

FINANCE COMMITTEE

Thursday 23 May 2002

Session 1

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CONTENTS

Thursday 23 May 2002

	Col.
DEPUTY CONVENER.....	2078
BUDGET PROCESS 2003-04.....	2079

FINANCE COMMITTEE

11th Meeting 2002, Session 1

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Brian Adam (North-East Scotland) (SNP)

*Mr David Davidson (North-East Scotland) (Con)

*Mr Tom McCabe (Hamilton South) (Lab)

*Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Mr Keith Harding (Mid Scotland and Fife) (Con)

Mr Keith Raffan (Mid Scotland and Fife) (LD)

Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

WITNESSES

Jeremy Baster (Orkney Islands Council)

Barbara Foulkes (Orkney Tourist Board)

Mr Andy Kerr (Minister for Finance and Public Services)

David Palmer (Scottish Executive Finance and Central Services Department)

Kenny Slater (National Farmers Union of Scotland)

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LOCATION

Orkney Islands Council Offices, Kirkwall

Scottish Parliament

Finance Committee

Thursday 23 May 2002

[THE CONVENER *opened the meeting at 11:37*]

The Convener (Des McNulty): Welcome to the 11th meeting this year of the Finance Committee, which is being held in Orkney. Prior to this formal meeting, we had a series of informal briefings from various interests groups in Orkney, with two members of the committee involved in each of three workshops. I found the workshop that I was in illuminating and I think that my colleagues found their ones helpful. I thank everyone who participated in those discussions. In a couple of minutes, we will try to summarise the discussions so that we can get the conclusions into the *Official Report*.

The committee is engaged in its stage 1 review of the budget process. It has been a practice of the committee to visit various areas of Scotland. Last year, we were in Kirkcudbright; this year, we decided to come to Orkney to give us the opportunity to get opinions from people in this area. We are the first Scottish Parliament committee to visit Orkney and I hope that several more will do so. It is important—for us and for the communities of Scotland—that the Scottish Parliament gets out and about.

Later today, we will quiz the Minister for Finance and Public Services on the budget. He has been brought here to answer our questions. I hope that some of the issues that were raised this morning will form part of our discussion.

Deputy Convener

The Convener: Before we discuss the workshops, we must choose a new deputy convener for the committee. Parliament has agreed that the deputy convener should come from the ranks of the Labour party and I therefore seek nominations from members of that party.

Mr Tom McCabe (Hamilton South) (Lab): I nominate Elaine Thomson.

The Convener: As there are no other nominations, I will ask the committee whether we agree to the proposal. Are we all agreed?

Members indicated agreement.

Elaine Thomson was chosen as deputy convener.

The Convener: Congratulations, Elaine.

Elaine Thomson (Aberdeen North) (Lab): Thank you. I am pleased to have been appointed deputy convener and I will try to perform my role appropriately.

Budget Process 2003-04

The Convener: I invite feedback on the workshops in which members took part this morning. Since our workshops were numbered 1 to 3, I suggest that we start with workshop 1, which was attended by Alasdair Morgan and Tom McCabe.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): One thing that Tom McCabe and I took from the workshop was the fact that, although the scale of the problems might be slightly different in Orkney, many of the issues that the people to whom we spoke raised are much the same as those that people in many other areas of Scotland would raise. I noted many similarities with what would have been said by a similar group of people in my constituency. That is not to say that the fact that Orkney is an island community does not cause specific problems.

In the workshop, people from Orkney Enterprise set out some of the economic characteristics of the islands. An interesting feature is that there is a low unemployment rate—it is only 2.2 per cent. However, that tight labour market does not seem to have affected wages as one might expect, as wages here are only about 87 per cent of the Highlands and Islands average.

We were given a description of the main industries in the islands, which are farming, fishing, tourism and specific manufacturing clusters. We were told that the priorities for economic development are strengthening businesses in the fragile areas, developing e-business and pushing the idea of Orkney as a brand.

We also had with us a representative of the Westray Development Trust, who outlined to us some of the trust's plans. Westray, which is one of the outlying islands, has a declining population; the trust was formed with the objective of turning that situation around when the population had fallen from 700 to 600. There were criticisms that not all the local agencies were signed up to the trust's activities. The trust is part of the Government's initiative at the edge programme, but we were told that that initiative seems to be suffering because of the lack of direct ministerial involvement. Certainly, neither Mr McCabe nor I could recall which minister had responsibility for the Highlands these days. That told us something in itself.

The fact that Highlands and Islands Enterprise has a social remit was seen as a benefit. I am conscious of that, as I come from an area in which the enterprise company does not have that remit.

We also talked to people from the Federation of

Small Businesses and the Orkney Chamber of Commerce. Again, the concerns that they raised were similar to what we would expect to hear from comparable organisations elsewhere in the country, although the costs of transportation, fuel and gas, for example, are much higher here than they are in most mainland rural areas.

11:45

The recruitment of qualified staff in certain areas was highlighted as a problem. We were told that there is a labour squeeze and that it is difficult to find people with the correct skills. There was a general plea for more action to extend the devolution of jobs from within Scotland to Orkney. Interestingly, it was also suggested that the Orkney Islands Council should be more radical in devolving jobs from Kirkwall to other parts of the islands.

As the committee might expect, people highlighted problems with the communications infrastructure, particularly in relation to broadband. The same problems obviously apply to many rural areas in Scotland.

Many other interesting points were raised. One of the more significant was the fact that, despite the importance of the jewellery cluster in Orkney, there is no assay office, which means that every piece of silver and gold jewellery that is made here has to be sent down to Edinburgh for its stamp. It is then sent back to Orkney in order to be sent out to whoever wants to buy it, which struck Tom McCabe and me as slightly ridiculous.

The Convener: Tom, do you have anything to add?

Mr McCabe: I think that Alasdair Morgan has covered most of the ground. Like Alasdair, I was struck by the lack of an assay office. Because the jewellery industry has grown significantly in Orkney, that gap presents a good opportunity to disperse public sector jobs. The case almost makes itself, particularly when we remember that job dispersal is often done just for the sake of it. In this instance, there is a good reason for dispersing jobs and the case could be made more strongly.

I emphasise the irony of the situation that, although remote communities would benefit greatly from an electronic infrastructure, they are badly served in that respect. Perhaps in future we should concentrate on that issue when we set priorities in the public sector and consider how we can best allocate money to remote areas.

The Convener: Do members have any queries for Alasdair Morgan or Tom McCabe about the economic issues?

Brian Adam (North-East Scotland) (SNP): My query is in fact more of a comment. Perhaps

unsurprisingly, some of the issues that Alasdair Morgan mentioned, particularly recruitment difficulties, also arose in our workshop. The problem is that, when the local authority or the health authority evaluates whether it needs to fill a particular position, the job might not be a full-time one. The question then is how either authority can attract someone to a relatively remote community when it cannot even offer them a full-time job. Such recruitment difficulties are bound to exist—*[Interruption.]* I do not know who has the mobile phone, but the sound of it is bouncing around in here. As I said, attracting appropriately qualified people is obviously a common problem for both the public and the private sectors here.

The Convener: Certain transport issues also emerged from our discussion of economic issues. We will talk about transport when we come to discuss the second workshop, but the subject was probably raised in every group.

Alasdair Morgan: The fact that transport costs to Orkney are on a different scale from transport costs to other non-island areas of the country significantly affects business, pricing policies and the attractiveness of tourism.

Elaine Thomson: Pilot schemes have been mounted recently to extend broadband into remote and rural areas, particularly in the Highlands and Islands. Is Orkney part of those pilots?

Alasdair Morgan: Yes. The scheme was the satellite broadband pilot, which people said was not an unalloyed success. Problems were encountered, including interference from natural features. People would leave large downloads to run overnight, only to find in the morning that the system had collapsed. We were told that atmospheric conditions during the summer months caused problems with telephone communications. We got the general impression that people were not happy with the telecommunications infrastructure.

Mr McCabe: Mention was made of the fact that the electric fencing that farmers employ made an impact on the infrastructure during the summer months. That factor is unique to remote communities. We would not hear that complaint in Hamilton.

The Convener: Well, you might do in Hamilton.

Talking about interference, I ask anyone whose mobile phone is switched on to switch it off. We are getting a bit of interference through the broadband. I have switched off my phone.

My understanding is that the broadband infrastructure is not yet in place and that a procurement exercise, involving the council and other public agencies, is taking place to extend the availability of broadband.

Elaine Thomson: There are two aspects to the question. Part of the modernising government programme addresses the issue of joint procurement across the public services. I am not sure to what extent Orkney is participating in that exercise, as the pilot for satellite broadband is a BT initiative. They are two separate aspects.

Mr McCabe: At the time, bundling public sector procurement was seen as the most efficient procurement method. There may be outcomes down the line, but so far they do not seem to have appeared. That is disappointing.

Elaine Thomson: To what extent did you get the feeling that lack of access to broadband was a significant hindrance to economic development or to sustaining existing economic activity?

Mr McCabe: I got the clear impression that the lack of good connections was hindering the dispersal of jobs. How much the lack of good connections is impacting on e-business is another question, although I am sure that there is an impact. Anyone who knows anything about broadband knows that businesses can trade much more successfully once they have access to that form of communication.

Alasdair Morgan: I got the impression that e-business was one area that would not develop. It is clear that, if people do not have the communications infrastructure, they will not get e-business. That is the situation, full stop.

Brian Adam: Given that we are in Orkney today to deal with the Scottish budget, were suggestions made about transport issues, in particular on Scotland's islands, and the different ways in which those issues are dealt with? If so, do you have advice about how we should deal with the minister on that subject later this afternoon?

The Convener: I wonder whether we should postpone that discussion until we receive the report from the next workshop, which focused specifically on transport. David Davidson will address that issue. My group asked Barbara Foulkes of the Orkney Tourist Board and Kenny Slater of the National Farmers Union to be involved in the report-back process. Perhaps we should also take that report before we move on to transport issues.

Mr David Davidson (North-East Scotland) (Con): Our workshop included representatives from fishing, farming, tourism and the ferry operators. The representative from the last sector was also a councillor, which was helpful.

The clear message that came across was that, because of the nature of the Orkney islands, people are far more proactive in working together and finding partnerships—there is a great symbiotic feeling about what is going on and

everybody has a finger in every pie. Regardless of whether there is competition within the sectors, there is a perception that people are working towards the global good.

On the budget, we heard messages similar to ones that we have heard from other parts of Scotland about the decisions that are made centrally and about how much of the budget is allocated from central funds to the regions. The other point on which we were challenged was whether to leave councils to decide how to divide the cake appropriately to the needs of their local economies. That is a problem for the Parliament and we need to take the issue back to the discussions at base.

We heard a plea to maintain the area tourist board structure, because ATBs have direct contact with the local businesses that are delivering the product. That was a focused view. There are a number of opportunities in Orkney, but one of the thrusts of the presentation was about how the links between the food and drink industry, fishing, farming and catering affect the quality of experience not just for local people, but for visitors. We heard about agriculture and fishing and the added-value products that are exported. The Orkney brand is recognisable.

