

FINANCE COMMITTEE

Tuesday 21 September 2004

Session 2

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CONTENTS

Tuesday 21 September 2004

Col.

CROSS-CUTTING EXPENDITURE REVIEW ON ECONOMIC DEVELOPMENT	1683
ITEMS IN PRIVATE.....	1705

FINANCE COMMITTEE

23rd Meeting 2004, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)

*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

*Kate Maclean (Dundee West) (Lab)

*Jim Mather (Highlands and Islands) (SNP)

*Dr Elaine Murray (Dumfries) (Lab)

*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*John Swinburne (Central Scotland) (SSCUP)

COMMITTEE SUBSTITUTES

Mr Adam Ingram (South of Scotland) (SNP)

Gordon Jackson (Glasgow Govan) (Lab)

David Mundell (South of Scotland) (Con)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED :

Peter Wood (Adviser)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 21 September 2004

[THE CONVENER *opened the meeting at 10:00*]

Cross-cutting Expenditure Review on Economic Development

The Convener (Des McNulty): I welcome people to the 23rd meeting of the Finance Committee in 2004 in the second session of the Parliament. I welcome the press and public as well as committee members and I remind people to turn off their pagers and mobile phones. We have received apologies from Fergus Ewing.

Agenda item 1 is our cross-cutting expenditure review on economic development. Members will recall that we issued requests for evidence just before the summer recess. Our adviser, Peter Wood, has been analysing the submissions that we have received thus far. I welcome him to the committee and thank him for his paper, F/S2/04/23/1, which analyses the submissions and which members have.

I will give Peter Wood the opportunity to speak to his paper and then I will move on to contributions from members.

Peter Wood (Adviser): Good morning. It is a pleasure to be here in many ways.

As the committee is well aware—it is why we are here—it decided to seek written evidence on its cross-cutting review of economic development spending in Scotland. We should briefly remind ourselves that the remit, as explained to respondents, was to consider whether the level and structure of spending on economic development in Scotland and its share of overall Government spending had been appropriate in the period since devolved Government, given the priority that is attached to economic development by the Executive; the challenges that face the economy and other factors, such as the extent of knowledge of factors that influence economic development; and the available evidence on the effectiveness of the economic development spend.

We put five specific questions to the respondents, who were asked to comment on the following: on whether the overall level and growth of expenditure on primary spending on economic development had been appropriate; on whether economic development considerations were

reflected in decisions about other types of spending, such as on transport and higher education; on whether economic development factors were assessed appropriately in project appraisal in those spending areas; on impacts and outputs of the two main development agencies in their spending; and on whether the balance between primary spending on economic development and support spending fits Scotland's needs and priorities.

We have received 15 publicly available submissions, which are listed in my paper, so I will not go through them. I have attached at the end of my paper a table that attempts to summarise, as briefly as possible, the responses in the various submissions to the five questions—it is an aide-mémoire as much as anything.

I will, having reviewed the submissions, comment on the general tenor of the evidence and I will say a few words about the general thrust of the responses. It is perhaps not surprising that a number of comments were made about the general methodology of the research paper that I prepared and which had been circulated. Perhaps what is more to the point is that there was some discussion of definitions and what we meant by primary spending and support spending. It was asked whether the paper had taken account of all the spending that was relevant to economic development.

As I said, there was some discussion in the papers about what we mean by primary and secondary spending. To be honest, I think that to some respondents those meant “more important” and “less important”. If that was the impression that we gave, it was wrong. The intention was to try to distinguish spending for which the main aim was to promote economic development, from spending on other activities that would help, encourage and support economic development, but for which promotion of economic development was not the primary intent.

It is also true, although this is not intended as a criticism, to say that respondents tended to reflect their own particular concerns about recognition of the importance of their areas of activity. Therefore, submissions from the education sector, in particular the university sector, argued that academic research spending should be included as primary spending on economic development. Responses from local authorities tended to argue that areas of local government spending that had not been considered in the paper should be included and that, in particular, spending on the broad area that we term social inclusion contributes to economic development. There were issues about where the boundaries of economic development spending are.

One point that was consistently mentioned was the importance of expenditure on water services and water infrastructure, which perhaps had not really been dealt with in the earlier research paper.

There was no consensus on the definition of where the boundaries of economic development spending should be; we had enough difficulty ourselves in defining them, so it is not surprising that there was some disagreement. Some people argued that agricultural support should be included and others argued to the contrary. As I said, the definitions of primary and secondary spending were debated.

The Federation of Small Businesses made a number of specific methodological points and argued that more attention should be paid to comparative analysis of Scotland against the English regions. I am sure that that would be quite useful.

Several respondents, notably Highlands and Islands Enterprise, Scottish Enterprise and some of the academic bodies devoted parts of their submissions to analyses of the key issues that face Scotland. Those comments were most useful.

I will now summarise briefly the responses to the five questions. The first question asked whether the overall level and growth of so-called primary spending on economic development had been appropriate. It is fair to say that the balance of responses was that spending should have grown more. The responses reflected a feeling that spending had not grown sufficiently, given the growth in other areas of spending and the importance of economic development.

