.

Secondly, on borrowing, the council representatives said that they would have capital schemes that would cut long-term costs, but because of borrowing constraints they were not able to access them. There was also a suggestion of a central fund for capital expenditure, for which councils could make bids. That could be used for cost-saving schemes.

Angus MacKay: Rhoda Grant has raised a number of interesting issues. Essentially, we already have something along those lines: the modernising government fund. We invite various organisations—not just councils—to bid into the fund. If councils and other bodies feel that there are capital investments to be made which will produce revenue savings or improve the quality of services in the longer term, that is what the modernising government fund is for.

Revenue settlements and capital settlements are included in the new three-year funding settlement proposals. Local authorities should have much greater flexibility to make their capital consents go further in the context of the stability of a three-year settlement. Some of the investment packages required to help reinvent or modernise local government are already provided by the promise of that settlement. That is in the context of a real-terms increase of, I think, in excess of 50 per cent in the local government capital spending settlement. The environment is substantially changed.

As for pooled capital programmes, one authority's meat is another's poison. This gets back to the discussions on the distribution—on what is acceptable and what is not. I am aware of the tremendous amount of discussion on, for example, the capital receipts regime, whereby authorities that can realise capital receipts do so and then have to make a contribution into a central pot. I have no doubt that that has acted as a deterrent to some authorities' realising receipts at all. That is in no one's interests.

We must try to devise a system that allows local authorities appropriate capital expenditure. Perhaps we should consider the distinction between revenue and capital settlements. There are other areas in which we want to continue working, as what we have just announced is not the end of our view on flexibility for, and the modernising of, local government. We need to have substantially more detailed discussions with local government—and especially with COSLA—so that we can be reassured about what that will mean in practice. Modernisation and flexibility will give local government in each individual council area the opportunity to make decisions about what levels of spending are appropriate in the circumstances.

It is not a matter of the Scottish Executive allowing councils the power to set council tax levels only to take that power away later; it is a matter of the councils being accountable to their electorates and introducing investment packages and policy proposals that make sense to their electorates. If that re-injects more politics into local government, that will be a healthy development: it will lead to much more constructive debate about the differences between the approaches of the various parties that run local government.

The Convener: I am going to operate end-agenda-item flexibility and roll my question over into the next agenda item. Ken Macintosh will ask the final question in this session.

Mr Macintosh: Thank you, convener. You will be pleased to hear that, in the half-hour since I caught your eye, most of my questions have been answered.

The Convener: I take that as a rebuke.

Mr Macintosh: No, it is a compliment to the committee on their questions.

I seek specific clarification on one issue and reassurances on a more general issue. Last year, the Minister for Finance introduced a system of end-year flexibility, which incentivised departments by allowing them to keep 75 per cent of their budgets and requiring only 25 per cent to be handed back to the Executive to be allocated according to its priorities. That system was agreed in the Finance Committee but, as we all know, it ran into some trouble over the treatment of the health budget. Have you had any thoughts about whether that system should be retained or whether a new system should be introduced this year?

I was encouraged by what you said about moving towards a system that is based more on outcomes and outputs, and about tracking funding across the budgets. We are in a period of transition, moving towards resource accounting. However, I am disappointed that, a year and a half into the Parliament, we are less able to understand the budget process than we were a year ago. Information is not transparent and Government is not as accountable as it should be.

Perhaps because we have only level II information, rather than level III information, it is difficult to track much of what is happening. It is up to the Executive to explain more clearly in the documentation what it is doing with the money it is spending. The documentation could put greater emphasis on outputs and outcomes so that instead of beginning with our priorities, more emphasis could be placed on how we are proceeding towards our outcomes and agreed objectives. In that way, we could track funding across all departments more clearly.

15:30

Angus MacKay: Your first question concerns EYF and the 75:25 per cent split, which the previous Minister for Finance implemented. He was right to accept that system, as it was a sensible mechanism to set in place. Nevertheless, we are all acutely aware of the difficulties that were encountered in respect of a specific piece of EYF.

