

# **FINANCE COMMITTEE**

Monday 15 November 2004

Session 2

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## FINANCE COMMITTEE

29<sup>th</sup> Meeting 2004, Session 2

### CONVENER

\*Des McNulty (Clydebank and Milngavie) (Lab)

### DEPUTY CONVENER

\*Alasdair Morgan (South of Scotland) (SNP)

### COMMITTEE MEMBERS

Ms Wendy Alexander (Paisley North) (Lab)

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

\*Jim Mather (Highlands and Islands) (SNP)

Mr Frank McAveety (Glasgow Shettleston) (Lab)

\*Dr Elaine Murray (Dumfries) (Lab)

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

John Swinburne (Central Scotland) (SSCUP)

### COMMITTEE SUBSTITUTES

Gordon Jackson (Glasgow Govan) (Lab)

David Mundell (South of Scotland) (Con)

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Fred Bowden (Tullis Russell Group)

Richard Dennis (Scottish Executive Finance and Central Services Department)

Stephen Moore (Fife Council)

Joe Noble (Scottish Enterprise Fife)

Tavish Scott (Deputy Minister for Finance and Public Service Reform)

### CLERK TO THE COMMITTEE

Susan Duffy

### SENIOR ASSISTANT CLERK

Terry Shevlin

### ASSISTANT CLERK

Emma Berry

### LOCATION

County Buildings, Cupar



# Scottish Parliament

## Finance Committee

*Monday 15 November 2004*

[THE CONVENER *opened the meeting at 11:41*]

### Budget Process 2005-06

**The Convener (Des McNulty):** Welcome to the formal part of this meeting of the Finance Committee. I thank all the representatives who came to our workshop sessions this morning; the one that Jim Mather and I were in was certainly interesting and, having spoken to colleagues, I gather that they too had interesting sessions.

One of the most valuable things about today is that it gives us an opportunity to find out how the budgetary decisions that have been made, or are about to be made, by the Scottish Executive impact locally. There are opportunities for us to influence those decisions through the Finance Committee's stage 2 report on next year's budget. We will try to learn from what has been said and will ensure that it forms part of our consideration when we draft our report. The exercise was useful from our point of view; I hope that it turns out to have been useful from the point of view of the others who participated in it.

Another valuable aspect of today's meeting is that it is important that the Parliament reach all parts of Scotland. I think that this is the first time that a Scottish Parliament committee has met in Fife. Given that Parliament was established five years ago, we are glad finally to have rectified that situation.

We have received apologies from Frank McAveety, Wendy Alexander, Jeremy Purvis and John Swinburne. However, we have five members present.

The budget process has three stages. We are currently in stage 2, in which we scrutinise the Executive's draft budget. I suggest that one member of the committee from each of the sessions that took place this morning report back to the committee on what happened. If another member who was at the session, or anyone who took part, wants to add to that report in any way, they will have an opportunity to do so.

With us at the table we have Joe Noble, from Scottish Enterprise Fife, who was involved with workshop 1, and Stephen Moore, the head of social work in Fife Council, who was involved with workshop 2. I do not think that we have anyone at the table from workshop 3. Anyone who was

involved in the workshops and who wants to say something has the opportunity to do so. Please raise your hand and I will bring you to the table so that you can make your contribution. We will start with Jim Mather's summary of workshop 1.

11:45

**Jim Mather (Highlands and Islands) (SNP):** As the committee would expect, given the enterprise and business people who were sitting around the table, our discussion focused on the overall state of the Fife economy and on the inhibitors to businesses' ability to press forward. We focused on areas such as business rates, water rates and water disposal costs—the cost pressures on business.

We also looked forward to things that would—if and when they are fixed—see the local economy push forward; for example, improvement of commercialisation of technologies and intellectual property in the university sector and overcoming of the lack of basic skills. We also discussed how to handle some of the key infrastructure issues such as transport and water, which act to constrain development in Fife, including the constraints that are affecting plans for 30,000 houses which will, if and when they are built, represent something like £60 million in additional council tax revenues.

There was also focus on what might be done to underpin the long-term competitiveness of the Fife economy, particularly given concerns that current levels of spending might not be sustained. A good bit of focus was also given to the opportunities that exist to boost the local economy and to sell it positively based on the quality of life that people who live in Fife can achieve, which could be used to attract more talented people and more investment to the area. The attendees gave the ring of heavy endorsement for skewing the budget more towards capital. They did so because more capital spend would lead to moneys being more heavily routed in the area. By its very definition, fixed investment is not mobile and funding is more liable to stay in the area.

The conversation took an interesting turn towards the end, when we discussed the intangibility of the Executive's recent emphasis on economic growth and the requirement for it to walk the walk and to underpin that in a way that would make the idea altogether more believable for existing local businesses, individuals and potential inward investors.

Towards the end of the session, we focused on attendees' different perspectives on competitiveness. The Federation of Small Businesses expressed its deep concern about the lack of a level playing field. When we look at business rates, water rates and transport costs it

is easy to understand why that view was forthcoming.

Academia expressed concerns about the challenge of competing with other universities for staff. They acknowledged the predominance of the American model and the ability of American universities to headhunt the crème de la crème. The issue of transport was raised once more in respect of the perception that St Andrews is not a city and is "too far away." It was felt that that issue could and should be addressed in the 21<sup>st</sup> century.

Scottish Enterprise Fife's representatives demonstrated a prosaic and down-to-earth understanding of where the competitors were and where the pressures were coming from, which is from China, Eastern Europe and so on. They also gave the positive view that Fife—sitting as it does cheek by jowl with Edinburgh and having a much lower cost base than London does—could offer considerable cost advantages to the financial services sector, which could be accelerated and developed in the area.

The final comment, which was made by the largest company in the workshop, was pretty uplifting. It was a categorical recognition that, given that the pressure and competition on commodity products that have limited added value was fierce and getting fiercer, there is a need to highlight the positive aspects of moving up the value-added chain. It was heartwarming to see the emphasis that that company has in recent years put on making the mouth music of innovation real by boosting spend on research and development, by undertaking many more joint ventures with other companies than was previously the case and by creating within the company business development and research departments that have budgets that allow them to do things that move matters forward. I will stop on that positive note.

**The Convener:** Does Joe Noble want to supplement what Jim Mather said or perhaps offer a counterpoint to it?

**Joe Noble (Scottish Enterprise Fife):** I will not offer a counterpoint—what Jim Mather said was a good reflection of the debate that took place—but I will reinforce one key point, which is the need for a national strategic overview. The refresh of the smart, successful Scotland initiative that was announced last week is a major step forward in that the strategy is no longer only an ambition for the enterprise networks—as per the subtitle of the original document—but is now a Cabinet-level strategy. Therefore, all aspects of Parliament's work and the Executive's resource distribution will reflect the objective of economic growth.

Our discussion focused on some key areas, such as transport and water infrastructure for growth. Scottish Enterprise Fife would like a

clearer link between assessment of economic benefits that result from key investment decisions and the decisions. That has not been articulated as well as it should have been, and we hope that the new strategy document will provide a framework that enables that to be taken into account more effectively.

**The Convener:** I will add a couple of points of my own, as I was involved in the group. One thing that came across clearly was the need for transport links, particularly into the city economy of Edinburgh. That perhaps underpins the focus on building up regional economies as conurbations, which is one of the new strands in the smart, successful Scotland initiative, and illustrates Fife's strong wish to be seen as being attached to and part of that process. Transport connectivity was considered to be the key issue for the future of Fife's economy.

The other issue that was presented, particularly by Fred Bowden from the Tullis Russell Group, was the need to look critically not only at allocations of money, but at how money is used to ensure that it is driven towards improved productivity and greater effectiveness. The committee intends to consider that in the near future, but it is a good warning to us that the issue is not just about amounts of money, but the effectiveness with which that money is used. It is also a warning that the committee and Parliament should be interested in examining critically how money is currently being used so that we can find out whether there are better ways to get outcomes and outputs for the resources that are being put in.

We move on to the report from the second workshop group from Alasdair Morgan.

**Alasdair Morgan (South of Scotland) (SNP):** Our group was concerned with the health and communities budgets and included representatives from Fife NHS Board, Fife Special Housing Association Ltd, Fife constabulary and social work in Fife. It was a wide-ranging and interesting discussion and I tried to get a basic message out of it at the end, although I am not quite sure that I succeeded in that. However, I think that the participants could all discern a connection between the Executive's aims, the aims of the partnership agreement and the contents of the budget—I am sure that the Executive is glad about that.

There was a feeling that tensions between the Executive and organisations were often caused by the quickly changing nature of our society. I will deal with specific points that were made, some of which referred to that matter.

Fife NHS Board is concerned that there has been no indication about allocation of funds to it, and said that it is difficult to make judgments or to

plan ahead in the same timescale as the Executive because the board does not have the same amount of forward certainty. There was no mention of when full Arbutnott implementation will take place, which is an issue that applies particularly to Fife, which is helped by the Arbutnott formula.

It was felt that there is a similar issue with regard to local authority allocations, particularly with the recent change in the formula for the supporting people initiative, about which we may hear more later. The same message came through from Fife Special Housing Association, which had equipped itself and made plans on the basis of assumptions about how the supporting people initiative would develop. Of course, it suddenly found that the whole basis of its assumptions had changed underneath its feet.

There is a problem in that budgets do not always necessarily change to reflect changes in cross-cutting priorities; for example, there are special police units that deal with child protection, sex offenders and so on, which are cross-cutting priorities, but the police budget does not recognise that.

It was felt that, although there is a general undersupply of housing, the vast majority of money in the budget goes on new supply and there is no commitment to improving the stock, for example. Fife Special Housing Association Ltd's 30-year business plan is based on 1997 standards, which is when the business plan was drawn up. There is no allowance in that plan for the increase in standards that will obviously take place over the next 30 years, if the past 30 years are anything to judge by.

There was a general feeling that there have in many areas been innovative pilot projects that are funded under special initiatives, but the ability to roll out those projects more generally if they are seen as successful has often been hampered by the fact that the funding system has been far too complicated. It was suggested that there must be some general way of consolidating special initiatives into mainstream budgets. There is also a general feeling that we must think more about the longer-term needs of the country, rather than try to micromanage. I presume that that was a criticism of all of us as politicians.

I return to the health board. Concern was expressed that the implications for salary costs of the agenda for change are as yet far from clear, which raises a question about how robust the budget figures are for health boards. We do not even necessarily know their costs this year, far less the costs in three years' time. A similar point was made about the implementation of single-status agreements for the staff of local authorities.

The health priorities refer to building seven new hospitals, so it was asked where those hospitals would be. The health boards wonder which health authorities' capital plans reflect the presence of those seven hospitals, especially in the light of the review of health infrastructure, which will not report until next year.

Finally, we reached a conclusion that ties in with that of the first workshop. Everything is predicated on the fact that we must get the economy right because if the economy is not right, we will not find the money for all the objectives. I am sure that Stephen Moore will add much more to what I have said.

**The Convener:** Stephen Moore has the opportunity to supplement what Alasdair Morgan has said.

**Stephen Moore (Fife Council):** We were delighted to be given the opportunity to discuss how we in Fife together meet the challenges that we all share. We are fortunate with our coterminous boundaries for health, housing, the police and the council, because we can quickly recognise the challenges that we all face, and we can work together to address them.