On agriculture, we got the clear message that there are difficulties in the way in which European support is dumbed down to a national approach, as opposed to being modified on a regional basis to meet the needs of different areas. We have seen those difficulties in Dumfries and I have seen them in Aberdeenshire, so I know that they exist in other areas in which agriculture is important.

I was pleased to hear that the council operates the abattoir here. Other parts of Scotland miss out because they do not have the opportunity to slaughter locally and then make the added-value products. There is an issue about how many cattle can be finished on the islands and kept right through until there is a marketable product for the consumer; a lot of the produce goes off elsewhere. That comes back to the view of the National Farmers Union of Scotland locally about the way in which the less favoured areas support scheme is rolling out, which seems to disadvantage the agricultural community here more than was the case in the past.

Inshore fishing is obviously important. There were difficulties with the inshore regulatory order. I hope that the Parliament will consider that in its discussions on the common fisheries policy and the European Union. The fisheries representative gave a clear impression that some form of local, zonal management was essential. Even within the zone of the North sea, there should be much more local management for sustainability of the fisheries, particularly for inshore fishing.

Transport was a common theme. There were discussions about the internal air services, internal ferry services in particular and external routes for bringing people and produce in and out of the islands. We had a presentation about the problems that the council is facing in maintaining the internal ferry service. That led to another discussion about how different approaches have been taken and the different applications of resources from the centre for different island groups. We need to consider that in budget terms to see how money is allocated to support for Shetland, Orkney and the Western Isles. I believe that we will get some papers with figures on ferry costs and fares. In the discussion about sustainable islands, the common theme was that people wanted all the parts of the economy to reach all the islands and sustain the communities there.

12:00

My final thought is that isolation is an issue. However, isolation often breeds innovation and good management and we had a demonstration of that this morning. Equally, people here generate income for the whole of Scotland and have a right to feel that they belong to the rest of Scotland. We hear the same thing from rural communities throughout Scotland. It is incumbent on the committee, in looking at the budget in the round, to ensure not only that we get value for money from public support and partnership, but that we allow people opportunities to make a reasonable bid for the essential drivers in the economy. What we saw this morning was a clear example of partnerships working well across the areas of tourism, food and transport. I suspect that transport is a goodly part of the economy here, quite apart from the other parts that Alasdair Morgan and Tom McCabe mentioned.

I would like to hear what my colleagues Barbara Foulkes and Kenny Slater thought of this morning's discussion. Although at the beginning both of them spoke clearly about their own sectors, they then took up common cause of highlighting the points on which they could work together and on which they obviously are working together. We might hear a bit more from them about some of the tensions in accessing resources and in the decision-making process.

The Convener: That is your cue, Barbara.

Barbara Foulkes (Orkney Tourist Board): We often talk about devolved government and devolved funding and we would welcome devolved funding to local authorities. I can say that quite clearly, because there is rural and then there is remote and rural. We are remote and rural. A one-size-fits-all approach is not a particularly good fit for communities that are remote and rural.

Transport is the biggest issue for us, because of our locality. There is a feeling that we do not get the same funding as Shetland and the Western Isles and that Orkney is being penalised for prudence. Kenny Slater will talk to you about fishing, farming and the EU.

Kenny Slater (National Farmers Union of Scotland): David Davidson has given pretty comprehensive feedback on the workshop's views. Barbara Foulkes is right that transport is the crux of everything that we do in the economy. If we were to consider the problems with external transport, we could talk all day. The internal transport system is also vital to Orkney's future. I re-emphasise the point that Barbara made—we appear to be being penalised for the past prudence of the shipping company. We must look hard at the way in which the internal ferry services are to be financed in the future.

I reiterate what David Davidson said about the importance of the new less favoured areas support scheme. To date, the scheme has penalised the agriculture industry in Orkney quite badly. We have worked hard with the Scottish Executive environment and rural affairs department to try to modify the scheme to get it into a shape that achieves its aim, which is to minimise the disadvantage that results from features such as geography and climate.

I want to pick up on two points that the Rural Development Committee's recent report highlighted. First, the report rightly picked up on the fact that there is no room within the common agricultural policy support scheme for national or regional variations in the way in which the slaughter schemes are applied. That brings a problem and an anomaly. Agriculture is devolved to the Scottish Parliament, but relations with Europe are not. That can only lead to friction, as everything that SEERAD does must be negotiated for in Brussels by the Department for Environment, Food and Rural Affairs. We do not believe that DEFRA is paying due regard to the devolved Administrations.

My second point arises from that. Many of the rural development measures that can be financed and modified in member countries are expected to be funded through a process called modulation. That is basically a tax on direct payments to farmers. Although 750 farms in Orkney are currently benefiting from direct support payments, last year only about two dozen qualified for agri-environment grants from that scheme. As is clear, although everyone contributes to the pot, very few have access to it. That is mainly due to the inadequate funding and the competitive nature of the schemes that are in place.

The central plank of making rural development measures work is co-funding them with the United

Kingdom Treasury. To date there is no evidence that that funding will be forthcoming from the UK Treasury. Time and again we have seen the UK's unwillingness to co-fund the agrimoney compensation measure. Currently, the UK receives only about 3 per cent of the EU rural development budget. Again, that is because the UK Government is unwilling to co-finance the measures.

As David Davidson said, there is a great deal of co-operation between the different sectors. The future of agriculture is as part of a vibrant and viable local economy. Turning full circle, I believe that central to that is an affordable and effective transport system.

The Convener: I have a couple of points on what came out of the discussion. One is about maintaining internal transport links with the outer islands of Orkney. We were told that the key objective of any policy in relation to those parts of Orkney—and to Orkney in general—is population sustainability; policies must be people based and governed by the principle of sustainability. Strategies for agriculture, transport or education all have to be linked into the overall objective of ensuring the longer-term sustainability of remote and rural communities. In the case of the outer islands of Orkney, those communities are very remote, given the distances involved.

People also constantly emphasised the fact that the key barrier to and accelerator of any economic and social development is accessibility to transport. If we have more transport, we can have more economic development and more social care can be provided. There will also be greater economic development in fishing and farming. Affordable regular transport is crucial in determining the success or failure of sustainability strategies and all the associated sector-specific strategies.

Alasdair Morgan: The two witnesses spoke about being penalised for previous prudence. That remark was a bit opaque to me.

The Convener: Perhaps Professor Midwinter might want to comment on penalisation for prudence.

Professor Arthur Midwinter (Adviser): I am not a man who is known for his previous prudence.

If I understood what the witnesses were saying—and I think that it was in line with the informal discussions that we had—I suspect that it is linked to the past policy of the council paying off its capital debt and suffering as a result through the aggregate external finance system. The figure that was quoted to me last night surprised me. In Orkney, the per capita allocations from the Executive are somewhere around £600 less than

they are in the Western Isles and Shetland. The Western Isles figure does not surprise me, given the high levels of poverty in the Western Isles compared with the other two island areas. However, I was surprised by the figure for Shetland, which I will consider and send the committee a note on. Is that what the issue was? Does what you say also apply to capital allocations?

Barbara Foulkes: You would have to ask someone who is slightly better informed than either of us are. I direct you to the corner of the room, where the council representatives are sitting.

Mr Davidson: On the back of that, the councillor representing Orkney Ferries' interests gave us a clear steer that because it had run very efficient internal ferry services, had tried to modernise them and had spent its money, it found that its running costs outgrew the company's ability to cope. Orkney Ferries had not asked for help in the past and because of that it was not automatically entered into the round of allocation for extra support. That was the message that came across. I believe that the council is involved in discussions with the Scottish Executive on the issue. We got the message that the company would like some feedback from the Executive in the near future.

Brian Adam: I was intrigued by the comments on the apparent retention of power by DEFRA over SEERAD. Perhaps the witnesses can elaborate on that and suggest how the situation might be rectified. Is it the only area in which there is concern that there is no obvious devolution of real decision making?

Kenny Slater: The Rural Development Committee's report highlights the report that was done by David Curry, which considered a forward strategy for agriculture in England. It made some pretty sweeping recommendations that went completely beyond the remit that was set. As the UK minister carries out the EU-level negotiations, there is no formal means by which the Scottish minister can put his view directly to Europe. The Scottish minister's message must come at second hand through DEFRA.

Brian Adam: I presume that that has consequences on the budget that is available to address the needs of agriculture, fisheries and so on in Scotland.

Kenny Slater: It has consequences for the overall budget and how it is divided among the recipients. It is difficult to pick a solution out of the air, but one that has been mooted is that a junior minister could speak on behalf of English agriculture; ministers from Scotland, Wales and Northern Ireland could speak for those countries and Margaret Beckett could take the overall

picture to Brussels. Rather than trying to negotiate a UK position without giving due regard to the devolved Administrations, Margaret Beckett should take an overarching view of the views that are put forward by the ministers of each of the four devolved Administrations.

Brian Adam: Do you think that that would help to improve transparency and address local circumstances in relation to the budget?

Kenny Slater: It would help. It is probably the most realistic and best option until the Scottish Executive has a direct route into Europe.

Elaine Thomson: Is the situation similar to that in relation to fishing? I understand that the Scottish fisheries minister is always present at EU fishing negotiations. Where Scotland has a primary interest, the Scottish fisheries minister becomes, in effect, the lead minister.

Kenny Slater: I am afraid I am not qualified to comment on fishing.

The Convener: Any UK agriculture policy or negotiating stance in relation to Europe is bound to compromise different strands of interest. Is not that true to some extent in a Scottish context? The diversity of agriculture in Orkney, Aberdeenshire and other parts of Scotland is so considerable that even in that context the interests that are put forward are likely to be compromised.

Is the real issue to do with who leads and how the leadership goes, as much as it is to do with the mechanism for taking account of all the different interests? Is it your concern that your interests are not adequately taken account of, or is it that the mechanism is inappropriate?

Kenny Slater: It is a bit of both. One of the successes of devolution is that we have reasonably regular access to ministers. That enables us to put across at the highest level what the problems are for the local industry. That is a positive aspect of devolution.

On the negative side, competition for available funds is inevitable within the industry. However, the biggest problem in the meantime is not fighting within Scotland, it is fighting Scotland's corner in Europe.

12:15

The Convener: We can perhaps move on to the third workshop, which involved Brian Adam and Elaine Thomson. I suggest that Malcolm Burr and Jeremy Baster come to the table, in case any questions for Orkney Islands Council arise from Brian and Elaine's comments.

Brian Adam: We heard representatives from local government, health, further education and from a variety of organisations in the voluntary

sector. I was struck by the fact that they did not come along just to make negative comments; positive and negative comments were made on budgetary matters and some interesting and helpful suggestions were made, which related not only to Orkney, but to Scotland as a whole.

The vexed issue of match funding in the voluntary sector was highlighted. There appears to be an interesting council for voluntary services arrangement in Orkney. Although the CVS is an effective umbrella organisation for 60 different organisations, there is a problem with match funding. It was suggested that perhaps the CVS should be considered as a provider of core services, as are the local enterprise companies and organisations such as Careers Scotland.