The subject will inevitably emerge again because budgets, in my experience, almost always have to deal with it. Internal management within individual departments and spending services may reduce the problem a little. I think that the intention of the mechanism was to avoid, rightly, the fabled local authority roads situation, in which tarmac suddenly appears all over the place in February and March as the end of the budget period approaches. Who knows whether that really happens—but having a mechanism in place that discourages it is just good and sensible housekeeping. The mechanism is right and should remain in place. I intend to look again at how we deal with EYF when it is apparent that it will be available. The mechanism is valuable and will also allow us to address in-year concerns as we move through a budget period.

I welcome the comments about outcomes. If we are to make progress, we need to do so in a constructive atmosphere. The relationship between the Executive and local government is just one example of where we need a relationship to be constructive. What can be achieved through outcomes measurement, as opposed to ring-fencing and hypothecation, marks quite a substantial change in that relationship. Outcomes measurement also holds out the promise of being able to focus on what the spend is supposed to achieve. That will be more productive than simply saying that we are happy and that people can go away and do whatever they want as long as something comes under a particular budget heading.

Mr Macintosh is right to say that if, in our documentation and the information that we make available, we can include information on where the outcome process is going, that will better inform our discussions. Our difficulty is that we are at the very foothills of a process that will take a long time to set in place meaningfully. At the moment, that process is more an aspiration than anything else. However, as we progress, if it is possible to develop the process and build information on it into the information that we supply, we will be in a better position to hold more meaningful discussions on the Executive's position on its individual budget commitments.

I can understand people's disappointment in our current position. The CSR will play a large part, and with more detailed information, members of this committee and others will be a good deal happier about their ability to get their teeth into the subject matter.

The Convener: Thank you for answering our questions so fully over a period of at least an hour and a half, and possibly more. That concludes our consideration of the 2001-02 budget process.

Budget (Scotland) Act 2000 (Amendment) (No 2) Order 2000 (SSI 2000/draft)

The Convener: The minister is not quite off the hook yet, as he will be staying to discuss agenda item 4—the snappily titled Budget (Scotland) Act 2000 (Amendment) (No 2) Order 2000 (SSI 2000/draft).

Angus MacKay: I have some brief remarks that I will rattle through. Thank you for the opportunity to give evidence on the autumn revisions that I laid before Parliament on 24 October.

Members will be aware that the autumn budget revisions are the means by which the Executive seeks parliamentary authority for the various changes in expenditure in the current year. The budget revisions embody changes in expenditure to meet the Government's priorities—for example, the taking on of the budget 2000 additions, the allocation of end-year flexibility that the Minister for Finance announced on 28 June, and the access to the Whitehall reserve. In addition, a series of technical changes is concerned with basic in-year management—for example, transfers between votes in the Scottish Executive and between the Scottish Executive and other United Kingdom Government departments.

The papers that members have in front of them comprise an appropriations order, which is, in effect, the mechanism by which Parliament can authorise the expenditure. Members also have a booklet that sets out the detail of changes. I will draw members' attention to some of the changes that have been made to the current booklet. They are designed to make the document more penetrable and usable—which is not inappropriate in the context of earlier discussions. The budget revision is, by its nature, inherently detailed and technical, but I hope that the changes to the booklet will assist members.

A table at the start of each departmental section tries to identify the major changes by level II and gives a reason for the changes. The format has been revised to reflect the budget document's format. The in-year targets and aims have been revised, and we have updated the real-terms numbers.

The budget revision covers five major elements: end-year flexibility; take-up of budget 2000 moneys; access to the Whitehall reserve; transfers to Whitehall; and transfers from Whitehall. The major elements of those changes are the take-up of EYF of £435 million, which is broadly split between additional spending power of £430 million for portfolios and £5 million of a reserve; budget 2000 additions totalling £288 million; and £30 million of Treasury reserve claims covering hill livestock compensatory allowances and forestry. Those additional resources will deliver priorities to make improvements to people's lives in Scotland.