I want to add a number of points to those that Alasdair Morgan has made in order to amplify what he said.

We recognise that Fife and Scotland are changing societies. We are making arrangements for the next generation and not just for the next year's budget. The three-year budget settlement is an attempt to address longer-term strategic objectives for all of us, but we must in the meantime deal with current needs and pressures. By that, I mean that we must recognise that although we can come together to meet many of the challenges, we must work in partnership with the Executive. We need to be clear that we share priorities.

I said that Fife is changing. It is clear to us and to Fife that more of the same will not be good enough in future. I will give three quick examples. First, in the next five years, the over-85 population will increase by 20 per cent; we need to respond to that. If our services stay the same, they will not meet needs. Secondly, at the same time, the number of schoolchildren in Fife will drop by 16 per cent, so we need to be careful about investing in a huge range of new infrastructure for education and other children's services. We need to think through the implications for the situation in five years, especially if we take on a burden of debt that extends beyond five years.

12:00

Thirdly, it is right that, as a result of tremendous investment over decades, people who have

learning disabilities live much longer and have much better quality of life. We have a clear commitment to end institutional care of people who have learning disabilities by Christmas 2005, which is right, but the result is that the number of such people who now live in our society and in our communities has never been recognised before. The care costs and the requirement to care for those people are an immense responsibility and burden for us all to share, but our infrastructure and costings will not allow us to meet those aspirations. We urge people to think beyond three years towards the implications five and 10 years ahead. We share a common agenda and to do more of the same will not be good enough in the future.

**The Convener:** The committee is interested in obtaining better data about what money has been spent on, especially since devolution. We have lobbied hard for that information to be made available to us. You go one step beyond that by saying that one should have anticipatory information about where demographic problems are likely to lead and that the Executive, councils and agencies should plan on the basis of demographic projections rather than narrowly on the basis of budgetary projections. Is that the burden of what you said?

**Stephen Moore:** That is a fair summary. Although we are very good at administering what we do now, I am concerned about whether we are proactive enough about getting ready for change in our society, which means new commitments and investment and letting go of some matters. The challenge for all of us together may be to work out our core priorities and how we will address them. We should use the spending review as an opportunity to address those long-term objectives, which must be managed now.

Around us, our society is changing dramatically and will change even before the spending review is exhausted. We should use the opportunity to consider the longer term at the same time as we think about day-by-day administration.

**The Convener:** Is an organisation such as Fife Council, let alone a partnership between a council and a health board, as equipped as it needs to be not only to make planning decisions, but to give advice on key strategic choices? You say that more needs to be spent in relation to learning disability. Are you in a position to identify matters on which less need be spent, or to identify previously recognised need that no longer has the same priority? Those are the hard decisions of politics.

**Stephen Moore:** There are challenges for us. People who have learning disabilities are in many ways an easy and obvious group to identify, but they have been largely hidden from society's eyes

because for many years they were cared for in long-stay hospitals. Their number is not reducing but increasing because of advances in medical science; they are living much longer lives. The request and plea from their families is that the state should ensure that their needs are met when their families can no longer care for them. That is an enormous obligation for all of us to own and to take seriously.

We need to change our services, because the current services are designed on the basis of long-stay hospitals and need radical change. That draws us into the big moral argument about who deserves less. We are investing more than we have ever invested on all sorts of groups, such as drug users, sex offenders and other offenders, and local politicians are often faced with the challenge of determining which group is in the greatest need and should have priority.

We need to think about the fact that we spend more money on the last two years of people's lives than we spend on all the preceding years—most of our costs for older people go on residential or hospital care in the last two years of their lives. However, a huge amount of money now goes to sustain people in their own homes. I will give a small example. Of the 63,000 people aged over 65 in Fife, only 2,000 live in residential care homes, which means that 61,000 people live in their own homes and depend on us to care for and support them in their communities. That is right, so maybe we need to think about using investment to keep people alive, well and safe in their own homes, rather than spending it on a lot of expensive infrastructure costs. Frankly, we could do much better—and cheaper—if we changed the balance. Those are big challenges that face all of us, particularly as society is used to having the services that we currently deliver.

**The Convener:** Is it the case that the compartmentalisation of budgets into agencies to some extent inhibits that process? I cite an example that I think was raised in workshop 1: there is arguably a significant cost to maintaining in economic activity people who are a long way from the labour market and were not previously involved in productive economic activity. Perhaps we need to be better at weighing the costs of putting in place services to bring people back into economic activity against the costs of not doing so. We could then identify the best package of measures. A difficulty arises because the costs of different approaches lie with different agencies—and might require agencies that have not yet been invented—so budgetary conservatism means that nothing happens. Perhaps Joe Noble wants to comment on that.

**Joe Noble:** There is a hierarchy of budgets and relationships. That is recognised at local level,



through the Fife partnership, which directs the community plan. For example, the drug action team ensures that local health care co-operatives work with social work and that specialist training programmes are in place. In Fife, the fact that the boundaries of the local enterprise company and the tourist board, in addition to those of the organisations that Stephen Moore described, are coterminous helps. We work together quite effectively, but I take the point that as we gravitate away from where activity takes place, the joined-up strategic approach becomes less visible.

The fact that 20,000 people in Fife are economically inactive pulls down the region's productivity levels, even though the productivity levels of people who are in employment are higher than the Scottish average. Scottish Enterprise will play the appropriate role in trying to encourage people to be economically active through employment or self-employment.

**The Convener:** Some of those aspirations will have to be taken forward by people such as Stephen Moore and other colleagues, so you might need to work together on the matter. There might need to be some porosity in your budgetary approach. Is it fair to say that?

**Joe Noble:** Absolutely. I stress that the community partnership in Fife works particularly well because we have a single purpose. There is no fragmentation or geographical friction; if it is right for Fife that we do something, we do it. As the committee knows, in other parts of the country community plans might be structured round three different council areas so it is perhaps less easy to have a focus of attention and agreed priorities.

**The Convener:** We move on to the report from workshop 3, which will be given by Ted Brocklebank.

**Mr Ted Brocklebank (Mid Scotland and Fife) (Con):** Ours was an interesting and wide-ranging session. Our witnesses did not want it to be thought that it was a girning session, but there were some specific criticisms of various aspects of the Executive's operation and that of Fife Council.

Transport difficulties within Fife dominated most of what we discussed. It was made clear that, although the promotion of social inclusion is an objective in the draft budget, there was a real difficulty in travelling within the kingdom of Fife—which we did not consider to be particularly remote—because the links had not been worked out correctly. I do not think that that was a criticism of the Executive, but the feeling was that the Executive had not given attention in the budget to the fact that the transport problems in an area such as Fife were more serious than in an urban area such as Easterhouse. A built-up area such as Easterhouse could be covered fairly simply,

whereas, for example, it is not physically possible to get by public transport from Newport to Tayport, which are three miles apart, without first crossing the River Tay, going to Dundee and coming back again. Transport in general in Fife seems to need some joined-up thinking.

There was criticism of the concessionary fares scheme, which Fife Council went into before the Executive did. The workshop participants wanted more information on the scheme, such as who is using it and whether it is really meeting the needs of the people. There was even a suggestion that we might have to consider some kind of means testing on concessionary fares to discover whether the money is being spent correctly. Is it going to the right places, or should there be spending on areas where the need is greater?

The feeling was that, although the budget is about closing the opportunity gap, people are being denied transport and work opportunities in Fife. We heard that in north-east Fife—in Cupar and St Andrews—which has a relatively booming economy, employers simply could not get the workers that they need. There are not enough people to fill the jobs in north-east Fife, but there are people out of work in mid Fife, round about Levenmouth and other such places, and the transport links to get people to where the work is do not exist. We considered different ideas for transport, such as getting away from buses and towards minibuses or taxis so that people who wanted to work could travel into the areas where there was work with more ease than at present. It was drawn to our attention that one employer in Cupar lays on transport to bring people in from other parts of Fife. Fife NHS Board has to do the same to bring nursing staff and carers from central Fife into Stratheden hospital simply because there is such a shortage.

Our colleague from the National Farmers Union took the matter a little further by pointing out certain anomalies in transport even within the farming industry. He made the point that there is no point in producing our goods if we cannot market and transport them. He drew our attention to the fact that we export potatoes from Fife to Holland, but Portuguese potatoes are being imported into Scotland to make potato crisps. There seems to be a lack of joined-up thinking in such matters.

We heard about other aspects of transport, such as air links. There was a little debate about improving the air links, which are basically non-existent at the moment unless one considers the possibility of some kind of passenger transport from the Royal Air Force base at Leuchars or the possible development of Glenrothes airfield. However, the representatives from the tourism industry expressed doubts about whether that was

really the way we should be going. Given that something like 80 per cent of people come to Fife by car and that we are talking about a United Kingdom market, why should we consider air links?

The group considered environmental issues as well as transport, so we considered whether the draft budget contained a strategic plan for renewables. The general feeling was that there does not seem to be a coherent strategy on renewables. We talked about the opportunities for biomass energy in the former opencast mining areas in Fife, where trees could be planted for coppicing. We already have Tentsmuir forest here. All kinds of ways were suggested in which renewable energy could be produced, rather than simply from wind farms, which appear to be the main thought at the moment. We also considered the targets on recycling and biodegradable material. It was felt that no particular investment is suggested in the budget overall and that we must invest in ways of making the environment good and clean and of producing renewable energy without damaging it.

12:15

Tourism is a major part of the economy in this area of Fife, certainly in the coastal villages and Dunfermline. We recognised that the tourism industry is good for the area and that it could be a green, sustainable industry. However, we felt that not enough joined-up thinking has gone into the issue. To sustain tourism, we need good transport links and the right kind of motorways. It was mentioned that motorways in Fife are a bit haphazard because they come so far and then stop dead—they do not really interlink to the east neuk area. It was suggested that the budget should be less concerned with investing heavily in matters such as two remote national parks in the Highlands and more with areas such as Fife and Grampian, which could expand their existing tourist base.

Another point was about the lack of local partnerships in Scotland. We need more good-quality pilots. We heard that there are excellent food products in this part of Fife, such as tremendous seafood, meat and game, as well as excellent, award-winning restaurants, but that the logistics of getting the foodstuff to the restaurants are not really tied up. The point was that the two should be linked. For not a lot of money, we could run pilot projects to identify how to get products to the markets and to develop more interlinked markets, which would be of value not only to Fife, but to other parts of Scotland.

I hope that I have covered most of the matters, but Elaine Murray will pick up anything that I have forgotten.

**Dr Elaine Murray (Dumfries) (Lab):** Ted Brocklebank has covered much of what was said. The issue was raised that there is not enough cross-referencing in the budget, which ties to the comments that were made in other workshops that the budget is too compartmentalised and that there is not enough understanding of how certain parts of the budget could assist other parts. Such issues are not really flagged up in the budget.

There was a question about the sustainability of developing more air routes. It was suggested that we should consider another overseas ferry development, given that the present one from Fife has been successful at bringing people into the country, whereas air routes tend to take people out. On public transport, it was argued that the best solutions can be found by allowing local flexibility within the regional transport funds to identify the best ways of providing appropriate public transport for the needs of communities. It was mentioned that, although we want to promote environmentally friendly tourism, the green tourism business scheme is underfunded.