The CVS also expressed concern about short-term funding. A lot of its money comes from the Community Fund. Such issues apply throughout Scotland and have been raised with the Finance Committee on other occasions. We were advised that Voluntary Action Orkney administers 10 different grants. In such situations, it is not always obvious where all the money from the public purse is coming from. Transparency is an issue, as is the manner in which core work is funded and the length and continuity of that funding. Areas in which developments in health might be made were mentioned. It was suggested that there were shortfalls in relation to alcohol and mental health services—a situation that is probably reflected elsewhere in the country.

On local government, participants in the workshop commended the three-year funding arrangements. They endorsed the comments that the Local Government Committee made in its submission on the budget, about the need for joint planning with the Convention of Scottish Local Authorities. They stressed that that was absolutely essential.

Transparency issues recurred. After stripping out new burdens and other similar matters, the increase in funding for local government amounts to about 2.2 per cent. Orkney Islands Council therefore has the option to make cuts of 2 per cent or increase council tax by 6.7 per cent. A similar picture involving similar options will have applied elsewhere in Scotland. Obviously, the difficulties of transport were highlighted.

Both the council and the health board made the point that they are very small organisations—the smallest of their kinds in Scotland. However, they offer the full range of services. It is not always possible to do that by scaling down what a larger organisation might do—there are additional burdens. It is not possible to provide only part of a service, as one cannot attract qualified people to do 20 per cent or 50 per cent of a job. We need the budget to take account of the fact that one size does not fit all.

The principal of Orkney College highlighted an apparent inconsistency in the approach that central Government takes to further education. Page 84 of the “Annual Expenditure Report of the Scottish Executive” states:

“In 2002-04 public investment in FE colleges will fund: ...

• a continuing expansion in the number of college places available each year”,

whereas the Scottish Further Education Funding Council press release of 26 April this year states:

“Following a period of substantial expansion in the further education sector in recent years, further growth is on hold for the time being”.

Orkney College is unusual in that it is still, in effect, under the control of the council. It is interesting that the overall budget for the further education sector is rising at a rate that is well below the rate of inflation—we expect the sector to deliver more for less. The sector is key to restoring growth to the economy, because we need a trained and skilled work force. It is difficult to deliver that when the budget for further education is being cut as a proportion of the total Scottish budget—an issue that has been raised with us by others.

Orkney Housing Association highlighted the fact that it was difficult to get transparency in the housing budget. It also indicated that resources were likely to be inadequate to meet housing support needs—we were referred to page 173 of the AER—and to tackle homelessness, as described on page 177 of the report. Questions were asked about the outcome of the Executive initiative for providing affordable social rented housing in rural areas. It is suggested that 20,000 houses will be provided in the foreseeable future. People were concerned that they could not identify where in the Highlands and Islands that initiative will be implemented.

Concerns were expressed about the cost implications of the new general practitioner contract. Extension of the Arbuthnott formula to general medical services could have a significant impact on remote rural areas. We might find ourselves in a situation similar to that which we face with the McCrone settlement, in respect of which there are local difficulties in implementing a national settlement. We were advised that, before finalising GP contracts or extending the Arbuthnott formula to general medical services, we should find out exactly what would happen as a consequence of those steps. We need to know what the precise budget implications are both for the whole country and for individual health authorities.

It is obviously difficult for Orkney NHS Board to provide a full range of health services in the area, so it must rely on partnerships with other boards.

The cost of patient transport is of some concern, because a budget of a little under £1 million a year is spent transporting patients off the islands to services elsewhere. One interesting point is that, although the services in Orkney are on a small scale, people do not receive poor services. Indeed, it is possible for small authorities to provide good, if not excellent, services.

We also heard evidence on the provision of new services. Delight was expressed with the Executive's initiative to provide capital funding for Scottish Women's Aid in Orkney. Although that service will not be available immediately, discussions are taking place among local partners to make that happen. However, given the background—the voluntary sector provider will be dependent principally on the public sector for funding—concerns have been expressed about long-term funding of provision and development of that service.

I think that covers the bulk of what was covered in our workshop.

Elaine Thomson: Brian Adam has comprehensively covered what was discussed. Some common themes came out that were highlighted in the reports that we heard from the other two groups. For me, one of the common themes was how key transport is to everything. Transport issues pervade many different aspects of Orkney life.

However, there are several different reasons why geography means that the cost of providing a service in Orkney is often greater than it might be elsewhere. For example, in further education it is simply not possible to have classes of similar size to those in FE in urban areas. That necessitates more lecturers. As Brian Adam highlighted, there are also difficulties in recruiting medical specialists because, even if someone is required only for 20 hours a week, we are really talking about a full-time post.

I was pleased to hear that benefits have been achieved through the extra funding that has been provided by the Scottish Executive. Extra funding has been given to Scottish Women's Aid and to some other voluntary sector groups.

Orkney Islands Council made it clear that it agreed with many of the proposals in the Local Government Committee's report on the budget. The council's representatives mentioned the need for more joint planning between local government and the Scottish Executive.

Mr Davidson: I want to ask the witnesses a general question. Has there been a change in the age profile in Orkney? Is there a problem with depopulation? If we knew that, it might put into context many of the comments that we have heard this morning.

Jeremy Baster (Orkney Islands Council):

Detailed figures are not easy to get. We all await the census results, which will show us what the current population is. In the past few years, the overall population has declined. That was a new trend, because the population had been going up for the previous 30 years since first oil came. The registrar general's forward projection of recent trends comes up with a rather alarming figure for population decline over the next 10 or 15 years. That background of possible population decline is quite worrying for us.

I do not have detailed information on the age structure. The general view is that, as in other rural areas, the age structure is changing so that there tends to be a higher proportion of older people, which has many implications for services.

The Convener: Is there a significant difference in the pattern of depopulation between Mainland and the outer islands? It is perhaps misleading to talk about Orkney overall, without mentioning trends within the islands.

Jeremy Baster: That is a good point. Some of the islands experience more marked depopulation because their economic structures are much more constrained or limited than the structure on Mainland. For example, those islands have additional transport costs. Depopulation first sets in at the fringes.

12:30

Mr Davidson: I asked about the age profile because it puts a different slant on, for example, the delivery of the health service because of the types of drug treatments and interventions that are required. I presume that the age profile also causes difficulties in education. Do people jump away from the islands to go to college because there is a different range of choices elsewhere? Although there is only 2 per cent unemployment in Orkney, does the low wage range mean that the people will not be there to deliver economic development? Will services exist to back people up if you try to bring them to the islands?

Jeremy Baster: Traditionally, a high proportion of school leavers in Orkney have gone on to higher education and training, which has meant their going south. One of Orkney College's objectives is to try to diminish that effect by providing opportunities here for people. Generally speaking, people who go south for higher education often have a strong desire to come back to Orkney, but we have difficulties in ensuring that there is a sufficient range of skilled job opportunities. The level of education or training that such people reach means that they have narrowed the range of jobs that they can do. That is a problem.

Elaine Thomson: The low unemployment rate has been mentioned. Is that partly because people emigrate simply because of low wages?

Jeremy Baster: Yes, that is one factor. Another factor is that people in Orkney are willing to take low-paid employment rather than be unemployed.

Brian Adam: One point that I should have made about the workshop is that concerns were expressed about the move to greater specialism in the health service, when generalists are required in rural and remote communities. The Executive must address that. I know that managed clinical networks are part of the Executive's solution. There are excellent examples in Orkney of partnerships between a variety of health organisations. However, the system falls down in some areas in Scotland because negotiations between the various health authorities to deliver a managed clinical network do not always work out. There is a need for greater central involvement to ensure that managed clinical networks deliver equity of service across the board. Perhaps the funding that is available for developments in the health service should take into account that need and the need for the provision of generalists as well as specialists.

Professor Midwinter: The process today has been stimulating for us. For those of you who are not aware of the attempts to develop the budget process within the Executive and the Parliament, we have, under devolution, moved away from the Westminster system in which scrutiny of the budget is almost non-existent. Previously, scrutiny was not as extensive as it is under the current arrangements.

A few people in the workshop that I attended mentioned being intimidated by the size of the annual expenditure report. However, I think that the AER for 2003-04 is the best so far. We are working closely with the Executive to focus information more clearly on the choices that we face. The Executive is co-operating with us. However, the Executive is under enormous pressure compared with the Westminster situation of five years ago.

The workshops, which included a range of professional expertise, raised issues with us that we have heard about in relation to this year's budget concerning transparency and the battles between ring fencing and block allocations. There is a particular divide between those at the sharp end who deliver services at street level and who favour ring fencing to ensure that they get the money, and those at central organisational level who favour flexibility and not having ring fencing.

The issue that was raised about the general medical services formula being introduced in the health service is crucial. That could become a

problem; if the approach to costing new contracts for consultants is different from the one that is used to distribute the money, the result could be similar to what happened with McCrone. Some health boards would be able to use surplus moneys to develop other services, while other health boards would be unable to implement the deal without cutting into other services. Therefore, I think that ring fencing should be seriously considered until the GMS formula is bedded down.

We did not say to our workshop that we are on the verge of the spending review. Some contributors said that they had three-year settlements. However, although the health moneys have been allocated, there is likely to be more funding this year. The evidence that we heard about the problems of the voluntary sector, stability funding, housing and other areas was helpful to us. The single most important message that I took from this morning's exercise was about the distinctiveness of island life and problems and the need to accommodate those within national frameworks of policy and resource allocation. To that extent, I thought that the exercise was valuable.

Brian Adam: Arthur Midwinter is right that the tome that we are going through is intimidating. I think that it was the gentleman from Orkney NHS Board who produced a copy of the UK budget summary, which he felt was helpful to him. I know that the Executive would love us to ask it to produce yet another document, but it might be worth considering—perhaps more for public consumption—publishing a summary document that is similar to the UK budget summary. The Executive could at least consider whether that would be appropriate.

The Convener: That is a fair point, Brian.

I have two points to make. First, Arthur Midwinter gave an excellent summary of what we, as members, got from the morning. I hope that the people who contributed feel that there was a stimulating exchange of views. Issues arose that will, I hope, inform our consideration of next year's budget and perhaps some spending review issues. It is useful to talk to people about issues that particularly affect them. Obviously, special issues arise out of Orkney's islandness—if I can put it like that—of which we need to take account.

Secondly, the process of having a more informal dialogue allowed us to make connections between what different people were saying. The reinforcement of particular messages was useful.

The final point that I want to make is in response to a point that Brian Adam made. We can ask the Executive for more clarity in the information that it provides, but the committee must begin to consider how we present our process of analysis

of the budget; we could perhaps develop for ourselves a guide to the budget process. We are trying to clarify and simplify the budget and make it more comprehensible, but it is clear that many people find it intimidating and difficult to understand. In particular, it is difficult to work out where money comes from and the different elements in the budget. That is a task for the committee and the Executive. Events such as that which we have held today will help to provide us with information about that task and how we can best take it forward.

Mr Davidson: In the workshop that I attended, one or two witnesses came along well prepared as substitutes, as they said. However, perhaps they might all care to go to their organisations and if they have any follow-up points rather than epistles, they could send those in to back up or clarify points. I know that we will receive comments about ferry operating. It will be helpful if people feed back. After getting a little shot at something, we all think about something afterwards. Perhaps we could, to make use of the exercise, encourage people to produce a side of A4 on the points that they would like to clarify.