There was certainly divergence among views about where more money, if it is needed, should be spent. Some respondents took the view that if more spending is needed, it is required more in infrastructure—whether transport or education—but others argued that the focus should be on what we have termed primary spending, so there was no consensus view.

I hope that I am not being unfair in saying that the areas that respondents identified as being priorities for increased spending tended to be closely aligned to their activities. For example, education sector respondents argued for more spending on skills and research and local authorities argued for more spending through local partnerships.

The most distinctive view was provided by the Scottish Chambers of Commerce, which argued in effect that direct spending on economic development projects be cut back, with funds being diverted to spending on transport, to reducing regulatory burdens and to reducing business rates.

The two main bodies that are charged with economic development took slightly divergent views. Scottish Enterprise argued for substantially higher spending. It observed that if spending on economic development had kept pace—as it saw it—with other spending, it would be 90 per cent higher than it is now. Highlands and Islands Enterprise's response was a little more guarded; it argued that spending was probably broadly accurate in the Highlands context, given what they term the absorptive capacity—the ability of the Highland area in particular to absorb spending and to carry out projects. Several respondents said that the question was too hard to answer without there being clarity about the objectives of spending.

The second question was whether in areas such as higher education and transport we pay enough attention to economic development factors. Some respondents focused their answers slightly off the question—they tended to say that the economic development requirements of their types of activity were not adequately recognised. That is particularly true of the responses from academics and local authorities. More generally, there was a view that it was difficult to answer the question because the economic development priorities were not clearly enough expressed.

Respondents asked what Scotland's economic development priorities are and said that we need to know what they are before we can know whether spending is properly aligned to them. Several respondents referred to the "Framework for Economic Development in Scotland" as being a document within which those issues should be more clearly articulated. As I said, water supply was identified by several respondents as being an issue in relation to which economic development considerations had not been given enough weight. The Scottish Chambers of Commerce argued for more spending on transport and education.

The third question asked more specifically about appraisal procedures. Respondents did not express strong views on the matter, partly because few have detailed knowledge of the procedures. However, the balance of views was—again—that more attention and weight should be given to economic development factors in deciding whether to go ahead with projects in transport and education, for example.

The fourth question asked respondents to comment on what we get for our money in terms of the output and impact of the budgets of Scottish Enterprise and HIE. It was interesting that most respondents were aware of the Audit Scotland report on Scottish Enterprise and the performance information in the annual reports of Scottish Enterprise and HIE. The majority view was that both bodies are, by and large, meeting their

targets. Respondents made no strong criticism of the bodies and both Scottish Enterprise and HIE set out robust defences of their performance assessment.

The fifth question asked whether the balance of expenditure between primary and support spending had matched economic development needs and priorities. With one or two exceptions, respondents had relatively little to say about the balance between spending on direct support to businesses and schemes to help individual firms, and spending on infrastructure and the general context. The most outspoken response came from the Scottish Chambers of Commerce, which argued that more weight should be given to—and more resources should be directed towards—the country's physical and educational infrastructure than to the work of the economic development agencies. As I said, that view was distinctive to that organisation and was not reflected in submissions from the other bodies.

The call for evidence received a rather diverse set of responses, as we might expect from a diverse set of organisations, but all respondents regarded spending on economic development as important. The general tenor of responses was a desire for greater priority to be given to economic development as a spending priority.

The Convener: Thank you. I will make a few remarks. First, three evidence-taking meetings will be available to the committee—or two and a half, given that I think that we will use part of the first meeting to deal with budget scrutiny. It is for members to identify witnesses from whom we should seek oral evidence. Clearly, that will inform how the committee decides to take the inquiry forward. I note in passing that we received only one response from a private sector organisation. We should consider how we might secure more evidence from the private sector; perhaps Peter Wood will advise us on that.

Secondly, as part of our agreement on our forward work programme, the committee decided to incorporate into the inquiry scrutiny of the planning and co-ordination of capital spending across the budget, which will fit neatly with what the inquiry is trying to do. However, we had not made that decision when we sent documents out to consultation, so when we notify the people from whom we decide to seek oral evidence, we should perhaps clarify that that matter will be included in our inquiry.

Thirdly, I pick up on what Peter Wood said about the fact that each organisation tends to say that more spending is required in its own area. If we are to conduct the exercise properly, we will have to make difficult points of direction. The inquiry is not about forcing people to make a more rigid assessment of the case for additional spending in

their areas; if people argue that more spending is required on transport—I use the example that the Scottish Chambers of Commerce gave—we must force them to identify the methodology that should be used to determine choices between different transport projects. Two years ago, the Confederation of British Industry was extraordinarily reluctant to do that, because it is a representative body and does not want to be forced into making hard choices. It is not for us to make those choices, but we can say something about the criteria against which they might be made. That is a key purpose of our inquiry.

10:15

Ms Wendy Alexander (Paisley North) (Lab): I thank Peter Wood for his work. The complexity of the matter is such that our expert advisers will be invaluable.

I want to make a couple of observations and suggest a possible way forward, so that there is something on the table. First, the exercise has revealed that special interest groups will, if left to themselves, become vehicles for advocacy rather than analysis. We are not in the business of advocacy for special interest groups; we are in the business of analysis. The challenge for the inquiry is to hold the matter to analysis, rather than to become a repository for special-interest lobbying.