Ted Brocklebank referred to the national parks. The question was not whether the parks are worth the money, but why their budget has increased so much. People are obviously concerned that that money might have to come from other areas where investment is needed.

**The Convener:** Do people wish to make any other contributions?

**Fred Bowden (Tullis Russell Group Ltd):** I will speak from my seat over here.

**The Convener:** You will need to come to the table to be recorded.

**Fred Bowden:** I have a point of information. A fairly major biomass project is being considered for Fife, which would address some of the points that Ted Brocklebank's group raised. It is at an early stage of development, but the council and other partners are very much involved. I hope that we can see progress, because it is a real opportunity.

**Mr Brocklebank:** Will it be in an old mining area?

**Fred Bowden:** It will use willow, which would be grown in substantial quantities around Fife, but I am not an agriculturist, so I am not sure where it will be. It will also use coppiced wood. It may be that the areas that Ted Brocklebank highlights will be used.

**The Convener:** On another point that Ted raised, when the committee was up in Orkney a couple of years ago, I was impressed by how the Orkney food producers, tourist board and restaurateurs had all got together to strongly promote Orkney food. I wonder whether we could

examine some sort of regional food development and marketing in Fife and other areas of Scotland, to implement the lessons that have been learned.

**Dr Murray:** That has been tried in Fife, but we were told that all sorts of obstacles to producing food locally and selling it in local restaurants were found, which seems extraordinary. It would be interesting to know more about that experience. I was also in Orkney a couple of years ago, and was impressed by how food was central to its tourism strategy. I would like to know more about the problems in Fife.

**The Convener:** Islands always have the advantage that, to some extent, they control what comes in and what goes out. Where areas of Scotland have high quality produce, we ought to be able to identify within the overall marketing framework the particular regional sources in a way that adds value. That is probably not just an issue for food chains within local areas. It is also an issue about marketing foodstuffs outside their areas, so that people know where things have come from, because they may be prepared to pay marginally more on the basis of that provenance.

**Dr Murray:** It could also be part of green tourism, because locally produced produce is more environmentally friendly.

**Joe Noble:** In part, the solution is transportation. We had one particular business, which unfortunately is no longer with us, called Scotland's Larder, which was designed to achieve what the convener suggested, but it failed because of insufficient demand for the restaurant. It was just outside Leven, in the east neuk. Perhaps it was not as accessible as it could have been, which further reinforces the point about transportation.

I want to link that to the first workshop, at which we talked extensively about transportation. The Executive's approach to the national planning framework, in terms of building city regions, is strongly supported by everyone in Fife because, as we said in the workshop, we recognise that a strong Edinburgh is good not just for Edinburgh, it is good for Scotland, for the financial services sector, for Fife, the Borders, East Lothian and West Lothian. Connectivity to Fife is important in terms of releasing the potential of some of the key sectors that are important to Scotland.

In our workshop we discussed Transport Initiatives Edinburgh and the fact that, due to the congestion charging debate, it has not focused enough on areas outwith the city boundary. Although the city region is a sound concept that has support from virtually all parties, that support is not being translated into activity on the ground. No attention is being focused on that. The convener talked about the fragmentation of the

budget and perhaps this is an example of a situation in which budgets should be considered on a strategic, national basis. An extension of light rapid transit or trams into Fife would help to release the potential of Edinburgh, although that fact might not have been recognised by those within the Edinburgh boundary.

I would like to reinforce the point about transportation, although Ted Brocklebank articulated it well. Transport links within Fife that lead to Edinburgh are extremely important for the region.

**Alasdair Morgan:** You were talking about the environment and biomass energy. Another environmentally sound scheme that Fife Special Housing Association raised concerned a block of flats in Lumphinnans, which is between Cowdenbeath and Lochgelly. The obvious option was to knock down the block of flats because they were substandard and the heating costs were extremely high—I think that a figure of £600 a year was mentioned. Instead, however, a geothermal heating system was installed. That reduced the cost of heating to around £250 a year. However, it seems that there was no money available in any sensible fashion to enable the scheme to be rolled out to similar blocks of flats, which I think will have to be demolished. In terms of the Executive's objectives, it would seem that an extension of the scheme would be a win-win situation. If bureaucracy is impeding that, that needs to be examined further.

**The Convener:** Something that was raised in our workshop and, I understand, the second workshop, was the extent to which the coterminosity of boundaries and the close links that exist between the various organisations in Fife allow some local flexibility in terms of deciding what solutions are best for Fife. Do you think that how the Executive organises itself—on departmental lines—assists you in working together as local agencies or do you do that despite how the Executive works?

**Stephen Moore:** There is no doubt that Fife makes a success of what can be a poor deal in terms of joined-up thinking. It does that because it focuses on the needs of its citizens. That means that there is less competition between the big organisations and fewer disagreements about where their responsibilities begin and end. That is reflected in the health service and particularly in the police service, in relation to drug treatment, sex offenders, caring for elderly people and people with mental illness and so on. Resource transfer is important. Because there is a long tradition of working together, even people who come into the area from elsewhere quickly pick up the commitment to work together. That is not the case elsewhere; in other areas four or five local

authorities will compete against one health board, for example. That does not happen in Fife.

However, there is no doubt that the Executive could think through some of its strategies a bit better. It tends to focus on one-year or two-year pilot schemes or initiatives that have clear outcomes that are set by the centre, which might not entirely meet the needs of communities. Sometimes, we have to spend some time analysing those initiatives in order to make them fit for Fife. Generally, the Executive is supportive of that but, sometimes, if something that we do at a local level is not reflected in the centre, that can frustrate joined-up thinking.

**Joe Noble:** Generalisations are always difficult. Things are never at one end of the spectrum or the other; they are usually somewhere in the shades of grey in between. However, in relation to economic development, which is the number 1 objective in the partnership agreement, there is no joined-up thinking on investment decisions. Transportation decisions do not adequately reflect the economic case that is being made. Equally, the economic arguments for some of the key water investment decisions, particularly those relating to growth, do not appear to have been properly articulated. It is understandable that, because of how the Executive is structured, its style of thinking does not add to a cross-cutting theme of economic growth. That style works well at local level, but perhaps improvements could be made in the resource allocation to work on a firmer strategic overview in the Executive.

12:30

**The Convener:** If one were making water decisions for example, and one adopted the utilitarian principle of the greatest benefit to the greatest number, north Fife might lose out because of the relative sparsity of its population. So that principle is not sustainable. At the same time, the compliance principle against which water decisions have been made in the past five years has been criticised. How does one find some halfway house that takes account of economic considerations but which finds an appropriate mechanism that means that the different parts of Scotland get a reasonable share, depending on the quality and nature of what can be delivered?

**Joe Noble:** It is a transparency issue. Criteria must be developed openly so that people know exactly why one water decision is taken against another competing decision and equally, why a particular transportation decision is taken over another. There is no clarity about that just now. I appreciate the political situation that you described—that decisions will be taken for reasons that are not directly linked to the sole criterion of economic growth—but there must be

some degree of transparency in understanding that economic growth is what Scotland wants as a nation, that these are the projects that will deliver that and that they are being approved based on their ability to contribute to the national agenda. That is not as clear as it could be just now.

**The Convener:** That is a useful insight for the committee.

**Mr Brocklebank:** It is interesting. Fife Council published the first draft of its structural plan the other week. There is a definite emphasis on development in mid-Fife in that draft. That is eminently sensible given that it is an area of deprivation and one that has seen industrial run-down. Yet it is difficult to see how Fife Council can do an awful lot about that other than to try to make arrangements for affordable housing or to try to ensure that the housing stock is right.

To see what else the council could do about the situation, I went with Joe Noble to look at the proposed renewables park at Methil. It is a wonderful industrial site right next to the Forth that could be used for a variety of different engineering facilities, but offshore turbines have been looked at specifically. That is perhaps the next and most sensible generation of wind power. The problem is, how does the local authority get that site up and running? How does it get the transport links in there? How can the local authority do that unless somebody makes a decision at national level and says, "Okay, we don't want to give them any competitive advantage over Easter Ross or wherever else, but at least let's look at giving them the transportation and the infrastructure." It is difficult to see how Fife Council can do much about that unless somebody has an overall plan. Do you agree?

**Joe Noble:** Yes. Resources and delivery in Fife are down to the local enterprise company and the council. We are working closely with our council colleagues to try to get that site up and running.

At Scottish Enterprise, we take a national cluster approach to areas of our remit, including food and drink, which we spoke of earlier. Energy is another such area to which we have made a national commitment. Perhaps what you describe should happen in the Executive, which could consult on the matter. However, we have certainly been developing the Methil project and we are hopeful that it will come to fruition over the next six months or so.

**Jim Mather:** I have two points. First, earlier this year, we carried out a study on the relocation of civil service jobs, which is a subject that has not cropped up today. Has any thought been given to positioning Fife as a suitable location in order to attract civil service jobs? Secondly, following the refreshment of "A Smart, Successful Scotland"

over the past week or so, what is going to be operationally different in Scottish Enterprise Fife and what different targets might you put in place to measure those operational changes?

**Joe Noble:** On the first point, we realise that Fife has specific strengths to encourage Executive relocation there. There are areas of multiple deprivation, especially in central Fife, as described a few moments ago, which would benefit from those jobs, and we are promoting Fife whenever a decision to relocate jobs out of Edinburgh is being considered. Tavish Scott recently agreed to visit Fife—I think it was about six weeks ago—and, in a parliamentary debate the following day, he referred to the attributes of Fife, such as the fact that we have a larger labour force available than there is in Edinburgh and the fact that there is not the same wage inflation in Fife as in Edinburgh. The quality-of-life arguments are very strong and should be factored into the decision-making process—we are alive to that. A strategy is being developed with our partners in Fife Council, and we are going through an implementation phase of that just now.

On the refresh of “A Smart, Successful Scotland”, it is a wee bit early to decide what will be different operationally. I welcome the fact that there will be some clarity around the areas that have been unclear in the past. Our memorandum of understanding, which is to be developed with Communities Scotland, will help that. A point was made earlier about economic activity and the need to strike a balance between releasing opportunity and improving productivity rates. The memorandum of understanding will help, but it is a wee bit early to say how. I am sure that there will be changes—perhaps changes in targets—but I cannot comment on those at this stage.

**The Convener:** Jack Perry will probably comment on them later in the week.

**Joe Noble:** I am sure that he will do so tomorrow.

**The Convener:** Does anyone have any further comments to make?

**Stephen Moore:** I would like to give one example of where joined-up thinking should be implemented between the Executive level and the local level. At the local government level, it is clear to us that budget management is management of risk. We have absolutely signed up to the Government initiative on local authorities, health and housing with respect to learning disability, and long-term hospitals will close. Throughout Scotland, we are 13 months away from that: we are almost there. However, just when we are on the last lap, with the people with the greatest needs about to be supported in the community, the Government is cutting the supporting people

grant—at the very time that we need it most. When hospitals close, we still have to care for the people with learning disability who, traditionally, would have gone to live in those hospitals because their age and their needs have changed. Together, we have signed up to a big partnership to support in the community those who are most vulnerable in our society; however, almost at the last lap, the budget for that seems to have been reduced by quite a significant amount throughout Scotland. That has implications for the way in which we all deliver services—both the Government initiative and the local authority and health initiative.