Brian Adam: At the workshop that I attended, there were two written submissions that the committee should accept formally. Those who gave evidence could take up David Davidson's suggestion—that would be sensible.

The Convener: As there are no other comments, I thank everyone who has contributed and I thank members for their summaries of discussions. This afternoon, we will discuss the overall budget with the minister. I propose that members return 15 minutes before we see the minister to discuss questions that we will put to him. We should return at 1.45 pm, if members agree.

Mr Davidson: That is assuming that the minister has landed.

Professor Midwinter: He has landed.

The Convener: The eagle has landed. We will break for lunch.

12:42

Meeting suspended.

14:06

On resuming—

The Convener: I reopen the Finance Committee's 11th meeting of 2002. We had a productive time this morning, when we spoke to people from Orkney with various interests. This afternoon, we will dedicate our time to questions to the Minister for Finance and Public Services. I

welcome the minister to Orkney. I hope that you had a useful morning.

The Minister for Finance and Public Services (Mr Andy Kerr): I did.

The Convener: I invite you to make an opening statement.

Mr Kerr: "Dedicated" is not the word of which I was thinking, but it is good to be here. Earlier, I had a useful visit to an innovative modernising government fund project that Orkney Islands Council and its partners are undertaking up the road in the East Kirk. It is always useful to undertake such visits and to see what is happening with our money. It is important to see the outputs and the outcomes, about which we talk so much, as well as some other work. That was rewarding.

I thank the committee for the opportunity, which we appreciate, to give evidence on the annual expenditure report. As members are aware, that starts the 2003-04 budget round and sets out our initial view on the allocation of resources in the budget. The spending review is likely to bring some additions to the 2003-04 budget and we may propose some restructuring, but compared with the mainstream expenditure of £22 billion that is in the AER, those changes will be fairly limited. The document remains a worthwhile and useful tool for discussion and information.

The spending review also provides the opportunity to share our agenda with the committee, as we have done, on relating objectives to spend and on better target setting. We have collectively looked for such detail and I hope that the committee agrees that there is some in the document.

I will touch on the spending review process later. That is important. First, I will discuss the AER and some of the improvements that we and the committee have wanted. The document is more than a list of numbers, which would be quite uninteresting to most people. We have given some sense of the purpose of the list of numbers on how spending is allocated.

The document sets out our spending plans clearly, puts expenditure in a strategic context—that is useful not only to the committee, but to wider Scottish civic society—and attempts to make the budget and the budget process accessible to wider groups. We had the first budget roadshow in Hamilton on Tuesday night. For about an hour and three quarters, we were lightly toasted and grilled by members of the local community. The local council, the police, all the community planning partners, the voluntary sector and the business community were present at that good session, which was based on the work that we have done on the document. Those who attended said that

the meeting was valuable. We had a chance to chat with them after the meeting and they said that it gave them a real insight into the work that the Executive is doing. I also told them about the work of the Parliament's committees and the important role that they play in the budget process.

This is the Executive's third AER. With the assistance of the Finance Committee, we have made the report that much better. As we did last year, we have published two documents—a summary and a detailed document. We have not pursued the suggestion that we produce a leaflet; that subject might come up later.

As the AER is a pre-spending-review document and we have broadly sorted out the presentation of the numbers, our focus is on targets and objectives. Some changes we agreed with the committee, as members are probably aware. We have reintroduced two tables; tables 0.6 and 0.7 set out capital spend by the private sector and the estimated payments under private finance initiative contracts. At table 0.12 we have made a start at bringing together the sources of funding. We have included a separate chapter on a subject that I raised with the committee earlier, the modernising government fund, which is of interest to the committee. We have created hyperlinks to local authorities and health boards.

We have also made some further improvements. We have asked for a more robust approach to targets and for more disaggregated information. We have begun to link policy development to expenditure. Finally, we have made a subtle change to the way in which we think about AER. We have refocused it slightly—as I hinted—towards providing a gateway to consultation rather than just providing information. That is a subtle change, but it is a useful and important one.

We are still working on the extent to which the capital programme is committed. David Palmer, who is familiar to the committee, has a table in draft and I would be happy for him to share it with your adviser on a without-prejudice basis. That may assist the committee in its considerations.

I take this opportunity to draw the committee's attention to an error in the document, although you may be aware of it. The real terms tables were calculated using two different baselines. The figures for 2002-03 and 2003-04 were deflated using a 2000-01 price basis, while the figures for 2001-02 were deflated at 2001-02 prices. Officials have issued letters to everyone concerned to highlight the error and correct it. I hope that that has not caused too much confusion.

I will now discuss spending review 2002, which will allow us to set our plans for 2004-05 and 2005-06. It will be the first time that we have undertaken the spending review announcement on

a full resource basis. As in SR2000, I will write to the committee setting out the change that moving to a full resource basis will entail. The outcome of the Whitehall spending review will be announced in July. At that point we will know our Barnett consequentials and will finalise the process of matching our priorities to the level of expenditure that is available.

Our priorities are health, jobs, transport, crime and education. In addition, as the committee is aware, we are addressing a range of cross-cutting issues that relate to closing the opportunity gap and to sustainable development. Those are being built into the SR2002 process. We expect that the process of matching expenditure to priorities will be much more difficult this time as the chancellor will find it difficult to repeat his sizeable effort in SR2000 which provided us with increases worth £1 billion, £2 billion and £3 billion.

It will be a tight process to finalise the spending review—we are committed to pulling together a publication by the target date of 20 September. As with the previous spending review, I think that the best that we will be able to do at that point is to publish a revised summary document that shows the figures down to level 2. I hope that that will be sufficient to enable the committee to begin its consideration of the figures. My intention is that we will produce a more detailed document a month or so after the summary is produced. I hope that the fuller document will provide all the information that the committee needs.

I will finish my remarks at that point. I advise the committee that I will rely on David Palmer a fair bit when members ask detailed questions, but I am happy to take the committee's questions and to address matters of concern that the committee raises with me.

The Convener: Thank you very much, minister. We want to raise some general issues with you. We have also had the benefit this time of a much more extensive process of engagement with the subject committees. They have each produced a report on the budget and I hope that in our questions we can draw on the findings that they have put to the committee.

Brian Adam: You indicated the five areas that the Executive has identified as priorities. Why is it that, for three of them, the budget increases are actually below the average? Is there an accounting explanation or is there some other explanation?

14:15

Mr Kerr: It is a reflection of the fact that, in the budgetary round that we are moving into and with the current AER figures, we work on a more cross-cutting basis. The budget for health includes not

only the work that we do in health, but the work that we do in social justice, housing, transport, social inclusion and all the other aspects of our budget across the priorities of the Executive. That allows us, in a cross-cutting way, to make an impact in those areas.

It is not adequate or accurate to suggest that the Executive's priorities are not being funded. If you were to calculate the funding for the five priorities, you would see that it probably adds up to about 70 per cent of the budget in terms of budget lines. The Executive is closing the gap in health by working with local government on community care and in many other areas where there is a cross-cutting agenda. That also fits in with our community planning focus. Delivering local services is not simply a question of the resources that live in the silos of a budget, or indeed in the silos of people's heads.

We want our resource allocation to have a cross-cutting element. For example, we are ensuring that the educational work that we do with regard to health stays in the education budget, although it clearly targets the Scottish Executive's commitment to its health agenda. That agenda is not just about what some call the ill-health service—the traditional health service that we know—but also the health service. That includes the work that we do in communities, such as providing fresh fruit and breakfast clubs in schools and preventive medicine. It is a matter of what we do across the budgets rather than within individual budgets.

Brian Adam: With the greatest respect, the health increase is quite clear at 7.9 per cent, which is above the average of 5.6 per cent. The transport budget has increased by just short of 10 per cent. However, the education budget has not increased, and I do not know that much is lost from the education budget in terms of cross cutting. The education budget has increased by only 2.9 per cent. The justice budget has increased by only 0.7 per cent. Where else in the budget has the priority money for justice gone, in the cross-cutting sense that you have referred to? The same is true of enterprise and lifelong learning, where the budget increase is 2.7 per cent, which is less than half the average increase. Can you give us a clearer explanation? It is not apparent from the budget documents that the priorities actually are what you say they are.

Mr Kerr: For education, a large part of the resource goes in through local government, where there are substantial budget increases. I return to my original point about the cross-cutting element of the budget. The Executive arranges its finances differently from the way in which it is done in the real world and we are gradually moving towards making our finances more transparent in the longer term. If people are concerned about those

areas, we can draw down funding. It would be a fairly complex process to do that substantially, but we can certainly intervene in those areas. We have not reduced our priorities in terms of expenditure, but the budget lines simply do not reflect all the resource, effort and work that goes into those areas.

Mr Davidson: In your opening statement, you talked about jobs being your second priority. It would be helpful to have a definition of what you mean by that. Do you mean support for the economy or the building of infrastructure? Is it just about getting jobs or is it about skills? As Brian Adam said, there is only a small increase in the enterprise and lifelong learning budget, and I do not doubt that transport issues are also involved, but you have given a wide definition of the enterprise budget, which is supposed to focus on wealth creation, including jobs. Perhaps we need to tease that definition out a little.

Mr Kerr: You are absolutely right. I support your premise that it is not simply about the budget line or the budget area. The creation of jobs is a wide function of government which involves the transport arena, support to our further and higher education institutions and the work that we undertake on many aspects of the budget, including the money that we spend on the Scottish enterprise network and other areas.

I return to the point that we make about the allocation of resources and priorities. Creating jobs is not just about a smart, successful Scotland and the skills that we need in our business environment. Creating jobs is also about the support services that we put in to make the infrastructure work and about having a strong, stable economy. We need to work in partnership with the UK Government to achieve that and to deliver—again, it is not about simply a single line in the budget.

I think more and more—and the committee has referred to this on previous occasions—that more is going on within and between budgets. There is a critical aggregation of effort to meet the collective objectives—that is how the Executive is choosing to try to deal with some of those issues. The approach is about the allocation of resources to meet objectives. Budgets are pooled, as is the effort within the Executive, to achieve the outcome.

The issue is not just about jobs or job creation. The economic infrastructure is about transport and the regional selective assistance changes that we have made. It is about all the different areas within the arena of creating a positive business environment in order to ensure that jobs are available to people—not just that people are available for jobs—by ensuring that people are trained and experienced in the right areas.

Mr Davidson: We held workshops this morning with people on the island. One of the common themes was the question of how to achieve a sustainable economy, in particular in the peripheral areas of Scotland. How, in general terms, do you focus on that question?

Mr Kerr: I will take the example of how we have transformed learning in the remote and rural parts of Scotland through the use of modern technology. We have used videoconferencing and the internet to offer distance learning and training. This morning I held discussions with the council and its partners about other examples, which I hope will be available up the road in a year to 18 months' time.

Those discussions were about people being supported and enabled to access advice and information by different routes. There are many different aspects to the way in which we support sustainable economies and communities. A large part of the Executive's work is focused on ensuring that people are given access to public services and that there is equality across those services.

One example is support for the farmers of Orkney. We are putting sizeable investment into livestock transport. That is a big issue for us. It is clear that transport issues are important—they have been raised with the committee. I understand from an article in the local paper today that we need to address the ferry services, which are lifeline services. We accept that and we support the work that is being done on the piers and harbours in the area.