Secondly, since we embarked on the inquiry the new FEDS document has been published. In principle—as respondents noted—FEDS is meant to show how decisions on allocations to support growth are taken. However, FEDS has historically been used retrospectively to justify whatever allocations we have come up with, rather than to drive the allocations themselves. That is enormously topical.

I make a more concrete point that sometime during the next month the budget for the next three years will be announced. Scotland will have more money at its disposal than it has had at any time in its history. It would be valuable to use what we are doing to inform that process.

Based on those comments, I suggest that the committee consider producing a short position paper that draws together what has happened to spend overall. The paper would draw on what we have heard and it would make the information accessible to organisations that we want to reach and to fellow parliamentarians. The responses to the call for evidence suggest that people struggle unless there is structure, so I suggest that in advance of the budget process we produce a short budget paper that simply says: "This is what has happened to primary and secondary spend overall; this is what has happened if we exclude primary spending on agriculture and fisheries;"—a number of respondents made observations on

that—"this is what the rural and urban split is like; and this is what has happened to the HIE and Scottish Enterprise spend." The paper should inform the budget process.

That approach would allow us to use our three evidence-taking meetings to consider three specific matters. First, we should ask the Executive whether FEDS is driving the allocation of spending or being used retrospectively to justify spending. Secondly, there is wide interest in the committee in considering the development agencies. We should probe HIE and Scottish Enterprise and ask them whether their having 90 per cent less money really matters or whether they are still awash with cash. It would be valuable to have that question answered.

The third evidence-taking meeting—I am trying to focus down; I picked up on what the convener said—should be about capital choices. An interesting debate has taken place over the summer, which has posed a question. If we are to invest in railways, which project is more important: is it the Borders rail link; is it the Waverley station upgrade; is it the links between Glasgow and Edinburgh; or is it airport rail links? We would like all four major capital infrastructure projects to be realised, but collectively we—in the wider sense—have shied away from thinking about how they might be considered in terms of their economic growth potential. We might not answer the question, but it is self-evident that there is currently no way we can trade off those capital choices.

I suggest that Peter Wood should, in advance of the budget, draw together the key highlights that have emerged. That is one of the ways in which the committee holds the Executive to account. We can say, "You said that economic growth was the top priority, so here are the numbers. We hope that some of those considerations will be to the forefront when the budget is announced."

On evidence, we should try to probe the extent to which the new FEDS has given the new allocations over the summer, given that those allocations will set the budget for the next three years. FEDS was published only at the end of August. Has it informed the budget for the next three years or can it be expected to do so more in future?

Secondly, I am aware that the update of "A Smart, Successful Scotland: Ambitions for the Enterprise Networks" will be published while we take evidence next month, so we should ask whether the significant decline in the budgets of the enterprise agencies matters. Thirdly, we should consider how we think about competing capital choices, all of which are desirable, but in respect of which priorities might have to be decided.

That is my suggestion on how we should structure the inquiry. We should not try to do too much, but we should use our inquiry to influence the budget process. If we miss the opportunity that is presented by the budget, there is the risk that many of the insights that we already have will simply be redundant, because the situation would be that the budget will have been set until April 2008. A short position paper would not have any new analysis, but would simply draw together some of the key insights.

Mr Ted Brocklebank (Mid Scotland and Fife)

(Con): I am attracted to many aspects of Wendy Alexander's analysis. That said, I assume that when she talks about taking agriculture and fisheries out of the equation what she means is that we are not including them as part of the overall sum that we are assessing. I hope that that does not preclude our taking evidence from people such as the Scottish Fishermen's Federation, fish producers and so on, to try to identify the real problems in Scotland's rural areas—particularly in fishing areas—which will require all kinds of pump priming if we really are cutting down the fleet in the way that has been proposed. I hope that we will take evidence from fishing groups and from farming groups, such as the National Farmers Union.

Jim Mather (Highlands and Islands) (SNP):

There is a case for going back to first principles and for deciding what evidence we should focus on and what our targets are if we are to make future policy debate much more evidence led. I was interested in one comment in the private paper, by the company that I will not mention, which essentially cuts to the chase in response to question 4. It states:

"Analysing the effect of such economic development agencies is by no means easy but it would certainly be useful to compare the experience in Scotland with other economies both large and small on the efficacy of such expenditure."

Having ploughed through the 80-odd pages of the report, I found that it makes pretty turgid reading and that a lot of it, as has been said, is self-interested. Some of it is designed as much as anything to create snow blindness rather than to allow us to see things crisply and in focus. We need to think about the prospect of benchmarking Scotland and using such analysis as a genuine mechanism for doing so. If we do not do that, the whole process becomes—to be frank—something of a laughing stock.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):

I agree with Ted Brocklebank's view about the impact on rural economies. Agriculture accounts for a third of the gross domestic product in the Borders, so it is a major part of the local economy. I was interested in the

evidence from the local authorities, which said that the regional development agency model, as it exists in the English regions, could be more effective.