**The Convener:** I think that your concerns are shared. That is an issue that we will pay some attention to.

On behalf of the committee I thank Stephen Moore, Joe Noble and all the people here who have contributed to our discussion this morning. As I said at the start of the meeting, we will try to take your evidence on board in producing our report. Although he is delayed in Shetland, the Deputy Minister for Finance and Public Service Reform will give evidence to us this afternoon. In the past, our morning evidence sessions have given us bullets to fire at ministers in the afternoon, and I am sure that some of this morning's thoughts will be carried over into our cross-examination of the minister this afternoon. This has been an important exercise, as it gives us, on a cross-party basis, an opportunity to identify the realities on the ground that underlie the figures in the book. Thanks for your contribution in helping to clarify some of the issues for us.

I suspend the meeting until 2 o'clock.

12:39

*Meeting suspended.*

13:58

*On resuming—*

## Item in Private

**The Convener:** I open formally the afternoon session of our meeting. Members will be aware that the Deputy Minister for Finance and Public Service Reform has been delayed, but we expect that he will arrive at about a quarter to 3. I propose that we shift the agenda items around. I would like us first to deal briefly with item 5 on the revised agenda, which is a proposal to take an item in private. We will then consider subordinate legislation and the budget process from a technical point of view. When the minister arrives, we can address specific questions on the budget process to him. Richard Dennis and his colleagues will be able to deal with technical issues. That may involve some blurring of items 2 and 3 on agenda, but that is the position in the absence of the minister.

We would like the committee to agree to take in private at our next meeting consideration of an interim report on the financial memorandum to the Gaelic Language (Scotland) Bill. At the end of last week, Alasdair Morgan and I met the clerk and agreed that particular difficulties were attached to commissioning research into this issue. We believed that it might not be possible to obtain such research within a reasonable timescale and that the committee was in danger of doing something that the Executive should perhaps be required to do. We intend to submit an interim report to the committee at our next meeting and to seek the committee's advice on how to proceed. That is why I am asking members to agree to take an item in private at that meeting. Is that agreed?

**Members indicated agreement.**

## Subordinate Legislation

### Budget (Scotland) Act 2004 Amendment (No 2) Order 2004 (draft)

14:00

**The Convener:** It is probably unfair for me to ask Richard Dennis whether he would like to make some opening remarks, but I will do so, just in case there are technical aspects of the budget process that he would like to highlight to us.

**Richard Dennis (Scottish Executive Finance and Central Services Department):** It is tempting to say that if the minister were here, I would be fairly confident of knowing at least some of what he was likely to say in his opening statement, but I will pass on that opportunity.

As members of the committee know, we appear before it two or three times each year with budget revisions that seek to amend provisions of the budget acts. Those revisions take account of factors such as transfers between departments, draw-down from the Treasury, draw-down of end-year flexibility and allocations from the central reserves, which are very much part of normal Government business. There are no new policy initiatives in the order, but it allows the budget to catch up with policy decisions that have been announced over the past six months. Included in the autumn budget revision is the transfer of £10 million to the public sector energy fund, for example, which was announced in the partnership agreement. The budget process is merely catching up with that.

The changes sought would increase the Executive's budget for this year by a total of £423 million. If members have had a chance to study the supporting document, they will see clearly that the increase is driven by a change in annually managed expenditure forecasts, especially for capital charges for the road network, and for pensions liabilities that are accounted for by the Scottish Public Pensions Agency.

**The Convener:** For the record, I note that the committee is considering a Scottish statutory instrument that seeks to amend the Budget (Scotland) Act 2004. The committee also has before it the budget documents that set out the background to the proposed revision.

The Subordinate Legislation Committee considered the order on 9 November and had nothing to report to us. This is an affirmative instrument and cannot come into force until the Parliament has approved it. After the motion in the name of the minister has been moved, the committee will be asked to debate it. The motion asks the committee to recommend that the order

be approved. If it does so, the Parliamentary Bureau will lodge a motion that seeks parliamentary approval for the instrument. When the minister arrives, I will ask him to move motion S2M-1974, which will then be debated. Under standing orders, that debate can last no more than 90 minutes. At the end of the debate, I will put to the committee the question on the motion. Members now have an opportunity to seek technical clarification from Richard Dennis and his colleagues. Hopefully, once they have done so we will not need to take 90 minutes for the debate.

I noticed some significant increase in administrative budgets for Highlands and Islands Enterprise and for police central support services and the representatives association. The same is true of the fire central Government budget. Can you explain why those relatively significant administrative increases are taking place?

**Richard Dennis:** Could you point us to the particular lines?

**The Convener:** The police budget is on page 85 and fire is immediately after that. The Highlands and Islands Enterprise budget is on page 58. A £15 million increase in the budget for central support services and the representatives association is outlined on page 85. On page 86 there is a £1.2 million increase in the budget for miscellaneous fire expenditure.

**Richard Dennis:** On the police central Government line, £10 million of the increase is a transfer from the Home Office in respect of costs of the airwave police communication system, which the committee will recollect from previous revisions. The basic premise of airwave is that it will provide all forces in Scotland, England and Wales with a national digital mobile radio communication service.

An additional £5 million from the central reserve is for additional policing requirements. That is a temporary loan from the centre for planning for the G8 summit, which will be reimbursed by the Treasury once the summit has taken place and costs are known.

**Mr Brocklebank:** Is that only the planning costs for the policing of the G8 summit?

**Richard Dennis:** It is the cost of planning for the G8. The cost incurred this year is about £5 million.

**The Convener:** Are those the only costs? Are all the costs of planning for the summit being met out of the police budget, or can other costs elsewhere in the budget be linked to the summit?

**Richard Dennis:** The costs this year are very much for planning and preparations. As you probably know, the deal is that the Treasury will eventually pick up all the additional costs imposed in Scotland. Owing to the need to get planning

under way at an early stage, there was a requirement for an advance from the central reserve until the Treasury sends us the cheque.

**The Convener:** That reimbursement would include the £5 million for planning costs.

**Richard Dennis:** Yes.

**Alasdair Morgan:** When you say costs for planning, do you really mean just the planning of the summit?

**Richard Dennis:** Yes. That includes items such as assessing the security at the G8 summit and various other issues that the committee will understand I do not want to be completely explicit about.

**Alasdair Morgan:** I presume that in that case all those costs will be for administrative back-up—for staff, travel and pens and pencils. The expenditure does not put in place anything other than the plan. Is that right?

**Richard Dennis:** Yes. As I understand it, that is right.

**Mr Brocklebank:** I was at a recent meeting in Perth at which the chief constable of Tayside discussed with local government representatives and MSPs the implications of the planning. A range of activities was outlined, such as officers visiting places where previous G8 summits had taken place. A fair bit of travel was needed. An officer was in the United States for two or three months to assess what happened last time. Many of these costs must be accounted for by such items. It takes a lot to add up to £5 million though.

**Richard Dennis:** You will appreciate that we are not experts on the details and that for reasons of national security we would not set out the details in advance.

**The Convener:** We will move on to miscellaneous fire expenditure.

**Richard Dennis:** I have an answer in my notes. It tells me that that line is an agreed transfer from fire local authority capital grants to the centre for work that will benefit the entire fire service. My notes tell me that that is for the new dimension programme. I have to say that I have no idea what the new dimension programme is. Perhaps we could come back to the committee on that.

**The Convener:** I wondered whether the money was in some way linked to the Fire (Scotland) Bill. The category of miscellaneous fire expenditure is not particularly enlightening. It would be helpful to know what is tied into that.

**Richard Dennis:** At least part of the expenditure is for additional equipment that can be held centrally to enable the service to deal with major incidents like the Stockline Plastics factory

explosion or terrorist incidents. Certain specialist equipment is needed nationally but not necessarily in each individual fire service.

**The Convener:** The line for Highlands and Islands Enterprise on page 58 shows an administration increase of £7 million.

**Richard Dennis:** The majority of that is a £4 million increase that is being transferred from savings across the enterprise and lifelong learning budget to provide additional funding support for assistance to businesses. There is also a further £920,000 this year for the broadband connecting communities project, particularly for offering broadband connections to small and medium-sized enterprises in communities in the Western Isles. There is also £872,000 for the Scottish community and householder renewables initiative, which is an advisory service and grants scheme for communities that are interested in developing renewable energy projects.

**The Convener:** I just wonder why those provisions are being made in the context of the budget revision.

**Richard Dennis:** It is largely because at this stage in the year that department, like every other, will be able to look across its budgets and see where some of its expenditure is slipping and some is being brought forward, and where it is able to release additional provision to bring forward initiatives such as those.

**Jim Mather:** All those component justifications of the £7 million increase sounded much more like direct expenditure than administrative expenditure. Could you clarify that?

**Richard Dennis:** Are you talking about Highlands and Islands Enterprise?

**Jim Mather:** Yes. The schedule on page 58 shows that we are talking about an extra £7 million for administration.

**Richard Dennis:** If I can, I shall write to the committee with full details of that. As we understand it, that increase has been made because Highlands and Islands Enterprise, as a non-departmental public body providing advisory services, employs staff to provide business advice and those costs score as administration expenditure.

**Jim Mather:** That leads me on to a more general point. I recall from the last time that I was able to look at a normal set of HIE accounts that it was pretty clear that administration was running at just short of 20 per cent of the operational costs. What we now have is a report on HIE's expenditure under the categories of growing business, global connections, learning and skills, and strengthening communities, which makes the expenditure an utterly closed book for me. I

understand where the money is being spent, but I have no indication of performance or of how we can benchmark performance against other places, or even against Scottish Enterprise, which also adopts the same fairly obscure mechanism for reporting.

**The Convener:** That is really about how Scottish Enterprise and Highlands and Islands Enterprise report in their own accounts, rather than about the budget revision document.

**Jim Mather:** Sure, but it is a function of the Executive to allow HIE to report in that fashion.

**Richard Dennis:** There is some more detail in the draft budget, which uses the same level 3s as are set out in the autumn budget revision and which gives the equivalent figures under the same categorisation for past years for both bodies. I am not sure whether that will help you in tying that in with the accounts. I must confess that I have not looked at them.

**Jim Mather:** I think that the key point for me is that the figures rather disguise the administrative overhead component of the accounts, so it does not really allow us any proper indication of how much of the expenditure is impacting directly at client level on people who are active in the local economy.

**Richard Dennis:** As opposed to central services.

**Jim Mather:** Yes.

**Richard Dennis:** I am sure that we can offer the committee further details.

14:15

**Dr Murray:** I want to ask first about the reduction of £16 million in pensions in agricultural and biological sciences. Is there an explanation for that? Are fewer people retiring than were expected to or has somewhere that was expected to close not closed?

**Richard Dennis:** I am fairly certain that it is a result of the uncertain status of particular organisations as we await the final decision from the Treasury about how to classify them under national accounts. I have just been handed a folder—it is always good to have some back-up when we are making things up. At the start of the year we expected to receive the final decision on the classification of the bodies, so the provision was put in. The decision has not been made, so the provision is not needed this year. I will give the committee some idea of why that is. If they are classified as being within the departmental accounting boundary, in effect resource accounting and budgeting charges will be connected to the pension scoring or accounts; we



have no provision for them if they are classified as outside the departmental accounting boundary. Ever since devolution we have been waiting for the Treasury to determine which way it would like us to classify them. Formal decisions on classification rest with the Office for National Statistics on the basis of the case put to it by the Treasury. I suspect that you will see the provision coming in every year and disappearing at about this stage every year until we get the decision.