By way of example, in health, the take-up of the £135 million of end-year flexibility will deliver additional patient care, begin the implementation of the working time directive and reduce bed blocking. That is on top of the £173 million budget 2000 consequential, which will deliver a major public health initiative including a range of information projects on alcohol, obesity, diet and exercise; £60 million to address delayed discharges, bed blocking and winter pressures; £14.1 million for doctors and nurses; and £6 million for drugs and homelessness. The remainder will be used on implementing the Arbuthnott report, community care and replacing old and obsolete equipment.

In education, the budget 2000 allocation of £81.6 million will deliver additional resources to schools. In education and lifelong learning, the EYF allocation of £73 million will contribute to meeting the work of Cubie, to supporting tourism and to supporting a range of adult learning and schools projects.

I hope that this brief introduction helps to put the proposed budget changes in context. From my experience earlier today, I know that committee members will have comments and questions, and wherever possible I will try to answer them with the assistance of my officials. However, given the detail that is involved, I may wish, if it is acceptable to committee members, to provide the answer in writing in some cases.

The changes that I propose are part policy driven and part technical, and they are sensible. On that basis, I commend the order to the committee.

I move,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2000 (Amendment) (No. 2) Order 2000 be approved.

The Convener: I propose to proceed as we have done in the past; we will go through each of the 15 budget documents and invite comments or questions from members. We will deal with the documents in the order in which they appear. The reason for the order in which they appear is not clear—they are not alphabetical—but none the less we will continue. First is the rural affairs department, beginning on page 5.

Mr Ingram: There is a revision to increase the amount of money that is set aside for flood prevention. Does that take into account the latest announcements by Mr Prescott and the consequentials for Scotland?

Angus MacKay: No, it does not take into account the additional amount.

Mr Ingram: So the money will come through in due course in this year.

Angus MacKay: Yes, absolutely. It is an addition to the budgeted amount.

Andrew Wilson: I would like to take the opportunity to say that while we always whinge about documents when they are not improving, from my humble perspective, this document is a radical step forward. The improvements that the minister mentioned are welcome. You and your officials are to be commended.

The Convener: It is on the record—there is no escape from that.

Andrew Wilson: I have a question on the UK reserve. I am aware of the discussion that we had earlier, but could we have a note on how the relationship is governed? What is the process of negotiation, how do you make the call, and what governs the outcome, because this is a grey area to me?

Angus MacKay: That is a fair question. I am happy to go away and bring back an answer to the committee.

Andrew Wilson: A reply to my second question will help us as we go through the document. Can someone briefly explain the terms current expenditure, notional capital charge, less retained income and less notional capital charge, which are used in the table? Can you also explain why retained income is taken away? I am looking for a description of what we are looking at on each page.

Dr Collings: Retained income quite simply means that if one's estimate of the income that one is allowed to spend changes, one has more, or less, to spend. We seek Parliament's authority to use any income that we get from charges or VAT. That estimate goes up or down.

Mr Macintosh: I want to understand the figures on page 6. If retained income is money from VAT and so on, why does it equal notional capital charge? I am sure that there is a good explanation.

The Convener: There is, and we are just about to get it.

Angus MacKay: We undertake to write to you on that one.

Mr Macintosh: I want only to understand the table.

Mr Davidson: This time last year, when the minister's predecessor sat here doing exactly the same exercise, I asked about long-term funding for the activities of the Forestry Commission. He said that the wood that is produced does not get enough money and that the funding is really just a bail-out.

The Convener: The Forestry Commission has its own section, but now that you have started, you may as well continue.

Mr Davidson: Why is there another large payment towards the activities of the Forestry Commission? I apologise for having the wrong heading.

Dr Collings: It is a continuation of the same problem: forestry is suffering from low timber prices. Last year, you discussed what should be done to fix it. This is what is being done this year to help sort it out.

However, we recognise that there is a long-term problem. Discussions are taking place with the Forestry Commission and—because it is a cross-border body—the UK Government on what to do about that.

Mr Davidson: That is helpful and I look forward to further comment on the matter.

The Convener: If there is nothing further on rural affairs, we will move to the document beginning on page 16, on the Scottish Executive development department.

Andrew Wilson: I have a question about paragraph (j) on page 17, on local government. The transfer from the enterprise and lifelong learning department of £31.7 million does not appear in the department's table on page 47. I want clarification on that.