Our inquiry started with consideration not only of what makes up the budget and the various growth elements of the budget, but of the structures that exist in the Executive to make decisions. That is where I agree with Wendy Alexander: the usefulness of our inquiry would be in examining the structures that exist. What discussions take place between the Minister for Transport, the Minister for Finance and Public Services and, crucially, the Deputy First Minister and Minister for Enterprise and Lifelong Learning? Do they have discussions in which they consider the rail projects that Wendy Alexander mentioned, or any other projects? What kind of internal discussions take place in the Executive on such projects' impact on the economy? How are those discussions framed? When the Executive introduces legislation, there seems to be little consideration of its impact on the private sector. If we are doing a cross-cutting review of economic development expenditure, there is a wide range of structures on which we need to take evidence so that we can find out what kind of discussions take place internally.

I have gone through all the evidence and I accept that, as Wendy Alexander said, the respondents are, in effect, advocates for their own positions. However, I would be interested to hear Peter Wood's view on whether there is a thread of desire to change some of the existing structures that make the decisions. The suggestion that we should move towards an RDA model and away from a Scottish Enterprise model is interesting, but it stood out from some of the others and I am not sure whether there is a groundswell of opinion that is in favour of going down that route. I also want to consider productivity. Would Peter Wood like to comment at this stage?

The Convener: I shall go round the members and come back to Peter Wood at the end.

Dr Elaine Murray (Dumfries) (Lab): I found it quite difficult to get any particular thrust of an argument out of the contributions, because they were so varied and there was so little consensus among them about what they feel is important. Wendy Alexander is right to say that a position paper in advance of the budget would be helpful. The point about the rural development side of the issue is that some of the big figures could be presented with agricultural and rural elements within them and there could be a series of different analyses within that to give pointers to different things, instead of the rural investment side of things being ignored.

Ms Alexander: Exactly.

Dr Murray: I feel, from my experience of inquiries, that the inquiries that are most successful are those that are focused. We really need to focus on something so that we can draw conclusions, which is where we have been strong in our previous inquiries. We have focused on certain things and have made clear recommendations, and the Executive has been forced to make clear responses. In some cases, the Executive has actually been surprisingly amenable to some of the things that we have said. I hope that this inquiry will be focused in the same sort of way.

To a certain extent, I am echoing some of what Jeremy Purvis said and, indeed, what Peter Wood said about the Federation of Small Businesses. Maybe there is value in seeing how things are done elsewhere and in asking why we support economic development in the way that we do as opposed to our doing it as others do. Perhaps we should ask what sort of results they get from their models and compare that with the results that we get from our models.

The problem with some of those suggestions is that we could find ourselves doing some of the things that the Enterprise and Culture Committee or the Environment and Rural Development Committee ought to be doing. We should look more broadly at how economic development is supported in the English regions or further afield, and we should compare that with how we invest in infrastructure here. That might lead us to some more focused conclusions.

Mr Brocklebank: There is another aspect that I should have mentioned. Like other members, I read the paper and found it to be fairly heavy going, but one or two things struck me, particularly on matters such as research and development. On page 16, there is a table that appears to show that only Italy spends less on research and development than Scotland does. Is that figure accurate?

The Convener: I suspect that it is highly inaccurate.

Mr Brocklebank: I do not know whether it is highly inaccurate, but it struck me.

The Convener: Given the relative size of the university sector, I would find that difficult to believe.

Mr Brocklebank: It is a staggering statistic if it is true.

Jeremy Purvis: That statistic is for industry.

Ms Alexander: Yes—that figure is for business enterprises. Overall, we are close to the highest in the world for spend on university research and development. Conversely, we are the lowest for spend on business enterprise research. In that respect, I am sure that the figures are true.

Mr Brocklebank: I was also taken by a statement by Paul Krugman in one of the Allander series of lectures. He talked about the importance of taking universities into account in the economic development equation. Basically, he said that, in areas that are moving away from a historical reliance on heavy industry,

“high-level institutions of higher education ... can be nuclei for development.”

Given that the submission from the University of Edinburgh mentioned—I think—that 500 companies are associated directly with that university, it is obvious that institutions of academia can be growth points for economic development. It was interesting to read how that was argued in the paper.

10:30

John Swinburne (Central Scotland) (SSCUP):

Light reading it was not, but once you got in among the 88 pages of submissions in the document that was sent to us at the weekend, it was quite fascinating. For example, as Peter Wood pointed out, on page 23, Scottish Water again gets hit by the Federation of Small Businesses, which complains about the water authority's failure to take the side of small businesses. On page 27, the FSB's proposed aims for a national development plan are clear and positive.

Scottish Enterprise and HIE boast about their totals for business start-ups, but they do not mention the totals for business failures, so their submissions do not give a balanced view.

The Scottish Trades Union Congress emphasises the fact that Scotland's growth rate is lagging compared with that of England. That seems a relevant point.

The Association of Scottish Colleges submission deals with lifelong learning, but I found its submission marginally agist. Ageism should be subdued at all times. Just because a person reaches 60—when they have 23 years of life expectancy remaining—they should not be put out to grass. Rather, they should be helped to develop the country's economy by contributing.

On page 23, North Lanarkshire Council gets in about social deprivation and improvement in health.

On page 45, the Scottish Chambers of Commerce makes some interesting points about preparing people for work.