**The Convener:** I want to move on to the communities budget.

**Alasdair Morgan:** I seek clarification. Tables 3.1 to 3.5 are the only ones that do not say that they are expressed in thousands. Is that just an omission?

**Richard Dennis:** Yes.

**The Convener:** I refer to page 33 of the budget revision document. For the antisocial behaviour initiative there is a reduction of £23.7 million, which is 86 per cent of the budget. What is the explanation for that?

**Richard Dennis:** My colleague is pointing out that the money has been transferred to the Finance and Central Services Department budget, because the resources will be paid out through the revenue support grant mechanism. There is no change to the budget; there is just a change in the payment mechanism.

**The Convener:** Are you saying that the money will go straight to local authorities?

**Richard Dennis:** Yes.

**The Convener:** One of the concerns about the antisocial behaviour initiative is the slow rate of take-up by local authorities. Is the money being allocated on a per capita basis, on a deprivation basis or according to how many initiatives on antisocial behaviour are mounted?

**Richard Dennis:** I am afraid that I will have to come back to the committee on that. I suspect that we are talking about agreed funding for specific projects and have just changed the payment mechanism. Rather than our making a specific one-off allocation to each local authority, the money has been moved into the RSG, with a commitment to spend a certain amount of money on a certain number of projects. I will confirm that for the committee.

**The Convener:** We would be interested in the underlying funding formula arrangements that pertain to the mechanism that is used.

I turn to the budgets for tackling poverty and helping vulnerable people. There are significant changes to the supporting people grant. Some members are concerned that the grant in overall terms is being reduced. The figure given in the

document shows a £31 million increase. Perhaps as a linked phenomenon the £10 million for child care and employment is being eliminated. Can you give us an explanation of that?

**Richard Dennis:** There is certainly no linkage. As you know, the supporting people budget is in AME, so in effect the Treasury gives us what the budget requires. The latest forecast said that this year we will spend an extra £31 million on the supporting people programme, so the Treasury has given us an extra £31 million. There is a reduction of £10 million in expenditure on the child care and employment scheme but, again, that is because of a change in payment mechanism. That money will now go out through RSG, which is a simple way to get money to local authorities with clearly defined accounting procedures. In many cases it is simpler to use that method than to set up new arrangements for each individual scheme.

**The Convener:** My understanding is that the child care and employment scheme is a specifically targeted scheme and not one that cuts across all authorities. There are a couple of pilots in place.

**Richard Dennis:** That would not necessarily rule out our choosing to use RSG as the mechanism for payments to an individual local authority, because the RSG for that authority could be adjusted. I suspect that it is just an easy way to get payments into local authority bank accounts.

**The Convener:** I am not convinced. Could you give us a bit more information on that? First, I would like to be able to track whether the money is going towards meeting specific projects that have been put in place. Secondly, has there been a delay in the take-up of the resource? If it is being funnelled through local authorities relatively late in the day, that would cause local authorities problems with rational planning. Thirdly, has there been a policy change? Are you moving away from an Executive-directed allocation towards a more generalised formula-based allocation to local authorities? I am not clear which of those three scenarios applies, so I would be grateful for any information that you can give us on that.

**Richard Dennis:** We will check up and come back to you.

**Alasdair Morgan:** On that point, the figure that the convener referred to was the AME supporting people grant, but there is also a significant element for supporting people—an increase of almost £5 million—under departmental expenditure limits. What is the difference between the two?

**Richard Dennis:** The committee might think I am being a one-trick pony, but that is some money that is coming out of RSG. It has been decided that that payment mechanism is no longer

appropriate, so the money is now going through the supporting people channel. Again, it is simply a transfer of payment mechanism and not a transfer of resources. I do not have a note of exactly which element of supporting people it is linked to.

**Alasdair Morgan:** The parameters of supporting people are decided by the Treasury—the argument about that is going on at the moment. What exactly is the DEL element for and what does it cover?

**Richard Dennis:** Essentially, it is a top-up that is provided by the Scottish ministers. You will have seen that in the draft budget we have given you two runs of numbers on supporting people: those in the main table and those in the supplementary footnote. The numbers in the main table are the AME numbers, but the Minister for Communities has decided to top up that expenditure from his own resources and those numbers are shown below the table.

**Alasdair Morgan:** Is the DEL top-up related to the AME figure? Are the figures proportional or totally independent? Would there be a definite consequence for our budget if the Treasury decided to increase or decrease the amount of money that it puts in?

**Richard Dennis:** No. A separate decision would be made by ministers on whether they wanted to reduce the impact of a cut or claw back the impact of an increase.

**The Convener:** I know that announcements are projected on supporting people, but it would be helpful for the committee to get a note from finance officials on exactly what happened in relation to supporting people on a year-by-year basis, so that we can see the Treasury funding, the Scottish Executive funding and the mixture of things that seem to be happening in between. From our point of view, that would aid clarity.

**Dr Murray:** In the schools budget, there is a reduction of £20 million in expenditure on teachers and an increase of £24.5 million in expenditure on schools. That is on page 41 of the autumn budget revision document.

**Richard Dennis:** Yes. That comprises a number of separate elements. I am afraid that, again, the main ones are transfers to RSG with respect to the teachers' induction scheme and the quality improvement officer and educational psychologist placements. Together, those account for about £14 million of the expenditure. A transfer to the Enterprise, Transport and Lifelong Learning Department to fund extra places on the postgraduate certificate of education scheme takes up just under £9 million and £2.5 million, which I think is the remainder, will go elsewhere in the Education Department—to the new

educational developments division—to meet the costs of the Scottish schools digital network.

**Jim Mather:** I want to ask about Scottish Water's capital, which is covered in schedule 3.8 on page 22. A reduction of £60 million is shown. Did you anticipate that that was going to happen?

**Richard Dennis:** I think that you will be able to see that that cross-refers to the establishment of the central unallocated provision arrangements, which are covered in the tables on pages 4 and 5. In reality, that is not a reduction in the borrowing consent for Scottish Water but a reduction in the forecast of what borrowing it will use this year.

**Jim Mather:** So it is evidence of further delay in the capital programme.

**Richard Dennis:** It is evidence of Scottish Water needing to borrow less this year. I could not comment on whether that will lead on to a delay in the capital programme; that does not necessarily follow.

**Jim Mather:** I understand that it is outwith your remit to comment on that, but it looks as if there is an inability to consume capital at the rate that was intended. What worries me is that, out there in the marketplace, a supply and demand issue might be affecting the ability of the engineering community to take up that money. That is exacerbated by the fact that the spend is now going through Scottish Water Solutions Ltd. As that company is a bit close to home, the process might not be entirely competitive. In that climate, I worry about us getting value for money with the planned £1.8 billion capital spend, which is a significant amount in the context of a Scottish budget of between £25 and £30 billion. Will the Executive be taking any steps to explore that?

**Richard Dennis:** I know that the committee has heard recently from the Minister for Environment and Rural Development on such matters. I am not sure that I am briefed to add anything to what he told the committee. I am happy to take the question away and to get a report sent to the committee, if that would be helpful.

**Jim Mather:** From the committee's standpoint, there must be a concern that, while Scottish Water's low take-up of capital continues, things could be happening in the marketplace that would not be in the best interests of the Scottish Water consumer and charge payer.

**The Convener:** I will take a slightly different tack on the same issue. I had understood that the rate of spend on water infrastructure had reached the necessary plateau, even though, historically, there was a gap. However, in response to Jim Mather's question, you said that the money did not need to be spent, because forecasts on Scottish Water's revenue had not been fulfilled.

14:30

**Richard Dennis:** I am not sure that that is quite what I said. The numbers that are included in the budget act and its revisions represent the Executive's borrowing permission to Scottish Water. It appears from the table that, at the start of the year, the maximum that the organisation was allowed to borrow was about £300 million. As we now know that it will not need at least £60 million of that amount, we followed the principle that we should be taut and realistic and felt that it was right for us to take the sum out of what we are asking the Parliament to approve for the year. That decision does not necessarily have implications for either the rate of investment or Scottish Water's overall programme. Members will recall from discussions on the organisation's underspend that, in the previous financial year, it carried out a significant amount of work that did not hit our books until this financial year. It is possible that the same thing might be happening this financial year, which would mean that it would deliver the required run rate; however, I will have to come back to the committee on that matter, because we do not have any detailed briefing that we can comment on.

**The Convener:** Jim Mather and I would be interested to find out how much of the underspend is due to an inability to meet capital investment targets and how much is due to the revenue realities exceeding the forecasts.

**Mr Brocklebank:** I wonder whether Richard Dennis can explain two further items, the first of which relates to pensions. Given that pension payments are usually quite predictable, why are we seeing a 20 per cent increase in health service pension payments, which amounts to something like £198 million, and a 4 per cent increase in teachers' pension payments, which comes to £42.5 million?

**Richard Dennis:** The simple answer is that we are still working through the full implications of financial reporting standard 17. The figures in the budget represent provision for future liabilities rather than pension payments. Both my colleagues are flitting frantically through the document so that we can give you a more complex answer.

**Mr Brocklebank:** I am referring to page 105.

**Richard Dennis:** I am afraid that the only detail we can give is that the figures represent a revised estimate of the payment provision for liabilities associated with those two pension funds. I recollect that it has something to do with changes in how FRS 17 is interpreted, but I will need to come back to the committee to explain exactly what is going on.

**Mr Brocklebank:** Will you also explain in some

detail the £47 million increase for the Scottish Prison Service?

**The Convener:** Which page are you referring to?

**Mr Brocklebank:** I am referring to page 84 of the autumn budget revision.

**Richard Dennis:** That £47 million is an additional relief made up of resources that have been drawn partly from across the justice programme and partly from the central reserve to continue the modernisation of the prison estate as a result of the Napier judgment. That programme includes providing new prison house blocks and the first of the new prisons and meeting the costs of the package of measures that was announced on 12 May in response to Lord Bonyon's judgment.

**The Convener:** I want to probe that further. The figure is not mentioned in these documents, but I recall that there was a potential overhead contingency of about £130 million to address the number of cases that might arise as a result of the Bonyon judgment. Where would that figure appear?

**Richard Dennis:** If that liability were recognised, it would already appear in the Justice Department's books and budgets. As I am fairly sure that we have not yet made that provision, that money will probably be found from central resources, which means the main reserve, any share of EYF or any additional consequentials that we receive. Furthermore, under the new arrangements, we could borrow the money from central unallocated provision.

**The Convener:** But you have substantially reduced that provision to less than £20 million.

**Richard Dennis:** Yes, we have reduced the contingency fund.

**The Convener:** Has there been any comparison with the potential liability south of the border? I presume that the same issues with slopping out exist south of the border and that mechanisms have been identified there to ease the legal liability or to deal with the financial risk of such cases.

**Richard Dennis:** I believe that England and Wales are considerably ahead of us in ending slopping out, although I will have to check that and confirm it for the committee. The situation there is not similar to ours.

**The Convener:** An outline of the associated financial risk would be helpful, otherwise we will have to drift around between different budget documents to follow the situation.

**Alasdair Morgan:** Page 68 of the autumn budget revision shows that the cost of capital for roads has been increased by about £55 million. Is

that simply covered by the footnotes on page 125 of the draft budget document?