Secondly, when the negotiation was taking place in the Executive between local government officials and the enterprise and lifelong learning department, what discussions did you have with your colleagues in local government and in enterprise?

Angus MacKay: Not being inside Jack McConnell's head, I am unable to tell you what discussions took place. However, I invite officials to comment on your first point.

Andrew Wilson: The second point was pure mischief—

Angus MacKay: I had spotted that.

Dr Collings: That sum is being funded out of EYF and was therefore not in the enterprise and lifelong learning line to begin with. It was EYF that would otherwise have gone to the enterprise and lifelong learning department but which is being put there for the purpose described.

Mr Macintosh: Paragraph (f), at the top of page 17, states that £1 million is a "Transfer for vulnerable projects." In fact, the answer is under paragraph (h), as it is a transfer within the department.

15:45

The Convener: As there is nothing else under that heading, we will move to the education department on page 34.

Andrew Wilson: I have spotted the £31.7 million that I asked about earlier.

The Convener: Where are you looking?

Andrew Wilson: In paragraph (a) on schools, on page 34, there is a transfer of £31.7 million into the development department. That will be it.

The Convener: As there is nothing else under education, we will move to the enterprise and lifelong learning department on page 47, and I will take this opportunity to ask my rollover question.

I refer the minister to page 59. The performance target provides for £60,000 for "Innovative projects assisted". We heard evidence this morning from Scottish Enterprise Grampian about its learning house scheme, in which it took over a house in a council housing scheme and set up a learning zone to assist families to learn together, use information technology and improve their job prospects. My purpose in asking this question is to highlight that project as well as to ask the minister to comment on it. The committee was taken with the project. Is it the sort of project that you envisage being assisted under that heading? The general view within the committee was that it would be worth while if that initiative could be extended to other local enterprise companies in Scotland.

Angus MacKay: I do not know the details of that project, but I would be happy to examine them and find out what impressed the committee.

I do not know whether projects such as that would be covered under "Innovative projects assisted". I would need to get further details, and I may have to write to you on that question.

The Convener: Sixty thousand pounds is not a large amount. Why is such a small figure allocated for innovative projects across the country? I would have thought that the figure might have been larger.

Angus MacKay: That figure struck me as curious. If the project was excellent and that sum covers it, we will not get too many projects—

The Convener: That was a hook to hang the question on. I was not saying that that project was covered under that heading.

Angus MacKay: The sum that is shown under that heading is relatively small; if it were intended to cover such projects, we would not get many of them for that amount of money. We will have to do some more digging to find the information that you require.

The Convener: Are there any other questions on enterprise and lifelong learning?

Mr Davidson: The figure at the top of page 57 for the number who are employed in tourism-related jobs does not coincide with the Scottish Tourist Board's figures. There is quite a shortfall.

Given the review and changes that are taking place in the STB, is there likely to be a supplementary estimate for that figure? The Minister for Enterprise and Lifelong Learning has indicated that she wants to make changes. I assume that the figure is just a snapshot at a certain point in time.

Angus MacKay: I am not sure of the answer to that question. We will have to wait and see what the minister and the tourist boards produce to find out what affect there will be on the budget. At this stage, I do not anticipate a supplementary estimate on that figure.

I return to the point that the convener made. The figure for innovative projects on page 59 probably refers to 60 projects being assisted rather than £60,000. We will give you more information in writing on that.

The Convener: We will move to the health department on page 61.

Andrew Wilson: The figures on page 61 show the transfer of funding from the Northern Ireland Office to the Department of Health in England for the cost of treating Irish residents in Scottish hospitals. There does not appear to be a subsequent transfer in the opposite direction, from the Department of Health. Why is that? Is that just a net figure?

Angus MacKay: Those two figures cover the net cost of Irish and Scottish residents. Whether that nets off anything going in the other direction is another matter. I am not entirely sure. Does it?

Dr Collings: In some cases, the payments would be made directly to the trusts that were giving the treatment. The figures show only what flows from our accounts; they do not represent the total picture for the transactions that take place, some of which go through the accounts of local health bodies.

Angus MacKay: We can trawl for more information, if that would help.