On page 70, the Scottish local authorities economic development group submission states that

“No two councils are alike”,

but it strikes me that that disparity might be part of the problem. If we could get every council to deliver equally across all eight regions, we could possibly aid and abet the calculations for economic development in this country.

Basically, the document contains far too much sloganising about the need to be bigger, better and safer and so on. There are too many slogans and not enough facts for my liking.

That just proves that I read it all.

The Convener: Before I ask Peter Wood to respond to our comments, let me interject that I am quite attracted to taking evidence on the three areas that Wendy Alexander identified, although I would augment her suggestions slightly. Her suggestion of having a position paper to summarise the figures and the evidence that we have received so far is helpful, but I think that the position paper should point towards her suggested first evidence-taking session, which would focus on FEDS and, I suggest, the national planning framework. The position paper could consider whether those two documents combined offer a basis for making the choices that she referred to.

For example, choices might need to be made between different projects, such as between providing a bullet train between Edinburgh and Glasgow and developing the Aberdeen ring road, or between opening the Borders rail link and dealing with the Skye bridge. One problem at present is that nobody can understand why money goes into one project rather than into another. From my previous experience as a member of the then Transport and the Environment Committee, I recall that we found it difficult to get information from the Executive on what appraisal methods it used to assess projects. I suspect that what applies in transport also applies in other areas of investment.

The first issue for us in our business of scrutinising the process is to consider whether FEDS and the national planning framework offer a structured framework for the Executive's decision making or whether, as Wendy Alexander suggested, they simply offer a means of providing post-hoc rationalisation for decisions that were made for other reasons. Pursuing that issue would be a helpful exercise. The position paper could perhaps look ahead to that by asking the questions that should be asked about those documents.

The second issue that Wendy Alexander suggested, which we could fit into our second evidence-taking session, was to examine the role of the development agencies. In my view, we should focus on two aspects. First, are we asking the right things of our development agencies? For example, under the Scottish Development Agency,

we moved in the late 1980s and early 1990s from a system based on infrastructure development to a business support model. More recently, under Scottish Enterprise, we have moved towards having a strategic process, with the intermediary technology institutes and so forth. Is that the right role for the development agencies? What evidence supports that? Obviously, there is also an issue about how HIE works in the distinctive context in which it operates.

As well as that issue of principle, there is an issue about delivery. Jim Mather is quite right that we ought to consider benchmarking. We need to examine whether the way in which budgets are organised and distributed south of the border through the RDAs and the English partnerships delivers better or worse outcomes than we get here in Scotland. International comparators might also be useful in that context, so it would not be inappropriate to consider sending a couple of members to look at those if we feel that to be appropriate.

The third issue, which we could fit into our third evidence-taking session, is the co-ordination of capital spend, which we have already agreed to consider. We could ask whether Scottish Water talks to people in transport and enterprise, for example, and whether they all work together in planning capital spend. Given our concerns about the fragmentary and disorderly nature of the process, we should focus on the Executive and on whether the users of infrastructure expenditure view the process as fragmentary or whether they can see some knitting together of things.

It seems to me that Wendy Alexander's suggestions drive us towards a manageable inquiry that would have some clear linkages, but it will be useful to ask whether Peter Wood thinks any of that makes sense. Perhaps he has a different view.

Peter Wood: It all makes splendid sense—I am diplomatic—and the proof of that is that, of the four questions that I noted beforehand as being focal points for any inquiry that gets to the point and is productive, three have been reflected in what has been said.

Let me deal with those questions. When respondents say that spending is inadequate, we need to put them on the spot a bit by asking them what we should spend more on and what benefits such spending would bring. What should be the fundamental big priorities? We could perhaps draw out a bit more the sense of a need for a high-level view of what our true national priorities are, which came across in some submissions. One can see that most readily in the sphere of infrastructure. What really matters? Is it high-speed trains between Edinburgh and Glasgow, the Borders rail link or links to the airports? We need

some sense of what our national priorities should be. The same kind of reasoning can be applied in the field of education and skills. What is the right balance between funding high-level technological research and skilling the general population? Both those things are good, but choices need to be made between them.

We need some sense of what the major priorities should be. If we could articulate those, that would certainly be welcomed. What I wrote here was: "Do we need a set of national priorities? What are the key themes against which all spending, especially capital spending, should be assessed? How do we do that?" Obviously, the FEDS and "A Smart, Successful Scotland" documents are key ones in that regard.

The only topic that we have not touched on is the balance between economic development considerations and social justice—and perhaps the environment. The question is how we weigh those factors.

The suggestions that members have made are all appropriate. It would be highly desirable to have a brief position paper—very short and pointed—that summarises the initial piece of work and draws in conclusions from the initial submissions. The inquiry should try to focus on a set of questions and key issues.

We should not lose sight of a couple of points that members made earlier. It is disappointing that we have not had more response—or almost any response—from the large, private sector concerns. What do the major companies that operate in Scotland really think? We have had responses from the organised bodies, for example CBI Scotland. However, I say with all due respect that its response said nothing. It said only that this is a difficult set of questions that requires careful consideration—well, thank you, indeed. One would like to press the CBI a bit more on some of the points.

I generally agree with the suggested thrust and focus of the inquiry. We need to focus on addressing the big questions rather than answering every question.