**Richard Dennis:** Roads are the one element for which the cost of capital remains in annually managed expenditure because it is so difficult to forecast. The road network is valued at replacement cost, as if we had to build it all again from scratch. The increase in value has been driven by the increase in construction costs because of price inflation in the construction industry.

**Alasdair Morgan:** I tried to calculate the increase, given that you are spending only X amount on new roads and that the cost of capital increase is 3.5 per cent, but I did not quite arrive at the figure of around £55 million. However, you say that you work out the figure on the basis of the cost of building the whole existing network again tomorrow.

**Richard Dennis:** Yes.

**Alasdair Morgan:** That is an interesting prospect.

**Mr Brocklebank:** I want to return briefly to administration and operating costs. I am sure that there are perfectly legitimate reasons for this, but why have administration costs for the Scottish Parliamentary Corporate Body increased by £8.5 million? That figure is on page 120 of the autumn budget revision document.

**Richard Dennis:** Technically, it is not for us but for the SPCB to answer that question. The committee must approve its budget separately. However, I can attempt an explanation.

**The Convener:** Since the SPCB has to clear its budget with you, you can probably provide technical clarification.

**Richard Dennis:** To be honest, the SPCB does not have to clear its budget with us—it gets what it asks for and what the committee approved when it considered the budget on, I think, 5 October. We simply have to put that budget through the books.

**The Convener:** The SPCB must give you some information.

**Richard Dennis:** Yes. I am fairly sure that the majority of the increase is to do with the costs of the various ombudspersons for whom the SPCB is taking responsibility. There is also a slight increase for the costs of parliamentary salaries and expenses.

**Mr Brocklebank:** Are you talking about the various commissioners, such as the commissioner for children and young people in Scotland and the Scottish information commissioner?

**Richard Dennis:** Yes.

**Mr Brocklebank:** We have dealt with that issue before.

**The Convener:** There are also pension issues.

I have a question about transport project rescheduling. A number of projects have slipped in the past 12 months, so I presume that the money that was allocated for them has not been spent. What are the procedures for dealing with slippage in transport projects? How is money pushed into the future? In the CUP, which we are told is the mechanism for dealing with such matters, transport does not have a transfer in, which surprised me given what I know about some transport projects. What happens to the money that was intended to be spent on such projects in this financial year?

**Richard Dennis:** The transport portfolio is fairly fortunate because the wide range of major projects that are in progress allows for a bit of chopping and changing. Any potential underspends that emerge this year are likely to be used if the report of the inquiry on the M74 extension is produced and if the vesting declaration is made in time to purchase extra land for that work. Large chunks of what would be future years' spending will be brought forward for that programme and the money for programmes that are delayed will be reversed. In effect, the Enterprise, Transport and Lifelong Learning Department can run an arrangement similar to the CUP, but purely within the department.

**The Convener:** One of the problems for the committee is that the process is not especially visible or transparent if it all takes place entirely within the budget and we cannot see the allocation from one source to another. I presume that it might be slightly more transparent if it went through the CUP process. Do you have any views on that?

**Richard Dennis:** Transfers between the individual level 2s and level 3s are itemised in the budget revision document. The question is whether you have the right level 2s and level 3s to provide you and, perhaps even more important, the Local Government and Transport Committee, with the information that you want to track.

**The Convener:** I would be interested in the cost of land that has been purchased, land acquisition and land assembly in relation to the M74 and the way in which that project has shifted over the past two or three years and will shift until the whole package is in place. I used to be on the Transport and the Environment Committee and I know that it is quite difficult to get that information. If there is a drift between one year and the next in big transport projects—I am talking about projects that will take three, four or five years, or sometimes more, to complete—would it be appropriate to list the projects over the three or four-year period in a

way that would enable us to see how the drawn-down resources are being used and to track the changes that are taking place?

**Richard Dennis:** That would be possible. Whether committees would find that more useful and where the line would be drawn between what is a major scheme and what is not are matters for you and the Local Government and Transport Committee to decide. You will see that this autumn's budget revision clearly shows £41 million of end-year flexibility being drawn down specifically for the M74. At the moment, that money is going into the motorways and trunk roads programme. If the committee thinks that an M74 level 2 is what it would like to see, I am sure that we can discuss that.

Three or four years ago—as those members of the committee who have been around longer than others may recall—the budget documents contained detailed lists of capital projects. At the time, they detailed any capital project of more than £5 million across the Executive. That is one of the items that we stopped providing, as the committee decided that it was information that it no longer wanted to see. We can go back to providing that information, or there might be a mechanism, following the initial infrastructure investment plan, that would set out much of the plan in great detail, allowing you to monitor progress.

**The Convener:** If we are talking about projects of the scale of, for example, the M74 or the Aberdeen ring road, which run into hundreds of millions of pounds, it would be strange if the Finance Committee could not track and seek an explanation for significant shifts in expenditure each year—whether something was being brought forward or put back. The changes are significant. Perhaps we can return to that issue when we consider the capital plan, which you will publish relatively soon.

14:45

**Jim Mather:** I am revealing a constituency interest, but I am keen to explore some of the changes in another transport heading on page 67 of the budget revision. There is a pretty massive reduction in activity in relation to ferries. Ferry services consultant fees have been reduced by some £655,000. Can you tell us anything about why that has happened and what that is?

**Richard Dennis:** I am afraid that I will have to get back to you on that in writing. I suspect that it is to do with the fact that the ferries contract has been relet, so that the need for consultancy advice has been reduced. The Caledonian MacBrayne restructuring plans are also further advanced. I will check and get back to you on that.

**Jim Mather:** Perhaps there has been a delay in the tendering process.

**Richard Dennis:** That is possible, although you can see how the need for consultants' advice on an exercise such as that would be greater in some years than in others.

**Jim Mather:** And "Campbelton to Ballycastle Ferry Services" has been reinstated—£700,000 has been reallocated to that project. Campbeltown has been misspelled.

**Richard Dennis:** Apologies for that. Yes, that is an increase in the provision.

**Jim Mather:** It has been reinstated, as it had been removed the last time.

**Richard Dennis:** Yes.

**The Convener:** I suggest that we now suspend the meeting until 3 o'clock to give the minister time to arrive and to give his officials a couple of minutes to whisper in his ear if they want to do so.

14:46

*Meeting suspended.*

15:09

*On resuming—*

**The Convener:** I reconvene the meeting now that we have been joined by the Deputy Minister for Finance and Public Service Reform, who was delayed.

We continue our consideration of agenda items 3 and 4—it is probably sensible to continue dealing with the Scottish statutory instrument on the autumn budget revision. We will then go back to agenda item 2, which is on the 2005-06 budget process. After the minister has made a brief opening statement on the order, members can ask questions. The minister will then move the motion on the SSI, so the debate will start at that point. I invite Tavish Scott to make his opening remarks on the draft Budget (Scotland) Act 2004 Amendment (No 2) Order 2004.

**The Deputy Minister for Finance and Public Service Reform (Tavish Scott):** I apologise for being so late. It might be unfair to pile all my apologies on the doorstep of British Airways, but the knock-on effect of BA's technical problem at 7 o'clock this morning is that I have been able to arrive here only now.

I shall be brief, as I am sure that the committee has already discussed the autumn budget revision in considerable detail. I also note that the committee took evidence from the Minister for Finance and Public Service Reform last week. From the *Official Report* of that meeting, I see that Tom McCabe dealt with many of the issues that are consequential on the autumn budget revision, which is a regular piece of business both for the

Executive and for the committee. Indeed, either Tom McCabe or I will return to the committee in February with a spring budget revision for the 2004-05 budget.

There are four main types of change in our spending plans that will be of most interest to committee colleagues. First, the autumn budget revision provides additional funding, mainly from Treasury sources, to cover increases in estimates for AME programmes such as market support under the common agricultural policy, cost of capital charges for roads and Scottish public pensions expenditure. Secondly, it provides for the take-up of end-year flexibility that was detailed by Andy Kerr in June.

Thirdly, the autumn budget revision transfers resources between portfolios and between the Executive and Whitehall. That includes the take-up of allocations to portfolios from the Executive's central fund. Examples of such transfers include the additional allocations for the restructuring of Scottish Opera and the public investment programme for energy efficiency. Neither of those issues is new or has lacked parliamentary scrutiny—indeed, the energy efficiency programme goes back as far as the September 2003 statement on the partnership agreement—but it goes without saying that our financial processes involve a degree of catch-up. However, there are no new announcements or initiatives hiding in the detailed figures that the committee is considering this afternoon.

Fourthly, the autumn budget revision provides for transfers to and from the central unallocated provision—the well-titled CUP—which I know the committee discussed with Tom McCabe last week. The supporting document for the autumn budget revision includes a section that describes that process and a table that details the amounts that have been deposited in the CUP. A number of jokes come to mind on that, but I will resist the temptation. As CUP resources are, by definition, not voted, the budget revision order does not seek approval for those. However, it is important that the supporting document provides a full picture of the overall budget provision, in line with the committee's recommendations on the need for transparency in the budget process.

Taken together, the changes that we seek will increase our budget by a total of £423 million. The largest elements of those are increases in transport expenditure, increases in the budgets of pensions agencies and the alterations that are driven by changes in the AME forecasts that I mentioned. In short, those are the central elements of the autumn budget revision order.

**The Convener:** As the minister mentioned, we have already had an exchange in which we received technical clarification. Unless members

have any further questions of a technical nature, I will invite the minister to move the motion.

*Motion moved,*

That the Finance Committee recommends that the draft Budget (Scotland) Act 2004 Amendment (No. 2) Order 2004 be approved.—[*Tavish Scott.*]

**The Convener:** We now begin the debate. Do members wish to raise any points?

**Mr Brocklebank:** I was interested to hear the minister say that there will be increases in transport spending. One issue that came through from this morning's discussions is directly related to transport in various aspects. There was a feeling among a number of the workshop participants—

**The Convener:** Let me interrupt Ted Brocklebank, as I think that he is moving on to the next agenda item. Do members have any other points?

**Dr Murray:** There was one other point—I resisted asking Richard Dennis about it because it is more of a policy issue. The analysis that the committee has received shows that about £70 million of the additional funds will go towards increased administration and operating costs. How does that square with the Executive's expectations of efficiency savings across departments?

**Tavish Scott:** As we all know, the efficient government review is due shortly. I do not know whether parliamentary time has yet been allocated for the announcement, but I think that Tom McCabe said at last week's Finance Committee meeting that he was negotiating with the Minister for Parliamentary Business to secure a slot. It would probably be remiss of me to get into the area that Elaine Murray raises, because it is an important part of the efficient government review. Of course, there is a timing issue, because the order relates to the year in question, whereas the efficient government review will relate to the period of the spending review. The £70 million would refer to the current financial year. I would give the committee the detail behind the figure if I had it at my fingertips—the right table is no doubt among all the papers that are in front of me—but we will provide the information in writing.

**The Convener:** We have requested information on a number of other matters, which Richard Dennis has agreed to provide.

As there are no further contributions to the debate, I will put the question.

*Motion agreed to.*

That the Finance Committee recommends that the draft Budget (Scotland) Act 2004 Amendment (No. 2) Order 2004 be approved.

**The Convener:** We are required to report to Parliament. Such reports are normally very brief, so I propose that we agree the text of the report by e-mail. Are members content with that suggestion?