There is no single dimension to our support for sustainable economies in rural areas. There is a broad thrust amongst all the budgets. Social inclusion is not only about the central belt and the urban areas; the strategy is also focused on rural areas. The ministerial group that works on rural development, which is chaired by Ross Finnie, focuses not only on enterprise, but on social inclusion and on access to public services.

We are seeking to ensure, by such cross-cutting, that we do our best by rural communities by ensuring their sustainability—and their economic sustainability—which is a key aspect of this debate. A number of different initiatives are played out by the Executive and I hope that we can ensure that the money to achieve our objectives is well spent.

The Convener: I will return to the issue of the five priorities. Recently, Arthur Midwinter and Jim Stephens did a piece of work that addressed the way in which substantial elements of the budget are pre-spent, in the sense that they are dedicated to core activities. There are other elements of the budget that are at the margins. In a sense, they are there for choices.

Is it possible to break down allocations to those five spending priorities into development of core services and development of new non-core services? How much of the new spend on those priorities is tied up by work force or capital costs that might be deemed relatively fixed? How much is tied up by distinctively new initiatives? The answers to those questions will give us a sense of the changes that you are making at the margin.

Mr Kerr: I am happy to consider breaking the figures down a bit more. The key element of the spending review process is that cross-sectional approach. We are making several innovations in the spending review. The objective is not to end up with silos again.

We must be mature. Ministers should not be assessed by the size of their budgets. They should be assessed on what their money does. Politically, we have failed people by saying that a budget cut represents failure. What matters is the ability of Executive ministers to work collectively to achieve signed-up goals and targets. If we can produce evidence—I will attempt to do that for the committee—that proves that, across the board, we are working collectively to attain objectives, that will be important.

I will reflect on my words today about having the maturity to understand that if a budget drops, it does not mean that the money is lost to an objective. Perhaps that money is being spent elsewhere.

Your second point is accurate. A huge tranche of money is for wages in the Executive and in the big areas such as health and local government, so the effect of changes in national insurance contributions and wage inflation is significant.

We are fully aware that the innovation of involving us and our partners in public-private partnerships locked money away. We have discussed the strategy and the policy that we are developing on locking away money. Adding the new initiatives to the salary absolutes in some budgets shows that we must work at the margins of the increases to do best by the resources.

I appreciate your point. We intend SR2002 to have the result that you talked about. I hope to deliver and to consider how we can best present to the committee the information about the cross-cutting element to which you referred.

Elaine Thomson: The committee has talked a lot about outcome-based budgeting, which some of your predecessors discussed with us. Do you remain fully committed to moving budgeting for Scotland in that direction? Although putting that in place is a long-term process, will outcome-based budgeting be applied as far as possible when the spending review is considered? Earlier this week, a witness asked whether it was right to put all the

new health money that the chancellor recently announced into a health box and also whether we would achieve what we wanted to with the money.

Mr Kerr: Outcomes are at the heart of the spending review process. We have worked on that and got our heads round that since December. For most budget heads, the settlement will be fairly tight. The exception is health, but the impact of that resource has yet to be decided.

Several aspects are involved. We expect a tight budget round and we must ensure that we lever in resources best to make the difference, taking account of the fixed elements of budgets. Outcomes will become much more important. From discussions around the Cabinet table in December, to guidance notes that are issued to ministers throughout the process, to the aims, objectives and targets that ministers set for their ministerial portfolios, to the spending review assessments based on outcomes that ministers will submit to us, we are building outcomes into the heart of the process.

It is not easy. Sometimes I worry when I talk to local authority leaders about ring fencing and say, "I want to move on from ring fencing. I want to go for local outcome agreements," and they all nod, but they do not understand the impact of local outcome agreements and what is actually involved. They involve a commitment on both sides, monitoring, targets and ensuring that the money is spent to achieve the outcome.

14:30

At the moment, we are in a transitional phase. The two bilateral meetings that I had focused on outcomes. The input side of it—albeit it is important—has not raised its head. The focus has been on what will be achieved with the resources that are being sought. Members will recall the £86-and-a-bit million that the Chancellor of the Exchequer announced in his recent statement. It is a small sum of money, but the same principles apply. We worked assiduously with the health department and asked, will we unblock the beds with the £20 million that we are spending? What will we get for the resources that we are putting into information technology? We worked hard to ensure that we got targets. We made the department commit to signing up its partners to the deal that the department signed up to with us.

We are trying to ensure that that happens. The budget is big and it does a lot of things. We have a clear intent, to which we are 110 per cent committed. We are making progress with the bilaterals and the way in which information is submitted. It is a learning process. I am sure that the committee will take great interest in how SR2002 went post-20 September. I will be happy to discuss whether we got the outcome that we

wanted.

The Convener: We might take a view while the spending review is going on.

Mr Kerr: Absolutely.

Alasdair Morgan: I have a supplementary question, because I did not quite follow what was said. Were the discussions that you had with the Minister for Health and Community Care and the health department subsequent to the recent budget?

Mr Kerr: I was referring to the November consequentials from the chancellor.

Alasdair Morgan: Right, I am with you. I do not want to put words in her mouth, but I think that Elaine Thomson was also referring to the consequences of the chancellor's recent budget, and the First Minister's announcement the day after that most of the increase from the Barnett consequentials would go to health. Some of us feel that that is not outcome-based budgeting at all; it is just budgeting in the old way. You are giving a certain amount of money to a department and saying, "Tell us what you are going to do with this money." How does that fit into the approach that we are trying to take?

Mr Kerr: The First Minister said that we would spend the money on health. As I tried to indicate previously, health is a big subject: health in terms of dampness in homes; health in terms of transport; and health in terms of education, fresh fruit and breakfast clubs. We are talking about health in a variety of important ways. We are trying to deliver what we are all looking for, which is health improvement, as opposed to treatment at the end.

I know from my time as a quality manager that, in the old days, people used to count the rejects at the end. We now try to weed out the rejects before they occur. That is what the whole health agenda, in its broadest definition, will be about. No matter the amount that a single minister gets, underpinning that will still be the fact that we want the outcome for the resource. That fixed element will remain. It is what the spending review process is all about. In due course, we will provide information on the exact resources that are being provided and what they will achieve. The First Minister said that we will spend the money on health. He went no further than that. That is what the spending review process is about.

The Convener: I wish to be clear. We are talking not just about Barnett consequentials, but about a supplementary allocation to health—it is Barnett consequentials plus.

Professor Midwinter: There will be further Barnett consequentials as a result of the spending review at UK level. The moneys that have been

referred to are those that Gordon Brown identified as being available for health.

Mr Kerr: We expect those in July.

The Convener: You are choosing to define health quite broadly. You are not saying “health service”; you are talking about health in the broadest sense or health-related expenditure.

Mr Kerr: I go back to my earlier point about the maturity of the political debate. If we end up not spending all the money on the health budget, people will say that it is a disaster. No decision has yet been fixed, but health money could go into the education budget for fresh fruit for children or into the social justice budget for breakfast clubs in the poorer communities of Scotland. Those things can make a massive contribution to people's lives and health. We need to understand that.

Mr McCabe: I agree with your comments that we need more maturity in the political debate, but you would do well to clarify the situation. The First Minister said that the consequentials from the chancellor's budget would go to health. You are saying that that does not necessarily mean that the national health service budget will increase by £8 billion or whatever the figure is. Do I understand you correctly?

Mr Kerr: Yes.

Professor Midwinter: If I may clarify one thing, the reason that we geared the discussion around the departmental priorities is that, when we received the Executive's recent presentation on its five priorities, the priorities were presented on a departmental rather than cross-cutting basis. In addition to those five, there were seven or eight cross-cutting issues. I think that the approach recommended by the minister is more sensible.

Alasdair Morgan: How will the process work? Will ministers be invited to propose schemes that they think will contribute to the nation's health in the broadest sense? Will somebody then decide which schemes score most highly and which minister will get the allocation to carry out those schemes? I am interested in knowing who will decide.

Mr Kerr: As you might expect, the allocation of resources is a collective Cabinet decision that the Cabinet buys into. However, you are correct that people bring forward projects as we go through the bilateral process and spending review process. We need to get beyond thinking in silos, which is what the Executive is trying to do. It will not be unexpected for ministers to talk to each other and agree either to aggregate resources or to work together to achieve their objectives better. That is where we are. There is the potential for that kind of co-operation and the process will go on.

No single person sits in the middle and takes all

the decisions—although, clearly, the First Minister does in fact do that—rather, the Cabinet makes decisions collectively. All spending review assessments go to all other ministers as well. Everybody is tied in to what everybody else is asking for. For example, if the minister with responsibility for local government sees a transport or health budget objective that affects local government, he gets the opportunity to suggest doing something that could tie in with one of those other objectives so that we can do something better with the overall resource. That is what we are doing.

The Convener: I ask for one point of clarification. You have described the process in which the Executive will be engaged for the spending review. Will a separate process be adopted for the £8 billion of health money, or will that be wrapped up in a single spending review process?

Mr Kerr: All of the money will be wrapped up in the spending review process.

Brian Adam: I presume that, given the fact that the amount of end-year flexibility should become known around the same time as the spending review, the EYF money will be wrapped up in that as well. Perhaps the minister could address that point.

I welcome the fact that the Executive will take a broader view of health, but what will be the lead time on those projects?

I presume that some of the money will go to the core health service, which will mean that it will be spent substantially on staff. There is a desire across the health service for more consultants, specialist nurses and other specialists, but concern was expressed today that the health service seems to concentrate on specialists without focusing enough on generalists.

Health is delivered through not just one mechanism. There must be co-operation between health boards. The evidence that we have heard today in Orkney has naturally enough reflected the fact that Orkney needs help from elsewhere. Concerns were expressed that we might be going down the route of having too much specialism and not enough generalism.

How are you and your team planning to roll out the money? Will there be a lag time, when the money might not be spent on what might be seen as direct health measures initially, as people go through the training processes? Are you going to encourage development of greater central control for rolling out managed clinical networks, for example, where the co-operation across health boards has not been as good as it might have been? How would you address the problem of having generalists rather than specialists?

Mr Kerr: I must answer that at the strategic level, as I do not want to stray into other ministerial portfolios. There is a good example of a one-stop shop at Dalmellington. At one end there is the police station, then there are social work services and education services, and at the other end there is a dentist.

Alasdair Morgan: Which end is worse?

Mr Kerr: Good point, Alasdair. That is people's thinking now—they really do not care. They are interested in the service.

I take on board your point. Health boards not only need to work across their boundaries, but through community planning will have to work in partnership with local authorities, the voluntary sector and the private sector to manage services across natural community boundaries. That is much more exciting and we are seeking to be innovative. I will not commit myself to it today, because that would be inappropriate, but we need to give the best of our local community planning structures some resources. Services in South Lanarkshire provide a good example. We must say to them, "You have worked through a good process and have got your partners all signed up. You are working collectively. Should we allocate the resource differently? Should we give you the budget? As community planning partners, you can perhaps solve the service delivery issue." We are not there yet, but the concept exists.