There is a continuing body of work on sources of information in various parts of the Government. Members referred to R and D and I know that the Executive is finishing a study that considers R and D in Scotland in relative terms. Therefore, research and work are going on among the Executive's economists that might be relevant to the inquiry. The question is how we might draw that into the framework.

The Convener: That is a useful point.

Ms Alexander: I just have one minor point to make. Clearly, establishing the authority of the position paper and building as broad a consensus

around that as possible will be helpful to the inquiry and will ensure that people do not bicker about the choices that we make—and something as broad as this inquiry involves choices. I would plead for the position paper to be brief and focused and not simply a cut and paste of what we have done so far.

It seems to me that trenchant methodological criticisms have been made, particularly by the Federation of Small Businesses. I hope that the clerks can find the resources to support Peter Wood in taking a little bit of time to go back and take a fresh look at the methodological criticisms before he draws the paper together. There will be a little bit of criticism if we go for the cut-and-paste approach. We could avoid such criticism by using the position paper as a platform for what follows. The timetable is tight, so we should use the position paper to influence the climate in which we collectively think about the budget. We might make no changes, but we want to be able to say to witnesses that we reflected on the methodological issues that they raised.

Jeremy Purvis: I agree with a fair amount of that. Other than CBI Scotland's reference to the third-party right of appeal—which it made in response to every question regardless of what the question was about—one part of its evidence struck me. It read:

"However, other key initiatives such as the review of the 5 to 18 curriculum might cost comparatively little but have a significantly favourable impact."

My consistent theme in relation to trend-series data and other data has been that it is not necessarily the case that the gross figures determine policy makers' priorities. The biggest impact on the future of the economy of Scotland will not necessarily come from the biggest spend; the biggest impact might well be on productivity, for example, which is the human resource. FEDS says clearly that the gap in productivity per person between Scotland and other countries, especially at the United Kingdom level, is growing, yet we have not touched much on the make-up of the human resource.

The table in the briefing paper is interesting on our R and D spend compared with that of other countries. However, we have a higher proportion of small one and two-person businesses that do not have as much private sector investment as businesses in other countries. In addition, the table's figures are skewed by the fact that our electronics industry is in decline, while in Sweden and Finland, which are R and D spenders, the electronics industry is growing fast. We must take the table's figures with a pinch of salt.

I considered over the summer how we should structure our inquiry and I believe that it should be structured in four ways.

I agree entirely with Wendy Alexander's suggestion about having a spend-and-trend paper, which could be a precursor to the core of our report.

The second element should be government working together. We have a duty to return to the consideration by the Enterprise and Lifelong Learning Committee in the first Parliament of the proliferation of support for businesses, business start-ups and so on. A review of that would be useful because there is a proliferation of business support agencies. We should consider local development co-ordination, taking a look at agencies south of the border and how they shape development in England. In previous committee meetings, I have also mentioned development in Leith and the relationship between government and the private sector that has stimulated growth in that area. We have already decided what we will consider within the element of capital planning and delivery. We should also consider our work on development constraints and Scottish Water. It is interesting that, in the discussions on Scottish Water in the previous spending round, no one said that development constraints were an issue; they said that the quality of the water supply was the issue.

10:45

The Convener: That is not true.

Jeremy Purvis: Well, perhaps it is incorrect to say that no one said so, but certainly the emphasis in the responses was on the quality of the water supply.

The third major aspect of our inquiry should be productivity and people. For example, we could consider the spend-and-trend position in primary, secondary, further and higher education and how it fits into a 20-year strategy for education, because what we are doing now with the enterprise and schools agenda—for example, the later start in primary—will give results in 15 years rather than in two.

As well as the training and skills area, the other aspect of productivity and people is a healthy work force. In a previous committee meeting and in the chamber last week I referred to the Swedish prime minister's number one economic priority, which is to have a healthier work force in order to halve the days lost to industry through ill health. I have several issues with the recently published IMD International competitiveness review, which has received a lot of publicity. However, one incontestable thing that stands out from the review is that we score lowest for alcohol and drugs misuse in the work force. That will have a direct impact on the economy today and on productivity.

The fourth and last element in our report should be a review of the Executive's internal procedures. Other than the usual kind of discussions that take place in the Executive, are there things that departments can do—for example, an enterprise audit—to say how its work fits in with primary economic spend? Further, does the FEDS document run as a thread through all the different parts of the Executive?

A report with those four sections would be a tangible work from which we could get serious recommendations.

Jim Mather: I am keen to go back again to first principles. The question that we should ask ourselves is: what would economic development success look like for Scotland? It is a bit like building a database and defining the fields. What are the key comparator criteria that would make up a portfolio of success? Once we have that firmly in mind there is a strong case for going out and doing the comparison and benchmark work that was recommended both in the private paper that we received and in the CBI Scotland paper. That would include work on areas such as productivity and R and D spend.

However, we should also consider the human aspects, including the number of people who are economically active, average movement, average incomes and so on. Once we have tabled such comparators, it would be valid and right for us to challenge all the budget holders to respond and tell us about their future budget strategies to meet those objectives. In addition, they could tell us how they could work more closely together by playing to individual organisational strengths, with a small set of common goals and probably a small set of common measurements. That is the standard that we have to step up to if we are serious about the issue. Anything else will not crack it.