**Members** *indicated agreement.*

## Budget Process 2005-06

15:16

**The Convener:** We return to agenda item 2. This morning we had the benefit of a fairly lively exchange of views with groups who represent a number of agencies in Fife. Members might want to raise with the minister some of the issues that arose from local circumstances. This is the right moment for Ted Brocklebank to make his point.

**Mr Brocklebank:** I apologise for jumping the gun slightly.

Transport was a key ingredient of this morning's discussions in the workshops. People said that many rural communities in Fife have difficulty in communicating directly with one another and Fife Enterprise made the point that problems in Fife impinge on the situation in Edinburgh. Edinburgh hopes to release its full potential and a strategic approach to transport in Fife, whereby transport systems worked better and were interlinked, would help to release that potential.

There are two sides to issue. The problems in Fife mean that Edinburgh cannot fulfil its strategic role, given that it is only 20 or 25 miles from Fife, whereas in Fife individual villages that might be only three miles apart have great difficulty in making their transport links work. We heard claims that parts of the county that are economically successful have trouble attracting workers because transport problems are so difficult—people simply cannot travel to overheated districts such as north-east Fife, where we are today.

Although some of those issues should probably be dealt with directly by Fife Council, there was a feeling among some of the people to whom we spoke that there has not been joined-up thinking on the Executive's part and that we need more of a strategic overview to make transport in Fife work specifically in relation to Edinburgh.

**Tavish Scott:** I have a couple of observations to make on what Mr Brocklebank has said. First, the forthcoming Transport (Scotland) Bill, which will undergo financial scrutiny by the committee as well as the normal process of parliamentary scrutiny, will create transport partnerships. It strikes me that that proposal might address—although not fully, I concede—the central point about the need for strategic co-ordination across different areas of Scotland, whether we call them city regions or approach the issue from another perspective. After all, the whole purpose of the Minister for Transport's legislative proposals is to make strategic connections between different areas. I am sure that Mr Brocklebank would expect no less of the Transport (Scotland) Bill and, more to the point, of the actions that arise out of

the bill than that they should lead to Edinburgh, the surrounding local authority areas and the appropriate public sector agencies, such as Scottish Enterprise Fife, drawing the partnership together to ensure that it meets the strategic needs of the area.

On the second point, on the local level, I do not want to bore Mr Brocklebank—I know that he is slightly taken with the number of times that ministers trot out the statistic of how much more money we are putting into public transport as a percentage of the overall Scottish Executive budget, which has moved forward considerably. However, it is right that decisions on local bus services—to which I assume he refers—are devised at a local level so that those services connect in a way that allows workers to move round the area. I cannot conceive of circumstances in which any central transport agency covering Scotland could ever be close enough to judging local needs to make such calls. It is for Fife Council to devise the best mechanisms and connections between different modes of transport to fulfil the need. However, if specific examples were raised in the discussions this morning, I am happy to take them back to the office and to bring them to the attention of the Minister for Transport.

**Mr Brocklebank:** My other point is on industrial development. In the Levenmouth area, there is potential for major industrial expansion, particularly in relation to the next generation of renewables technology: wind turbines at sea. The area contains a fine site—on which oil rigs were built previously—for that kind of work. The problem is that the roads infrastructure is not up to sustaining such a major industrial complex. There is a feeling that, with more strategic planning, perhaps through Scottish Enterprise Fife, the roads network could be improved to give the area, which is going through a great depression at the moment, a chance to be revitalised.

**Tavish Scott:** I would be happy to examine the specifics of taking a central approach to economic development, to promote and enhance regeneration opportunities in communities in Scotland, with colleagues in the Enterprise, Transport and Lifelong Learning Department. I suspect that it would be helpful if the considered and settled will of the enterprise agency and the local authority was that they would pull together their transport priorities for the area. It always helps central Government in assessing projects if there is a strong feeling across the local agencies that are involved. However, I would be more than happy to pursue the issue back in Edinburgh.

**The Convener:** I want to pursue that further. One of the concerns, not just in Fife but throughout the country, is that in identifying

development opportunities, the enterprise agencies have to wait for the Executive's spending plans. That is an issue on the Clyde, for example, which has been identified as a potential economic growth area. There is a lag in making decisions on the transport infrastructure. It has been said in Fife that, although there is good communication between the enterprise agency, the council, the health board and other bodies, the process by which that group identifies key priorities and then gets the Executive to respond could be improved.

A further point on links with Edinburgh came out of the workshop with which Jim Mather and I were involved. Transport planning in Edinburgh, which is crucial to Fife, is being undertaken from an Edinburgh perspective, rather than a regional perspective. That manifests itself in a number of ways—I refer, for example, to the tram lines and the lack of prioritisation for the A8000, although I acknowledge that that issue is now being dealt with.

The new version of "A Smart, Successful Scotland" begins to talk about conurbation planning, which is obviously a direction in which we need to go. However, that requires the Executive, as well as local and national agencies, to respond in order to ensure that transport investment in particular—which is crucial to Fife—takes account of the needs of Fife, West Lothian and other areas and is made in a more rational way.

For example, how is the relative priority that is given to different kinds of projects in the greater Lothian area arrived at? I am thinking of trams against a Borders rail link against another Forth crossing against road improvements. Such things are not being assessed as systematically and rationally as we would like them to be. That was certainly a point of view from the Fife community, which would prefer greater transparency and rationality and would like a greater sense of decisions being made on the basis of a calculation of economic gain.

**Tavish Scott:** I will make a couple of financial points at the outset. We now have three-year budgeting, of course, which those of us who were in local government before we were elected to the Parliament and who sat through a number of years of having settlements imposed on us at the last possible moment must clearly see as a step forward. That it is a step forward is certainly recognised not only by local government, but by the other agencies that are part of the process. I would argue that that assists longer-term planning.

We also have a 10-year transport plan, which by any measure is surely a strategic overview of the country's needs across our range of transport mechanisms and systems. On the systematic nature of transport planning and project



assessment, a capital investment plan must go through for every transport project. The Scottish transport appraisal guidance process puts a heavy emphasis on the economic benefits that would accrue from a project. Economic benefits and sustainability arguments must be balanced, as I am sure members would expect. Therefore, a number of mechanisms ensure that capital investment plans are properly assessed, that they are accountable in delivering outputs and—more to the point—that they ensure value for money. Those mechanisms also ensure that the financial planning that underpins capital investment is set against the background of a 10-year transport plan, which was first announced by Wendy Alexander when she was the minister with responsibility for such matters.

A lot is going on, but I accept the argument about, and the need for, better co-ordination between the local and national levels, which is what I was trying to suggest. Legislation will not always solve such problems, which is why I said in response to Mr Brocklebank's question that the transport partnerships are very much designed to take forward such issues where there is legitimate criticism.

**The Convener:** I want to pursue the point a wee bit. The configuration of the transport partnerships is always going to be an inexact science, as boundaries must be drawn somewhere. The problem with transport is that interests go beyond boundaries.

You mentioned STAG assessments. I have been asking for STAG assessments to be made public for three years. We have no information, for example, on the relative economic benefits of the Aberdeen ring road against the M74, the Borders rail link or any other transport project. That information is wholly internal to the Executive. Until you are prepared to publish STAG assessments—which you say are done on a rational basis—and to show how they fit in with economic growth planning, we have no basis for analysing the sums.

When projects are proposed that are politically colourful and interesting but have no economic basis for continuation, the biggest test is not what is included but what is excluded. I am sure that Jim Mather will hate me for saying this, but the Ballycastle ferry is probably the most obvious example of that. I do not believe that it stacks up economically, but it remains in the planning process. We could disagree about that, but the problem is that we have no evidence.

15:30

**Tavish Scott:** Jim Mather and I would probably agree that that ferry route has an economic benefit. Any assessment by Highlands and Islands Enterprise and others would show that.

The STAG system adopts a tried-and-tested mechanism that the Treasury uses for English and reserved transport plans. I guess that the assessment mechanism has always been internal—to the Scottish Office and now to the Scottish Executive. All transport projects and all capital investment throughout the Executive are certainly subject to rigorous analysis, which is as it should be.

**The Convener:** If rigorous analysis is undertaken, can we please be told the criteria on which the analysis is conducted and the assessment method? Will that be made more transparent? Those are the obvious questions to ask.

**Tavish Scott:** Indeed. I see no problem in discussing with the committee the criteria, which should be the same for any capital investment proposal and would be subject to parliamentary scrutiny. The other side is the economic analysis and the analysis against sustainability and other appropriate criteria, which are always subject to parliamentary scrutiny. The Minister for Transport appears regularly before the Local Government and Transport Committee to answer questions about those issues.

**Alasdair Morgan:** You say that STAG analysis comes with the Treasury seal of approval—or whatever words you used. That is the last thing that would fill us with confidence. Railways throughout the United Kingdom are in their present state because hardly any rail project has ever met the Treasury criteria for investment. We need the clarity and transparency for which Des McNulty asks.

**Tavish Scott:** It is difficult for me to go into detail. The task of bringing rail projects through the process in a positive way is demanding. We have laid out in a 10-year transport plan what we are doing with rail and other forms of transport. I will write to describe the criteria as best I can.

**Dr Murray:** The workshop in which I was involved this morning felt that a bit of a silo mentality remained in the Executive and that people did not think sufficiently across departmental boundaries. For example, investment in transport helps tourism and may help other aspects of local economies, but that read-across does not seem to happen and the workshop did not see it reflected in the budget documents. Even if initiatives belong to one department, many have cross-cutting effects, but people felt that that did not come across in the presentation of the budget. That is part of the same argument as has been made.

In my workshop, somebody who is involved in tourism talked about investment in air routes. He said that aircraft take Scots out of Scotland to

holidays elsewhere and take more people away from Scotland than they bring in, whereas the Superfast Ferries service has succeeded at bringing people into Scotland, yet there is no suggestion that we will invest more in ferry routes. Where does that type of argument and analysis of economic benefit take place?

**Tavish Scott:** The member raises two issues. There are cross-cutting themes, which we have discussed ad nauseam.

**Dr Murray:** Issues that are not cross-cutting themes are also cross-cutting. Cross-cutting issues are not limited to themes such as closing the opportunity gap. Transport is also cross-cutting.

**Tavish Scott:** I accept that point entirely. I will not bore you with my transport problems, but because of where I come from I know all about them from various cross-cutting perspectives. In the annual bilateral discussions that finance ministers have on all portfolios, we concentrate on areas and themes that cut across departments and provide coherent themes for Executive strategic analysis. I take the point that Dr Murray makes about transport, which has an impact on almost every aspect of policy—certainly on most portfolios. Transport is picked up in the overarching Scottish Executive theme of growing the economy. We seek to ensure that issues are connected and—more to the point—that they are understood and developed by each department in the area where it has responsibility.

The second issue is how cross-cutting themes impact on ferries and the air route development fund. The development of policies in those areas is tied into other portfolios. For example, the enterprise and lifelong learning portfolio has a close interest in both policies. Freight facilities grants were awarded to ensure that there was investment in developing the Superfast Ferries service. There has also been investment in air route development. The enterprise and lifelong learning portfolio and other departments are centrally involved in the development of those policies and in the thinking that takes place about them.