I hope that that addresses some of the issues that you raise. MGF—the modernising government fund—is also all about that. Its sole goal is to give people the incentive to work in partnership. The best example of that, which is seen all the time, is social work services and health services working together. There are single assessments for elderly communities, not three or four visits, and a key worker is attached to each individual so that they do not have to worry about phoning X, Y and Z to get A, B and C done. That is the essence of modernising public services and that is the direction in which we want to head.

The points that you make are correct. Without going into the detail, I assure you that that is the general objective of the Executive, which may address some of the concerns that exist. The clinicians need to advise us about specialisms in the health service, but much work is going on in specialisms because of the need to recruit and retain people. It is difficult to get hold of specialists—you will know about the difficulties that we had in cancer services and with heart transplants. Specialisms have to be there, because that is how we get the people in to do the job. Nonetheless I take your point. If that work goes too far, it might lead to an imbalance in service delivery.

Brian Adam: Let us address the lag phase. What is going to happen while the specialists and generalists are in training? I presume that the money is rolling in now and will be in the near future, but it will take some time to train all the staff, whether they are specialists or generalists. Have you got a strategy for what you are going to do—I am thinking about the outcomes—rather than just a pot of money that you have to do something with to get a quick hit?

Mr Kerr: I assure you that that is not the case. As you know, the £3.2 billion increase is coming in over five years and the top end—

Brian Adam: It will take more than 10 years to train a specialist.

Mr Kerr: Absolutely. I take that point. Ministers are having to set out their objectives within their portfolios. One of the key criteria is the ability to deliver monitoring mechanisms, which will be put in place to ensure that targets and milestones are achieved. Crucially, if we are to work with partner organisations—local authorities, health boards or anyone else—the capacity of those partners to deliver must have been assessed.

Those issues are being thought about, but I take your point that it takes that number of years to train specialists. We do not have a special training school hidden behind a big screen somewhere to train all those people up. That is a problem that we need to tackle. We recognise the problem and Malcolm Chisholm clearly recognises it. In his spending review allocation, with his objectives and outcomes, he needs to tell us how he will deal with the issue. We are embarked on that process.

The Convener: You will be aware that concerns have been expressed about the roll-out of the McCrone settlement and that there may be a mismatch between costs that are being picked up and the allocation of funding, which might have a differential impact in different parts of Scotland. We would welcome comments on how the Executive and COSLA have dealt with those concerns.

That issue might also arise in the roll-out of general medical services in the health service. There is a potential issue if an Arbutnott allocation is followed as opposed to a more targeted allocation towards costs as the implementation rolls out. Did you anticipate that problem? Do you have any mechanisms in line for dealing with that?

14:45

Mr Kerr: On the McCrone settlement, it is important to focus on outcomes. All the authorities that are involved with the McCrone settlement and have signed up to it have achieved all the

outcomes that they should have achieved—that is important.

Secondly, on the argument about McCrone difficulties or a mismatch, what the Executive signed up to do was what the local authorities wished us to do. We agreed the total sum in partnership with the local authorities and the trade unions and put that sum in the system in the way in which they wanted us to. There are pressures in certain areas, just as other assessed needs cause pressures in different areas.

The grant-aided expenditure system does not involve exact science—we have talked about that for a long and weary time—but it is a good approximation of need and how the Executive needs to resource and meet that need. I am absolutely certain that the Executive has resourced the McCrone settlement adequately. Local authorities signed up to the deal and are achieving their objectives. Individual local authorities have been to me about the McCrone settlement and other matters that go through the GAE sausage machine and come out the other side. Local authorities that made money out of it have not chapped at my door with a briefcase full of fivers and said, “Here is the money back from the McCrone settlement that we do not need.”

The McCrone settlement has been fully resourced and we agreed in partnership how we would distribute that resource, so the Executive has done what it needed to do. I discuss such matters with COSLA, which is integrally involved in the spending review process. A number of meetings have been set up between COSLA chairpersons or leads on subject areas and the relevant ministers. I met COSLA as late as yesterday to discuss some of those issues—we continue to discuss them. I emphasise to COSLA that we have resourced the settlement and put resources in in the way that it wanted. We need to ensure that targets and objectives are achieved.

On general medical services, resources are not distributed through the Arbuthnott formula. There is discretionary GMS funding that is distributed on a historical basis and there is a demand-led aspect to the whole GMS process. The health department is considering how resources for GMS should be distributed in the future, but discussions are tied into negotiations that we are having on GP contracts. Such matters are never simple. Many different issues are at stake in the process and the department has advised me that critical discussions are taking place elsewhere in respect of the allocation.

The Convener: Perhaps Professor Midwinter would clarify what the area of concern is.

Professor Midwinter: The issue was raised with us this morning. The concern is that the

contractual negotiations need time to bed down and funding needs to be discussed. There was a concern that, like the McCrone settlement, the costs of the settlement might be calculated in one way and then a distribution formula would be used that would leave people in a similar plus-and-minus position. The contributors from the health board asked about the possibilities of ring fencing funding in the short run.

Mr Kerr: I appreciate that you are passing on the views of others. However, Arbuthnott is not yet the way that we are going to fund GMS. The decisions have not been made. I will have to come back to the committee after discussing it with the relevant officials, to ensure that you get an accurate answer. It is not being done that way; it is in discussion and it relates to other matters that are going on elsewhere.

Alasdair Morgan: You mentioned GAE. I noticed that the Transport and the Environment Committee's report bemoans the fact that councils seem to spend consistently below their allocation on road maintenance. Do you take the view that you should engage with and try to do something about that, or do you believe that that is local democracy and that is the way it should be? It is up to the councils to make decisions on such matters and they then have to face the electorate and take the consequences.

Mr Kerr: I largely take that view, but I also hope that those councils are employing best practice when consulting their communities. South Lanarkshire Council, for example, spends in excess of GAE on its roads. It does that because, whenever it engaged with the community at opinion-forming meetings, through surveys or council surgeries, it determined that that is a pressing local need and it therefore agreed to spend in excess of GAE. I believe it is spending 18 per cent above GAE, but do not quote me exactly on that figure. GAE is not an exact science. There is no point in having councils if we say, “Here is your budget and here are the percentages you will use to distribute your resources. Get on with delivering them.” Local democracy exists for a good reason. I value it and I am sure you value it too.

We have to work in closer concert through partnership to achieve the Executive's and the Parliament's objectives for communities and how they are delivered. In many areas local government delivers the direct services on which we all rely. I therefore take a fairly relaxed view of what councils do with their GAE. I am concerned when we want to deliver a particular innovation and we ring fence the resource for that. Ring fencing can generally be taken away after a few years, once that service is bedded in, but I become concerned when councils show me that

the ring-fenced funding we have put in is not appropriate for their local area.

As we discussed previously, I am going through lengthy discussions with COSLA about ring fencing because it is of no great value. The person in the street does not care how services are funded as long as the outcome is right. If we can move councils and other service delivery partners towards outcome-related arrangements, ring fencing will disappear.

Brian Adam: I go back to the previous series of questions. We are not just talking about the GP contract. There is also the abolition of the Scottish Medical Practices Committee and the question of whether Arbuthnott, or something similar, will be applied to GMS. A number of authorities have expressed concerns about that, some of which we heard today.

I am glad that, so far, you have not made a decision on how you are funding GMS. Presumably, you have not ruled out using the Arbuthnott formula. Can you give us an idea of the options that you are considering? Who is going to make the decision and when are we likely to hear how the matter will be dealt with?

I accept the point that you made about McCrone and that agreement was reached at a national level. Irrespective of that, there are still concerns out there and we do not want to replicate those in any way, particularly in the area that Elaine Thomson, David Davidson and I represent. There are still general concerns about Arbuthnott and about the potential further outcomes of funding of general medical services.

Mr Kerr: I commit to Brian Adam that I will get back to the committee on that. I do not have the level of detail available on where the process is. I commit to getting an answer from Malcolm Chisholm so I can give a clear response to that. I am aware of the issue of the Arbuthnott formula in the north-east, because it is raised at question time every second week and in correspondence.

Mr Davidson: I want to clarify something that you said earlier. My question is about transparency and scrutiny, about which there has been a lot of discussion in the committees' reports on the budget and in the evidence that we have taken in the past few months. I welcome your redefinition of the First Minister's statement, which suggested that the door to funding is still open for projects that create jobs and improve health. I assume that that is exactly what you meant, but I will read the *Official Report* to check it. I thank you for your statement.

Concerns have been raised in all parts of Scotland about the formulaic approach to funding. That concern was raised this morning and it has been raised in the north-east and in the Borders.

The concern touches a wee bit on ring fencing. It appears that the Executive's formulae have been rapidly but not terribly well thought out. Part of the system involves challenge funding and part of it does not. There is a lot of dissatisfaction. People do not understand how they fit in to the formulae or they consider them and wonder why the allocation per head of population in their area is not the same as that in other areas. That issue was mentioned this morning. People wonder why the allocation here is not the same as for other similar island communities. There is a lack of understanding about the process; part of the problem is to do with transparency.

I asked two of your predecessors this question and I am still waiting for an answer. It is your turn now, minister. What work is being done to review the formulaic approach to the distribution of resources? The distribution of funding appears to be very hit and miss. You say that the approach is a collective effort of the Executive which, I presume, means that there is general agreement about the way in which formulae are developed. Many members have asked questions about how the formulae will be modified, but the Executive takes a stone-wall approach. The Arbuthnott formula is not the only example; the same thing happens with funding for local authorities, ferry services and so on. I will come back to ferries later.

Mr Kerr: I am sure that you will.

As I have tried to point out, the formulaic approach is not an exact science. The Arbuthnott formula was heavily consulted on and GAE is discussed endlessly. I have said it before—I do not want to bore members—but of the 37 reviews of GAE that have been carried out in the past six years, one council has moved by 0.6 per cent, 11 councils have moved by between 0.1 per cent and 0.2 per cent and the rest have stayed exactly the same. I would much rather that we spent our time talking about the delivery of public services than sitting in committees, assisted by consultants, but not focused on the real issues of what the money actually does. The reviews have not made that much difference. Although it is not an exact science, GAE is a well discussed and well consulted-on approach.

The Arbuthnott formula, which is a fairly new approach, has also been heavily consulted on. The per capita allocation of resources would make no sense whatsoever.

Mr Davidson: I did not suggest that. I said that many of the organisations that spend the resources do not understand how they can make a difference to the allocation. We have been asked questions this morning and at other times about how rurality and isolation are factored into the formula. Is the formula a level playing field for

organisations that have reasonably similar situations? Achieving equality of access to budget resources seems to be a cause of desperation in many agencies. They complain that the formulae are at best opaque and at worst dense.

Mr Kerr: That is not my experience. One of the ways in which I became more involved in the process was through the allocation of resources for the better neighbourhood services fund, which used a challenge-based mechanism whereby authorities had to come up with innovations to improve local communities. Authorities had to tell us what they planned to do and, more important, what output that would achieve. They also had to say how they would monitor projects to ensure the delivery of objectives, which might have been community safety or better health.

15:00

Furthermore, with certain challenge funds such as the modernising government fund, the Executive lays down clear criteria such as greater access to public services, working in partnership and seamless delivery in order to achieve the desired aims. People then bid into that process with innovative proposals. However, although the challenge fund aspect remains an essential part of what we do, it is on the margins, as the committee is well aware.