Andrew Wilson: It is a net point, which is why no subsequent flow is shown. That answers my question.

Mr Davidson: On page 65, the figures for

"General Pharmaceutical Services" show income from prescription charges and so on, including

"payments under the Pharmaceutical Price Regulation Scheme".

Can those payments be detailed, please?

The Convener: We could have confirmation of those in writing, I should think.

Mr Davidson: That is fair enough.

Angus MacKay: Probably, yes. I cannot give the figures right now.

The Convener: If you could provide them in writing, that would be fine.

Dr Simpson: Page 63 details performance targets. One or two dates are given by which targets will be met, but the time scale for many targets is vague and would not allow us to hold anyone to account subsequently for what happens. I appreciate that it would be difficult to set a deadline for some of those targets, but it would be helpful if they were banded into short-term targets, which are intended to be met in this budget, or—as appears more likely for some of them—medium-term targets, which will take three or four years to achieve. Having no dates next to the targets is not helpful and almost implies that there is no point in setting deadlines.

A little more firmness in the targets would allow us to hold the health boards to account. We hear constantly from the Minister for Health and Community Care that certain issues are matters for the local health boards to decide. If we are to hold the boards accountable for the achievement of targets—in the same way that was described earlier for local authorities—we must have firm deadlines.

Angus MacKay: That is a fair point. We will happily consider that and decide whether we can set such deadlines. Susan Deacon will make a statement in the near future about the structure of the Scottish health service and other issues, which may partially address that issue. We will certainly consider it.

Dr Simpson: Thank you.

The Convener: The next section of the report concerns a department with which the minister will be familiar—the justice department.

Mr Davidson: Page 70 gives a figure of £300,000 that is to be transferred to the Crown Office for the European convention on human rights. Is that a finger-in-the-wind prediction? What is it based on?

Angus MacKay: I see the figure, but I am not sure about the detail of it. I shall have to go away and examine what the £300,000 is based on. I shall try to dig that out.

Mr Davidson: Everybody is working in the dark a bit, regarding ECHR costs anyway. I just wondered what the figure was based on.

Angus MacKay: We will write to you about that. I suspect that the figure is based on a mixture of planned work on the ECHR, which was included in the programme anyway, and other matters that have arisen as a result of challenges under the ECHR. We will map out the details for you in writing.

Mr Davidson: Thank you.

Elaine Thomson: You will probably have to write to us about my point too. I notice, on page 70, that £818,000 is to be transferred from the development department as

"additional funding for Women's Aid".

Does that mean all women's aid organisations, or only Scottish Women's Aid affiliated organisations?

Angus MacKay: I will have to write to you. I am not aware of the details.

Elaine Thomson: I would not mind knowing a bit more about what the money will go towards.

Angus MacKay: We will dig out the detail on that and write to you.

Andrew Wilson: Given the sensitivity that surrounds public spending on elections, will you explain what is meant on page 70 by

"Transfer to Scotland Office for Electoral expenses"?

Angus MacKay: Do you mean the figure of £700,000?

Andrew Wilson: Yes.

Angus MacKay: I am not sure which sensitivity you are referring to—I obviously need to read the newspaper more often. I understand that we are the cause. The figure is for outstanding expenditure on the Scottish parliamentary elections.

Andrew Wilson: Why is the figure for refurbishment of General Register House being transferred from the Scottish Executive admin budget?

Angus MacKay: I will need to give you an answer in writing. That is a minor point, but it is a bit technical.

The Convener: Page 87 deals with Scottish Executive administration. The last item on that page indicates that £450,000 was transferred to the Food Standards Agency Scotland. However, the entries for the FSA on page 110 give a figure of only £1.5 million, which was transferred from the health department. If the £450,000 is shown leaving the Scottish Executive administration budget, why does it not appear under the Food Standards Agency Scotland budget?

Angus MacKay: That is a good question. I am waiting for my officials to come up with an answer. I am not sure whether one will emerge or not.

Mr Macintosh: The £450,000 figure appears on page 61 under paragraph (a).

The Convener: I see that. Does that mean that the money was transferred from the health department and is included in the £1.5 million figure?