For as long as I can remember, the Confederation of British Industry, the Federation of Small Businesses and the other representative organisations of the business community have lobbied successive Governments about the need for direct air routes from Scotland to other parts of Europe, to North America and to other parts of the world. There is a strong evidence base that suggests that the business community and our tourism industry are seeking direct air routes. I accept that it is a challenge to tie in air route development to VisitScotland and other agencies, so that when we open up a new route to Frankfurt

or Prague they are doing work in those cities to ensure that planes return with visitors, business travellers and people from the other markets that we want to pursue. The central tenet of Dr Murray's question is entirely fair. We must ensure that there is no silo mentality that holds back development.

**Jim Mather:** I am keen to reflect back to you the feedback that we received from one senior individual who came here from the commercial world—a major local employer. He welcomed moves that we have made on education, lifelong learning and transport, but he was worried about the long-term sustainability of the spending. That was a key concern for him. In addition, he was worried about whether we were being aggressive enough in achieving efficiencies in the public services. Can you address those concerns, which are, in essence, two sides of the same coin? At the end of the day, he was asking what we are doing as Scotland plc to bolster our competitiveness, which would produce growth both generically across Scotland and within the confines of his business.

**Tavish Scott:** Without dodging the question, I will duck slightly the issue of public sector efficiency. That is part of the efficient government agenda, about which Tom McCabe will make an announcement to Parliament. A document will accompany the announcement and it will be subject to parliamentary scrutiny. Members will have the opportunity to examine it closely. However, I take Jim Mather's central point: we should always strive for a more efficient, effective public sector at all levels of government and in all agencies for which Government is responsible.

One could argue that sustainability of spend is always the challenge for finance ministers or for those who are involved with such matters at whatever level of Government. I remember that Mr McNulty had responsibility for sustainability of spend at a big local level and I had similar responsibility when I was a councillor in Shetland.

The sustainability argument is important and that is why we have spending reviews. Just as we have three-year settlements for local government, I am sure that Mr Mather recognises that it is better to seek to plan central Government in a more coherent manner over time and therefore not only to seek to have those spending reviews every couple of years, but to link them to ensure that we tackle the central point—the sustainability of spend.

We have made a big investment in, for example, higher and further education for the future. That was done in response to the business community and arguments from the educational sector about investment for the future. I accept that it is the responsibility of ministers to ensure that spend is

sustained, but we will do so through the coherent and rigorous mechanism of the spending review process. We will also use feedback mechanisms such as the budget roadshows that Tom McCabe and I are doing to pick up where problems arise and, more to the point, where spending needs to be realigned. The process exists to allow us to tackle the entirely legitimate question of the sustainability of spend.

**Jim Mather:** It would also be negligent of me not to reflect back to you what was said to me during this morning's workshops by a gentleman who I assume is a major opinion former in Fife and perhaps in wider Scotland. Without any prompting from me, he suggested that we do not take an aggressive enough stance on policy that could give us a competitive edge. He was looking to push the barriers to reserved powers and he spoke about energy policy in particular. He and others made an important point towards the end of the workshop—a *cri de coeur* suggestion that more could be done to reinforce the message about economic growth. I think that what he was really saying was that he felt that the Executive and individual ministers were not quite obsessed enough about competitiveness, getting incremental investment from outwith or within Scotland, or espousing, voicing and making real a positive vision of what Scotland would be like with a better, stronger, growing economy.

**Tavish Scott:** It would be easier for us all if the press would write exactly what we wanted it to write. The First Minister has just returned from China and the Deputy First Minister has just returned from the west coast of America. Both visits were trade-delegation oriented and very concerned, as Mr Mather mentioned, with the external element of inward investment and the continuing links between international and Scottish businesses that are developing overseas.

I would have liked, as I am sure Mr Mather would, more recognition of those visits. We tend, do we not, to take the attitude that when a trade minister, an enterprise minister or a First Minister goes overseas, it is not the best use of their time—I will not use the more colourful language that would be printed in our tabloids. However, those visits are intensely beneficial. Time and again, organisations such as the Scottish Council for Development and Industry ask us all to put more effort into leading trade delegations, for example. That is what we seek to do as much as we can within the confines of attending to parliamentary duties and, indeed, being in Parliament. There is no lack of commitment in that area.

We are ensuring that the business community and Scotland in a wider sense are aware of our agenda. In recent weeks, we launched the framework for economic development in Scotland,

led by the First Minister and the Deputy First Minister. The refreshed "A Smart, Successful Scotland" was published on Thursday last week; although that was somewhat overshadowed by what happened in Parliament on Wednesday, it was, nevertheless, an important development. There is no lack of commitment to developing economic growth and I would like that to be understood and publicised more widely. We believe strongly in that agenda and we seek to take it forward as aggressively as we can.

**The Convener:** Given the events of the past few days, a week is a long time in politics.

15:45

**Mr Brocklebank:** I return to the need for a strategic overview. This morning, one or two people expressed worries that the Executive, Fife Enterprise and Fife Council are not working in tandem as well as they might on issues such as the proposed ferry service from Kirkcaldy to Leith to link with the tram system. As you know, the situation on the Forth road bridge is becoming intolerable; 60,000 movements from Fife go over the bridge each morning. We are looking at the requirement not for either a ferry or a bridge, but for a combination of both. People in Fife are throwing up their hands and saying that decisions must be taken and the problem must be resolved soon, but no strategic overview of the way ahead is apparent. That is symptomatic of some of the other things that we heard about transport.

**Tavish Scott:** I do not want to repeat everything that I said when Mr Brocklebank asked his earlier question, but I would be genuinely disappointed if the local agencies were not working together. Fife has a geographical advantage that not all parts of Scotland have—I am sure that the committee considers that from time to time—in relation to community planning partnerships. The bodies are tied together by geography and that is hugely helpful as it allows lots of difficult barriers to be broken down. If that local work was not happening, I would be interested in understanding more about that process.

I do not think that I can say more on the transport issues. I hear what is said and I will do my best to take the issues back to the office.

**Mr Brocklebank:** I have a follow-up question on another disappointment, in relation to relocation, which is another hat that the minister wears. Kirkcaldy meets all the criteria for a place that should have relocations: it has office space, plenty of workers and good transport links, in that there is a railway. I understand that Kirkcaldy applied for nine of the relocations but did not make the short list for any of them. I remember that in a previous amicable discussion like this one, you claimed

that, ultimately, such decisions were made politically. Has that had something to do with Kirkcaldy not coming through?

**Tavish Scott:** Dare I get into politics? Last week, some of your colleagues accused me of taking a political decision in relocating what I think is an important unit to Dumfries. I do not notice a hotbed of liberalism in that particular seat at the moment, so I take your political charge with a pinch of salt.

I will not bore you with the usual montage on relocation. I hear what you say about Kirkcaldy, but no area of Scotland is ruled out. I will look into the specific example of the recent shortlists and ask my officials to investigate the matter, but we are due to discuss relocation in January—very much in response to the Finance Committee's report—and I am sure that we can have another go at the matter then.

**The Convener:** On your response to Ted Brocklebank's first question, one of the things that came through from the witnesses to whom we spoke this morning was the degree of coherence that exists in Fife, with different agencies talking to each other and identifying the best solutions for Fife. Having done that, their concern was more about how to take forward the things that they could not deal with internally and how to rank themselves up the planning process in the Executive. The issue is about the fit between national planning and local co-ordination and identification of a route forward. That problem is not confined to Fife—as you say, Fife has some advantages in relation to that. However—I say this to you with your public service reform hat on—there is a sense in which, five years on from devolution, we need to look again at the boundaries and structures beneath the Parliament and the Executive to see how we can strengthen links and eliminate wasteful duplication, lack of overlap or other problems that arise from structures that have not been modernised.

**Tavish Scott:** That is an entirely fair point. My only observation is that, as we have discussed before in relation to community planning—I have certainly discussed the matter with the Local Government and Transport Committee—individual members of the Scottish Executive management group, under the permanent secretary, have been allocated particular areas of Scotland in the context of community planning partnerships. They have a specific remit, in relation to public sector reform, to examine the connections to ensure that areas are not dropping out of one portfolio and featuring only in a particular different portfolio.

I will look into the example that you mentioned and check which management group member has been allocated Fife. I will see whether he or she can pursue those issues to ensure that we have a

connection across the Executive. That is a fair point.

**The Convener:** I would be interested to know which management group member takes account of Clydebank.

**Tavish Scott:** I will let you know.

**Alasdair Morgan:** I agree with what the convener and Tavish Scott have said about the benefits of coterminosity of boundaries. I am sure that Elaine Murray would agree that we very much benefit from that in Dumfries and Galloway.

I will go back to longer-term planning. I agree that the length of time that the budget spans is much better than the previous situation, but that did not prevent me from getting a lot of flak in the group that I was in about the shortness of the timescales to which the bodies operate. The health board in particular was concerned that it was not sure what next year's allocation would be and several local authorities were in the same situation. A huge proportion of the expenditure of such bodies goes on salaries, yet still nobody knows what the costs of agenda for change will be and nobody in the local authorities knows when the single status agreements will be implemented and what their costs will be. In the short term, people struggle to know what is happening.

Another point was that we need to try to get even longer-term planning than that which is covered in the budget document. We need to have planning over 10, 15 or 20 years. The point was made that, in relation to the demographic changes that are happening in the country and the related changes to health services, we are making decisions, particularly on capital investment in hospitals and schools, which may turn out to be inappropriate well within the lifetime of the investment. Is there any way in which we can try to have such a look ahead?

**Tavish Scott:** Mr Morgan has made a series of points on health that reflect previous discussions that we have had at the committee. I hear all that he says on the issue. Health allocations and the system of allocations are matters that we have sought to consider carefully in the context of the spending review for the very reason that he states. The balance between the central allocation and the number of individual items needs to be looked at and is being looked at. External factors, such as the impact of pay deals and the agenda for change proposals on health board finances, must also be considered.

Those points are all well made. If I may say so, one of the advantages of the new Minister for Health and Community Care is that he was previously the Minister for Finance and Public Services. He therefore brings all those central finance thoughts to the health budget process. I

am sure that we will discuss those issues in the usual run of ministerial bilaterals in the month or so before Christmas.

I take Alasdair Morgan's point about long-term planning and I am attracted to his argument. The capital investment plan is an attempt, again in response to the Finance Committee's recommendation, to deal with the issue. We hope to be able to publish the capital investment plan as soon as possible.

There is considerable logic to the 10, 15 or 20-year planning horizon, but what gets in the way of that logic is politics and changes that happen because of new Governments. I suppose that those are part of the cost of democracy. We can sometimes have reason to change our priorities. I appreciate that we have not adopted 15 or 20-year planning horizons, but the measures that we have sought to put in place—such as three-year budgeting, a 10-year transport plan, a long-term overall capital investment plan and a spending review process that seeks to achieve continuity over a period of time—are all part of the overall trend to look forward and take a longer-term perspective.

We will continue to strive to do that, but it is not necessarily straightforward to do so in the context of day-to-day events and, in particular, the four-year cycle of the political process. That stops long-term planning to some extent.

**The Convener:** As there are no further questions, I thank the minister and his officials for attending the meeting and for responding to our questions.

We have dealt with all the items on the agenda, so I close the meeting. I look forward to meeting colleagues again a week on Tuesday.

*Meeting closed at 15:55.*



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