Mr Brocklebank: The only thing that I am not clear about is where in the three broad areas of evidence taking examination of the problems in the rural and fishery sectors will take place. That concerns me. I read an article on fox hunting yesterday and found to my alarm that only three per cent of the United Kingdom's work force is now employed in rural or fishery pursuits. To me, that sounds catastrophic. I do not know the figure for Scotland but, given the huge areas of Scotland that are rural, should not the committee try in its review of spending to find out more about how we can improve our prospects in those areas? Increasing numbers of people are leaving the countryside.

The Convener: Let me try to bring some of the issues together. I envisaged that we would be able to consider the urban-rural issue in the broad context of development agency activity—not by looking narrowly at Scottish Enterprise and

Highlands and Islands Enterprise but by looking broadly at whether they are trying to do the right things, from our point of view. That would fit into our second session in Wendy Alexander's three-heading model.

We have to be careful about going into areas that are not really ours, or about replicating work that has already been done. For example, the Enterprise and Culture Committee has already commissioned work on benchmarking Scottish Enterprise and HIE, so it would probably be inappropriate for us to replicate that work. We can feed off it, but we should not merely replicate it.

Jim Mather: With respect, that was not what I suggested.

The Convener: I know, but I was just making the point that we have to be careful to steer away from other people's work.

As for looking in detail at the fishing industry, that is probably for the Environment and Rural Development Committee rather than the Finance Committee. The Finance Committee has an interest in the broad way in which allocations are made, but the committee is not the locus for an in-depth look at the problems of the fishing industry.

Mr Brocklebank: I am not suggesting that looking into fishing is our job, although it may be that we should commission some work at some stage. I was thinking about our discussion of how decisions are made on what the priorities should be—a bullet train from Glasgow to wherever, or the Borders rail link, or the Aberdeen bypass, and so on. It could be argued that a contributory factor in the decline of the north-east—I have no constituency interest there—is that the dual carriageway runs out a few miles north of Aberdeen. It does not go to the heartlands of the fishing industry, to places such as Fraserburgh and Peterhead. What happens when those industries collapse? How can the north-east attract jobs and businesses if the basic infrastructure does not exist? In that context, it would be interesting to consider some of those problems.

The Convener: That is probably fair, but you could make the same argument for Dunbartonshire, which has no motorways. Problems are not unique to one area of Scotland. However, rather than get stuck in localism, we should identify how decisions are made. If decisions are purely political and are not driven by a proper and systematic economic analysis, Scotland may not be getting the best benefit from them. We have to find out how the Executive decides between competing ideas. We cannot do everything that we want to in infrastructure—or, indeed, in any other budgetary area—but we must have greater transparency about how decisions are made.

Ultimately, political choices will be made, but if we have the mechanisms sorted out and are clear about what we are trying to do, we can at least scrutinise the process and better hold the Executive to account. We also need to identify whether the Executive or anybody else is making perverse decisions. If a decision simply does not add up in economic terms, it is presumably not just about competing goods, so we might ask whether it would be better done in an entirely different way. Again, that is something that the committee should identify and take forward. The purpose is to cast light on such matters. We cannot do everything, but in three evidence-taking meetings we can perhaps move towards answering some of the questions that Jeremy Purvis and Peter Wood asked.

Dr Murray: We talked about the third evidence-taking meeting being about how choices are made. That is important, but the issue is not only how choices are made in particular portfolios, such as transport, but how choices are made between portfolios. What is the most important thing in terms of economic development? Is it the health of the work force, is it investment in infrastructure, or is it skills training? If we are to examine the way in which choices are made, we should not focus on single departments but should instead consider the matter overall.

The Convener: There is perhaps a broader issue about the split between revenue and capital, given the mechanism of capital and capital procurement.

Are we beginning to reach consensus on what we want to do? Perhaps I should address that question to Peter Wood and ask him whether the discussion has had clear outcomes.

Peter Wood: I have been trying to summarise and understand what has been said. I will express what I think we have said and members can establish whether I am right. It seems to me that the main message is that the inquiry must relate to the committee's area of competence and must avoid trespassing on those of other committees. The inquiry should therefore focus on what we might term the strategic level: how resources are allocated and the priorities to which they are allocated. The committee suggested three strands that should be reflected in the three evidence-taking meetings.

The first strand, with the background of the proposed position paper, is examination of the overall framework for economic development decisions and resource allocation—FEDS—and the national planning framework. The second strand is examination of the roles and priorities of the various partners, especially the development agencies. The convener gave a concise and accurate account of how strategy has evolved in

Scottish Enterprise during the past two decades. The second strand involves teasing out and exploring the priorities and the appropriateness of the strategy and how it impacts on resource allocation. We could also feed in comparisons with other places and the lessons to be learned from them.

The third strand is about how decisions are made and how resources are allocated among the broad headings and within portfolios. That includes how economic development priorities are reflected, how they are properly accounted for and so on. It seems to me that those three broad themes for the inquiry were suggested in the discussion.

The Convener: Are members content with that route forward?