Angus MacKay: Yes.

The Convener: Our thanks to the eagle-eyed Mr Macintosh. You need to get out more, Kenneth.

Are there any comments on the Crown Office and procurator fiscal service budgets on page 91? If not, we will move on through page 95 on the General Register Office for Scotland, page 100 on National Archives of Scotland, page 103 on Scottish Executive secretariat and page 107 on the Forestry Commission. Page 110 deals with the Food Standards Agency Scotland.

Mr Davidson: Will the additional spending allow the agency to come up to full complement?

Angus MacKay: Do you mean spending on the Food Standards Agency?

Mr Davidson: Yes.

Angus MacKay: Are you talking about the £1.5 million figure?

Mr Davidson: Yes.

Angus MacKay: That figure is an EYF transfer from the health budget to be used for a variety of things, including spending on monitoring and surveillance, public awareness and research in relation to public health. I do not know whether the money will allow the agency to come up to full complement, but if you want me to write to you on that, I will.

The Convener: Page 114 outlines expenditure on the Scottish Parliament. Are there any comments?

Andrew Wilson: Would not it be good for somebody to issue a press release saying that the Scottish Parliament has underspent its budget by nearly £19.5 million?

The Convener: It is not really for the minister to comment, but that seems to be the only section that has no performance targets.

Page 117 deals with Audit Scotland. If there are no comments on that page, that completes scrutiny of the autumn budget revisions.

The question is, that the Finance Committee recommends that the draft Budget (Scotland) Act 2000 (Amendment) (No 2) Order 2000 be agreed to.

Motion agreed to.

The Convener: I thank the minister for coming to Aberdeen, participating in our discussions and answering our questions fully.

That concludes our business today. Before I close the meeting, I thank everybody for coming, not least the members of the public who have been in the gallery. We are pleased that they took the trouble to come and engage with the Parliament; that is a large part of the reason why we are here. I also thank everybody associated with Aberdeen City Council for their hospitality and for the facilities with which we have been provided. Finally, I thank all the members of the Parliament's staff who travelled with us, including the clerks, the official reporters, the sound engineers and the security staff—I hope that I have not missed anyone out—who have done such an effective job in ensuring that the meeting ran perfectly smoothly.

Meeting closed at 16:01.

Members who would like a printed copy of the Official Report to be forwarded to them should give notice at the Document Supply Centre.

Members who would like a copy of the bound volume should also give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the bound volume should mark them clearly in the daily edition, and send it to the Official Report, Parliamentary Headquarters, George IV Bridge, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Tuesday 28 November 2000

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

PRICES AND SUBSCRIPTION RATES

DAILY EDITIONS

Single copies: £5
Meetings of the Parliament annual subscriptions: £500

BOUND VOLUMES OF DEBATES are issued periodically during the session.

Single copies: £70

Standing orders will be accepted at the Document Supply Centre.

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

Single copies: £3.75
Special issue price: £5
Annual subscriptions: £150.00

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75
Annual subscriptions: £150.00

Published in Edinburgh by The Stationery Office Limited and available from:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh EH3 9AZ
0131 228 4181 Fax 0131 622 7017

The Stationery Office Bookshops at:
123 Kingsway, London WC2B 6PQ
Tel 020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
Tel 0121 236 9696 Fax 0121 236 9699
33 Wine Street, Bristol BS1 2BQ
Tel 01179 264306 Fax 01179 294515
9-21 Princess Street, Manchester M60 8AS
Tel 0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
Tel 028 9023 8451 Fax 028 9023 5401
The Stationery Office Oriel Bookshop,
18-19 High Street, Cardiff CF12BZ
Tel 029 2039 5548 Fax 029 2038 4347

The Stationery Office Scottish Parliament Documentation Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

Telephone orders and inquiries
0870 606 5566

Fax orders
0870 606 5588

The Scottish Parliament Shop
George IV Bridge
EH99 1SP
Telephone orders 0131 348 5412

sp.info@scottish.parliament.uk

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers

Printed in Scotland by The Stationery Office Limited

ISBN 0 338 000003 ISSN 1467-0178