On David Davidson's second point, I am not sure how much more I can assure people who are confused about the system. I am happy to explain how GAE works and to provide evidence and information about the Arbutnott formula. Those are the big issues. David Davidson calls our approach "formulaic"; however, I think that the information that we provide about challenge funding is good, otherwise we would not receive any good applications for those funds.

Another good example is the public-private partnership process for schools, on which we have issued five key criteria for what we expect to achieve through the projects that local communities propose. We have already received some very good responses. I have not heard directly any of the comments that David Davidson mentioned, and I would be interested to read this morning's evidence to pick up some of the main themes and find out what people have been saying. If it turns out that the Executive has been weak at explaining how people access funds, I will want to deal with that.

Mr Davidson: I will share some information with the minister. When your fellow minister, Mr Chisholm, was questioned on this issue at the Health and Community Care Committee, he stated clearly that he would not use challenge funding as a mechanism for the distribution of new resources into health. Do you agree with that stance?

Mr Kerr: I have no problem with that. I do not seek to have a complete understanding of all health matters. With funding mechanisms that I am aware of such as the modernising government fund and the schools PPP process—perhaps the latter is a different example—the challenge funding principle remains: people compete for resources by submitting innovative proposals. However, where the available resource is extremely marginal, there is no point in running a competition for it; I would prefer to allocate the money to a task and let people get on with it, instead of wasting their time making them fill out forms and raising their expectations when very little will result from that.

Elaine Thomson: I want to pursue the issue of accountability. Now that we are examining the Scottish budget in much greater detail than was previously the case, it has become obvious that very large tranches of money are, in effect, handed over to single organisations, local authorities, health boards and so on. As a result, it becomes difficult to follow from the top down how increases in spending are used. For example, three or four very large quangos feature in the enterprise and lifelong learning budget; however, when the money is handed over to them, things become very opaque. How do we continue opening up the whole process to public scrutiny? Indeed, how important is it to make the whole Scottish budget process more open to people? Perhaps we could have a simple leaflet of maybe half a dozen pages. Although we had something like that in the Parliament's first year, we seem to have moved away from it. Maybe we should reconsider that measure.

In its budget report, the Local Government Committee says that it has found it particularly difficult to scrutinise some local government moneys. Of course, that is partly because local government funding is split across a number of different ministerial portfolios. Do you have any views about how we can approach that problem?

Mr Kerr: We do not put money into local government or health without knowing what will happen to it. The Accounts Commission's reports on best value and performance management planning allow us to follow the pound. Although ministers might not have a hands-on role in that respect, we still have people and organisations to carry out that work on taxpayers' behalf.

The money does not go out of the door never to be seen again. We see all the reports, such as Accounts Commission reports on waste, school services and schools inspectorate work. There is a lot of assessment and measurement of performance, in which reports mention areas of concern that we then deal with. There is within the health service a performance assessment

framework, which is a set of detailed indicators about what happens to the money and what we get from that. Such matters, it is correct to say, are for the anoraks among us and those who have a detailed interest in subject areas.

We can drop down a tier to where we want to head, which is the outcome agreement structure. If there is focused work in a local community and a focused intervention via a community planning partnership, we can distil the targets that we want and tell people what we expect to achieve. I must be honest—I think that the Executive has been extremely bold. It is innovative for Government to say, “Here is what we are going to do. Here are the targets.” For example, there are the social justice milestones report and the programmes for government. We have set down the outcomes that we expect to deliver, so we can be held to account. We have detailed targets and milestones that we must meet and we will be judged on our performance.

Dropping down another tier, there are meetings such as the one in Hamilton—which was the first such meeting I have attended—which was attended by about 90 people from various parts of the community. I gave a 15-minute presentation about how the Executive allocates resources, then there was about an hour and a half of questions. I could not answer every one of them—like here—but people got an idea of how the budget process works and how they can impact on it. The more we do of that, the better. I will ask David Palmer to come in on the idea of leaflets, because that was something that we examined. However, it was felt that the product that we were going to deliver was not going to be very useful. David will comment further on that.

David Palmer (Scottish Executive Finance and Central Services Department): We tried a leaflet. It was about six pages long but, because it was a fold-up thing, it was reasonably small. We circulated the leaflet with the documents and we distributed it when we did the roadshows. However, the leaflet always ended up in the bucket because nobody was interested in it. We did not get any feedback from it at all—it just did not work. That is why we have not pursued the idea of a leaflet again. However, leaflets are relatively inexpensive to produce. We might have got the format and layout wrong. We could try a leaflet again.

Elaine Thomson: I saw that leaflet. Its content and style were perhaps part of the problem.

David Palmer: The trouble with leaflets is that figures have to be aggregated. One then gets into difficulties about what message one is putting in the leaflet. As someone who might design a leaflet, I can see that there could be conflicts between how I would design it and how someone else would do that.

The Convener: I am sure that we can take your advice on that.

Mr McCabe: Over the past three years, ministers and parliamentary committees have expressed a strong desire to equality proof adequately the Scottish budget. However, over that same time we seem to have been working without a proper definition of equality proofing. Are we making any progress?

Mr Kerr: My understanding is that we do not yet have such a definition because we have found it difficult to get the bodies who want us to have a definition to tell us what they are looking for. That might be a short response to the question, but when I raised the issue, I was given that response. Nobody has defined what we mean by equality proofing and how it can be played out in the real world.

Mr McCabe: I acknowledge that. However, to be fair, there have also been expressions from ministers of a desire to equality proof the budget. I am asking whether the Executive is making progress in defining what equality proofing means.

Mr Kerr: A number of bodies have been involved in a consultative way in the meetings that I have had as part of the budget process. In a previous existence, I was a systems person who dealt with equality management. However, I have not yet been shown what I would call a classic system for equality proofing. There have been discussions only. Engender has been involved in discussions on the issue, as have the parliamentary committees. Kate Maclean has discussed with me how we might conduct equality proofing, but we have not yet managed to nail it down.

I accept that the Executive should be getting down to work on equality proofing. I will get back to you on what we can realistically do and how we might achieve that. I guarantee a response on that as soon as possible.

Brian Adam: A number of witnesses have expressed concern that higher and further education funding is falling in real terms and have implied that that could have long-term economic consequences. Page 84 of the AER states:

“In 2002-04, public investment in FE colleges will fund ...

- a continuing expansion in the number of college places available each year”.

However, the Scottish Further Education Funding Council’s press release of 26 April states:

“Following a period of substantial expansion in the further education sector in recent years, further growth is on hold for the time being”.

It strikes me that those statements are incompatible. The AER says that expansion will be

delivered, but the people who are responsible for delivering it are saying that it will not be. Who is right?

Mr Kerr: Well, as ever in life—[*Laughter.*]

We want to congratulate our colleagues in the further education sector on the fact that they overachieved in relation to the target. The sector was asked to secure an additional 40,000 enrolments over the three years of the comprehensive spending review to reach 452,000 in 2001-02. We were only recently made aware that, by year 2, an increase of 63,000 had been achieved. Our difficulty was that that was a fairly dramatic increase. Perhaps the difference is explained by the fact that, with due credit to those who are responsible for understanding the figures, we assumed that an increase of only 40,000 had been achieved when there had been an increase of 63,000. That explains why there is less headroom into which the enrolment figures can grow. I need to get more information about the issue, but the basic point is to do with where we expected the baseline for the increase to be and where it actually was. On the basis of the sizeable numbers that were reached, more modest growth figures now need to be considered.

Brian Adam: The Scottish Further Education Funding Council says that

“further growth is on hold”.

That means that there will be no growth. However, although I accept that there has been an honest misunderstanding and that the sector overachieved in relation to the targets, I would like you to clarify that further.

Mr Kerr: I am happy to clarify the matter in correspondence but the fact is that, in the real world, more students are gaining access to further education, which is what we wanted to achieve. The target has been exceeded by the colleges and that is good news. Given the degree to which the colleges overachieved at that early stage, I am not surprised that they have moderated their targets for the future. We might have reached a temporary plateau—I will have to consider further whether we have—but that plateau was reached only because of overachievement in relation to the original target. It would be unfair to accuse the Executive of capping or of having changed its policy because we are increasing the real amount of students who are doing real courses and who are getting real qualifications and jobs as a result.

Mr Davidson: In the higher education sector, funding is falling and more and more universities are sliding into deficit. At our meeting on Tuesday, we were told that, unless something is done, even the best of the Scottish universities are at risk of falling out of world leagues. What do you think about that, given that universities are major drivers in the community?

Mr Kerr: I would be concerned if any of our universities lost any of the advantages that they have within the system. I am looking desperately for the budget lines on the area that you are concerned about. The expenditure for the Scottish Higher Education Funding Council will increase from £659 million for 2001-02 to £721 million for 2003-04. We are squeezing more out of the system in terms of student numbers and that is perhaps where the pressure is. There is also a greater encouragement of part-time provision within the system. The expenditure in the budget lines is increasing, but there is pressure to maximise the resource through student numbers.

The budget also reflects some of the innovative work that the Executive has done with regard to giving sections of society that are underrepresented in higher education access to such education. I commit to examining that in detail with regard to the evidence that the committee has heard. We must address what the universities are saying to us.

15:15

Mr Davidson: The issue is not about the numbers of students and access; it is about the fundamental deficits in the systems. If we are not careful, there will be no universities to give anyone access to. If the universities do not have a critical mass of economic sustainability, they will not stay in the world league.

The Convener: That point did not come to us from universities; it came from other evidence that we took.

Mr Davidson: With respect, convener, I have heard it from universities as well.

Mr Kerr: I will look into the matter. I am not disputing anything that is being said. Clearly the Executive is increasing the resource that is going in. We are attempting to do our best for all our budget heads. I am concerned about what is being said. I will come back to the committee on the matter.

Alasdair Morgan: I want to move on to another point. Brian Adam referred to the low level of increase in the justice spend, which is one of the Executive's priorities. The budget line for the Crown Office and Procurator Fiscal Service, which is part of the justice spend, will be relatively static in real terms over the next few years.

Most of us know that the public and the police are frustrated that many people, who would be criminals if they were convicted, are never brought before the courts. That is not because there is no evidence against them, but because the procurator fiscal decides not to proceed, for reasons that are not made public. Most of us know

that there are not enough resources in the system to prosecute such people. It is frustrating for everyone involved when criminals walk free after their crimes have been detected.

Has the Crown Office and Procurator Fiscal Service asked for more resources to address the problem, or is it happy that the matter is not being addressed? What is the Executive's take on the matter?

Mr Kerr: The Crown Office and Procurator Fiscal Service asked for more resources and got them. Colin Boyd reported to the Justice 2 Committee fairly recently that he had discussed with me the difficulties in the Crown Office system. It has been widely reported that the Executive has put more money in.

In line with my great desire to ensure that we do not spend money without its being accountable in the system, Colin Boyd is still negotiating the outcomes with me. More money is going in; I want to see what I will get from that and I am driving the bargain very hard. Colin Boyd will substantiate that. When he tells me that he needs more X, Y and Z type of people in the system—lawyers or support staff—I want to know what they will deliver if they are appointed.