Jim Mather: I follow the logic of Peter Wood's comment that the inquiry must be strategic, but as soon as he said that we got into three specific areas that the Enterprise and Culture Committee might think are within its remit, which were the overall framework, priorities for the different partners, and how decisions are made. The comparisons are stuck at the bottom of that list, but I regard them as our entry mechanism. If we do the comparisons at macro level—which is, by definition, cross-cutting—we will provide an entry card to people to step up and tell us why the outturn has been as it has been, what they will do differently and better next time, and how they might work more co-operatively in future. That would make our approach more robust.

11:00

Peter Wood: You are quite right to bring us back to cross-cutting expenditure. I defer to others on whether comparison with other areas is the entry card. It is certainly important, but surely the distinctive feature of the committee's remit is its ability to look across areas of spend. The first set of questions is really about the national economic development framework, as given by FEDS, and the national planning framework. It is appropriate to examine those because they are about the context in which broad resource allocation decisions will be made. The third topic is about how decisions are made and how priorities are settled among departments. Again, it is right that that topic is cross-cutting.

I agree that when we examine the development agencies, we might be getting into the Enterprise and Culture Committee's territory. However, we are concerning ourselves with the relationships between the decisions that those bodies make, especially HIE and SE. The fact is that they involve themselves in areas of what we might term cross-cutting expenditure; they take an interest in

issues of infrastructure and they seek to have some influence on spending elsewhere. There is a question about where they fit in the scheme of things and it is quite appropriate that we should examine what they do.

I agree that a detailed inquiry into the activities of the two development agencies would not be within the committee's remit. However, questions about where they fit within the overall framework of spending and the relative importance and significance of what they do would be within the committee's remit. Are those matters part of an integrated approach to economic development that fits in with the other elements of spending by the Executive? Are they more or less integrated than is the case in other jurisdictions? If we consider the regional development agencies, it is appropriate to ask whether there is more or less integration between them, the regional government offices and Whitehall departments, and how that compares with how things are done in Scotland.

We must always try to keep the concept of cross-cutting expenditure as our essential badge of legitimacy in the inquiry. We are looking across areas of spending and how they fit together.

The Convener: I agree with all that. There is also another dimension to add in, which is whether the mechanisms that we have in Scotland for progressing strategic developments—such as the Clyde waterfront or the Clyde gateway—and our structures delay decision making and the commitment of capital spend or whether they work effectively. The inquiry will be about the interplay between the Executive's and Scottish Enterprise's decision making and that of other agencies, including organisations in the private sector. Do the systems that we have deliver the correct decisions fast enough to allow us to make use of opportunities? I presume that we would want to speed up the process and ensure that we maximise our opportunities.

Peter Wood: There are issues around that. The Borders railway line has been mentioned several times and I have recently done some work with the Waverley railway partnership and other parties on that project. I observe merely that a great many different organisations are involved in making decisions about that project; all have their locus on it, even if they are brought together in various ways. It is not the biggest project in the world, but its complexity and that of the decision-making process is quite considerable. You are right to mention that; that is what I meant when I talked about the third area of decision making. Do the ways in which our organisations are set up and the relationships between them expedite or delay the progress of major economic development projects?

The Convener: We seem to have reasonable consensus on how to proceed and we have some pretty clear direction for the clerks on the kinds of evidence-taking meetings that we are considering. After the meeting, I will discuss with the clerks how we will progress the idea of a position paper that will drive the issue forward. Are members content that we proceed in that manner?

Members indicated agreement.

The Convener: I thank Peter Wood for his submission and for his helpful advice to the committee.

We will probably have two, or possibly three, panels of witnesses on each of the two days of full evidence taking, so we should schedule three hours for each meeting if members are agreeable to that. I know that there is a certain sensitivity about the length of meetings, but that is probably what we will have to do.

Items in Private

11:06

The Convener: The second and final agenda item is to consider whether to discuss items in private at our next meeting. I propose that we consider the draft reports on the Fire (Scotland) Bill and the Water Services etc (Scotland) Bill in private. Are members agreed?

Members *indicated agreement.*

Mr Brocklebank: My position is that, normally, I like things to be done in public. What are your reasons or arguments for dealing with the reports in private?

The Convener: In both cases, the reason is that I want to give members an opportunity to have an informal discussion about the clerk's draft reports. We need to ensure that the evidence that has been taken has been represented appropriately in the final report that goes to the lead subject committee. The intention is to ensure that the committee report says what we mean. We need to do that in a setting where we can speak informally.

At our away day, we decided that we would think about holding a budget seminar early next year. We need to consider our approach to that seminar and how we will launch it. I propose that we consider a paper in private next week so that we can begin a general discussion on how the seminar should work. Obviously, the seminar itself will be in public. Our discussion next week will be a housekeeping exercise to take that forward. Are members agreed?

Members *indicated agreement.*

The Convener: Finally, we have now received a response from the Scottish Executive to our report on stage 1 of the budget process. Obviously, that will inform our meeting with the Minister for Finance and Public Services on 5 October. The clerks will circulate the Executive's response as soon as possible—either later today or possibly first thing tomorrow—so that members can reflect on it prior to that meeting. I remind members that we have also agreed to take evidence from Ross Finnie on the broader issues around Scottish Water at next week's meeting.

Meeting closed at 11:07.

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