This is perhaps not reflected in the budget, but Colin Boyd has come to me and made a case. He got additional resources; he wants more and he will get more if he justifies to the Cabinet that what he needs will deliver the outcomes that we seek, which will address some of the clear issues that have been raised with us.

We also make a mistake about the sizes of budgets. The courts are diverting people into different forms of custody, such as innovative diversionary programmes—in which social work and justice departments are involved—and electronic tagging.

A fine company called Reliance Monitoring Services, which is based in—dare I say it—East Kilbride, has now won the contract for all Scotland. That company has very sophisticated and modern technology.

Mr Davidson: Have you issued the press release?

Mr Kerr: I have; I visited the company last Friday.

Such schemes are about using innovation and services to the best. Instead of sending someone to jail for two weeks because of some offence that they have committed or some fine that they have not paid, we are now tagging them and they are now subject to order by sheriffs and others in the court system. Not only does that save the taxpayer money, but, as such people sign up to be tagged, they get their lives back together. Because they

have been tagged, they have a regular pattern of being in their homes or in an institution. We can deal with people differently. We can reintegrate them into society. If someone goes to jail, the odds are that they will reoffend. If we can prevent people from going to jail and divert them into the different programmes that we run, the budget might be reduced.

That is a bit like the situation with health. On clinical work for day-care patients, we are not admitting people for two days, for example, to get certain operations done because we are tooling up nurses to do those operations in GP practices and because we are setting up specialist clinics throughout the health service. Because of modern technology and the way in which we can do things now, we do not need to have those people in overnight. There is a saving from that on the number of beds. Is that a problem? No, because the service is better for those people and their families. The issue is not just about size, although size is important.

Alasdair Morgan: I take that point, minister, but one of the problems with the Crown Office section of the AER is that it contains no outcomes or targets. That is a failing.

Mr Kerr: I agree. Once we have had discussions with the Crown Office, we would be happy to provide you with some of the detailed information about the restructuring and reorganisation and about the investment that we are making in that area to ensure that it delivers for us.

Brian Adam: On outcomes, we heard evidence today that suggested that the resources that have been made available to meet housing support needs and to deliver the homelessness task force are likely to be inadequate.

While David Palmer is looking up those figures for the minister—they are shown on pages 173 and 177 of the AER—I will ask about the Government's initiative for improving the amount of affordable social rented housing in rural communities. I believe that the target was to provide 20,000 extra homes over a certain period. There did not appear to our witness to be a great deal of transparency about where, how and what had been delivered. Will the minister tell us a bit about the outcome of that programme and comment on the concerns that our witness expressed on the adequacy of the resources for housing support needs and the homelessness task force?

Mr Kerr: I will need to check the figures for tackling homelessness. My information is that that budget head is increasing and has increased dramatically. It has doubled over the three years since the comprehensive spending review. The

outcome measures are targets that we have set through social justice and are happy to sign up to. We continue to monitor our achievement of those targets.

On your question about whether the priorities that we have set are having any impact, I am slightly confused. My information on outcomes is that we are achieving the milestones that we have set on those issues and that therefore we are on track.

Brian Adam: I am more than happy for you to get back to us with some of those figures.

Mr Kerr: I would need to examine closely what the witness said to give a fuller response to your questions.

The Convener: I will ask a question about transport investment. The Transport and the Environment Committee was concerned about two issues in particular. One was that there did not seem to have been a sufficiently rigorous appraisal process on the identification of the 10 priority transport projects. It was therefore impossible to identify how those projects scored, especially in relation to net present values and economic benefit more broadly, as opposed to whether they complied with different aspects of the transport strategy.

The other issue was that, if, after rigorous work is done, decisions are made on the basis of those appraisals to commit to those or other priority transport projects, a considerable longer-term investment in transport expenditure will obviously be required. I know that that does not necessarily apply to this year's budget, but can you give us an indication of how you see such transport needs being funded over the period of the spending review and beyond?

Mr Kerr: I will defer to David Palmer on that. I received the report after it had been through the appraisal and David Palmer has more detail on how that system worked and how we reached the end result.

David Palmer: My understanding is that there was a fairly detailed and lengthy appraisal process that accorded with the Treasury green book guide. If anything, the appraisal mechanism has become even more complicated as people have tried to take on board the strategic aspects of transport through the strategic transport appraisal group—STAG. I do not know the details of the appraisal mechanism, but I know that it is sizeable—three or four economists are devoted solely to transport. A section of road engineers is also involved in providing estimates of travel times and so on. There is almost a cottage industry.

Mr Kerr: My recollection from my days as convener of the Transport and the Environment

Committee is that STAG had a set of criteria that it would work through. I cannot guarantee that that was the process on this occasion.

David Palmer: We can get back to you on that.

The Convener: There are some transparency issues attached to that. It would be helpful if Arthur Midwinter could consult your economists and the people most closely involved to find out how the appraisals are done.

David Palmer: It is down to the green book methodology.

Professor Midwinter: I am familiar with the document, but I should talk to relevant committee advisers. I will come back to the committee when we have clarified the issue.

Elaine Thomson: We have talked a lot about transport today; all the witnesses raised transport as an important issue. As you will know, minister, allocating resources is a difficult thing. Do you think that you have the balance right between urban and rural and remote areas? In islands such as Orkney, transport is important in a way that it is not in urban areas.

Mr Kerr: Have we got it right? We are always listening to find out whether we can make improvements. The pressures in urban and rural environments are different and we must balance them. That is why we introduced the public transport fund and other measures with criteria relating to the impact that investments should make.

I would not be so bold as to say that we are getting it right. However, we are open to discussion. We make substantial interventions in rural transport policy. A massive amount of work goes on around the islands on piers, harbours and support for ferry services. That rightly involves a lot of money because we are discussing not just a ferry, but a lifeline service. Similarly, we are discussing not just a plane, but a plane that delivers the doctor and responds to emergencies. Our intervention is critical, not just in terms of tourism and so on, but in respect of lifeline issues. If it comes to devoting further resources to livestock carrying from islands where there are difficulties, that is what we will have to consider doing.

I, too, have been subject to ferocious lobbying about local issues, which Jim Wallace has also raised with me fairly frequently. Speaking very locally, we are trying to deal with the £500,000 transport shortfall, which was a result of the unexpected levels of the tenders. We are now trying to deal with that. The matter is with the Executive; I cannot give specific advice on it.

The support that we give and the work that we do on buses, ferries, piers, harbours and flights

are substantial. Everyone can argue that we could do more with the resources that are available to us and do it better, but we have what we have and we allocate it in the best way that we can to ensure that we make an impact with the money.

I am glad that Elaine Thomson said that the process is difficult. I am involved in such processes almost daily—I must determine whether the genuine need of one group of people is greater than the genuine need of another group. That is the business that we are in, collectively, in the Parliament.

15:30

The Convener: I want to ask a question about islands. However, if Brian Adam also wants to, I will let him go first.

Brian Adam: I welcome the minister's comment. During our time in Orkney, the committee has been lobbied about the transport issue. Concern has been expressed that the issue has been with the Executive for a couple of months. Will you give us an indication of when you are likely to conclude the matter?

Mr Kerr: If I recollect correctly, we were written to on 2 April. An officer in the Executive received that correspondence. I sought to get the matter clarified before I got here, but did not manage to. You can rest assured that I have asked for the issue to be dealt with as soon as possible. I cannot give you a date, but I assure you that the matter will be dealt with quickly.

The other issue is the response to the immediate short-term problem with ferry services, which is on our doorstep. We are moving into the spending review process and our local government colleagues in Orkney Islands Council will be part of that process. I expect to hear their views being played out in that process.

The Convener: That neatly leads on to my question. An issue that has been raised with us in Orkney is the £600 per capita difference between Orkney and Shetland, for example. Is that one of the issues that might be looked at in the spending review? How can we examine the particular transport issues that island communities face in the context of the broader debate about Caledonian MacBrayne and the ferries to Orkney and Shetland? The debate is partly being driven by CalMac at the moment, but there are issues affecting the northern isles as well.

Mr Kerr: I want to put the issue into context. To be fair to the Executive, increases in the resources to local government are at historic levels. The real-terms increases are extremely significant. Orkney Islands Council gets the third highest per capita support in Scotland and it has the third lowest

council tax. Such issues are important. An independent committee recommended the removal of the special islands needs allowance, which would have taken £5 million out of the budget. The Executive chose not to do that—we put in resources even when it is recommended that we take them out. I would not want anyone to get the impression that the Executive seeks to do anything other than to support important communities throughout Scotland.

I must look at the difference in the resource; I do not have the detail on that. That issue has been raised only recently and I have not yet got my head round the detail. Everyone whom I meet in the street happens to know about the issue, so I will be considering it.

Mr Davidson: I will ask a fairly simple question.

Mr Kerr: Oh dear. Those are always the worst.

Mr Davidson: On the review process, what impact has the increase in national insurance had on the budget and how will you deal with it in future budgets? An outcome base in a particular budget line will have been discounted by the time the recipients get their hands on the funding. How will you deal with that?

Mr Kerr: That is part of our spending review discussions.

Professor Midwinter: That is a simple answer.

Mr Davidson: It is a simple non-answer.

Mr Kerr: It is a genuine answer.

Brian Adam: I want to follow up on that.

Mr Kerr: This will be another tough one.

Brian Adam: I have a terrible complaint. I lodged a parliamentary question on that subject and I received an answer referring me to the answer to someone else's question. No one could get hold of the answer that was referred to.

Mr Kerr: I apologise for that.

Brian Adam: Have you received other such complaints?

Mr Kerr: Our practice of referring someone to another answer is very strange. Repeating the answer would be more sensible.

Brian Adam: Exactly.

Mr Kerr: I take the point. Lindsay Blakemore, who works in my private office, is here. I am advised that that is standard operating procedure. Perhaps we can alter that procedure.

The figure is about £80 million. We know how that breaks down among local government, health and other organisations, as well as the Executive and non-departmental public bodies. We know

what the problem is and we are seeking a resolution to it.

Brian Adam: I raised the issue in connection with the procedural problem. That problem should be referred to the Procedures Committee; alternatively, you could talk to your colleague the Minister for Parliamentary Business about it. Ministers should repeat the answer rather than making reference to another question.

Mr Kerr: We are on to a different subject here. You are right. However, it is reasonable to refer to a document, if the Scottish Parliament information centre has it. Members can go and get the whole document. If reference is made to a fairly straightforward answer, I accept your proposal about repeating the answer. I will undertake to raise that with the relevant minister.

The Convener: We wanted to raise the specific issue of housing debt redemption by the Treasury. What happens to the resources that are released? Do they remain in the housing programme or do they go into the overall funding pot?

Mr Kerr: My understanding is that they go into the overall funding pot. David Palmer has confirmed that, so I am fairly certain, but there is a slight doubt at the back of my mind. If there is any change to that position, I will get back to you.

The Convener: Members look as though they have exhausted their range of questions.

Mr Kerr: I am just looking exhausted.

The Convener: You can be let off the rack. I thank the minister for taking part and for making a presentation.

Mr Kerr: Thank you.

Meeting closed at 15:36.

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