FINANCE COMMITTEE

Tuesday 23 November 2004

Session 2

£5.00

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by Astron.

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FINANCE COMMITTEE
30th 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:

Councillor Andrew Burns (Convention of Scottish Local Authorities)
Valerie Davidson (Strathclyde Passenger Transport Executive)
Dr Andrew Goudie (Scottish Executive Finance and Central Services Department
Jim Mackinnon (Scottish Executive Development Department)
Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
Jonathan Pryce (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
Dr Malcolm Reed (Strathclyde Passenger Transport Executive)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 5

Scottish Parliament

Finance Committee

Tuesday 23 November 2004

[THE CONVENER *opened the meeting at 10:02*]

Item in Private

The Convener (Des McNulty): I welcome the press and the public to the 30th meeting of the Finance Committee in 2004. I remind members to turn off all pagers and mobile phones. We have received no apologies.

Agenda item 1 is to consider whether to take item 5 in private. We will shortly consider a draft stage 2 report on the 2005-06 budget process and our adviser has produced a paper on a possible structure on which he would like our guidance. As the discussion will relate directly to the content of our draft report, I propose that we take the item in private. Are members agreed?

Members *indicated agreement*.

Cross-cutting Review of Economic Development

10:03

The Convener: Agenda item 2 is the first oral evidence session for our cross-cutting review of economic development. I welcome various officials from the Scottish Executive.

I take the opportunity to remind members of the overall structure of our four scheduled evidence sessions. Today, we will examine the Executive's main economic strategy documents to give us an idea of the overall strategic framework for economic development. In the second and third evidence sessions, we will focus on their effect in practice. In the second evidence session we will discuss the role of Scottish regeneration and economic development agencies and, for benchmarking purposes, comparable English and Welsh bodies. In the third evidence session we will examine the impact of the economic development strategy on the business sector and get advice from expert commentators. In the final session we intend to question ministers to determine how funding allocations are made.

I welcome to the committee Dr Andrew Goudie, the head of the Scottish Executive Finance and Central Services Department and chief economic adviser to the First Minister; Fiona Robertson, senior economic adviser and the head of the office of the chief economic adviser; and David Stewart, assistant director in the finance expenditure policy division of the Finance and Central Services Department. They are here to talk about the "Framework for Economic Development in Scotland"—FEDS. I also welcome Jane Morgan, head of the enterprise networks division in the Enterprise, Transport and Lifelong Learning Department, who is here to talk about "A Smart, Successful Scotland", and Jim Mackinnon, the chief planner in the Development Department, who is here to talk about the national planning framework.

Given the requirements of the members' interests order, I should declare that Jane Morgan is my wife.

We have received submissions from the Executive that focus on FEDS and include some comments on "A Smart, Successful Scotland" and the national planning framework. I ask the officials to make a brief opening statement—they should agree among themselves who goes first.

Dr Andrew Goudie (Scottish Executive Finance and Central Services Department): Thank you for giving us the opportunity to come and talk about the economic framework. I have two opening comments. One is about the consultation process, which I gather the committee is interested in hearing about, and the other is an overall comment about FEDS.

I genuinely think that we have a process of continuous consultation with the external community on most of our economic approaches. We talk regularly to the academic and business communities. We maintain a pretty good idea of what the thinking is within the external community. That is a very important part of our job. Members may recall that, for FEDS, we made a particular effort to go out and talk to the wider community, to widen the debate and to encourage wider participation through the launch of a discussion paper at the start of the process. As we did with "The Way Forward: Framework for Economic Development in Scotland"—FEDS 1—we talked to the key organisations, business people and academics, to build on the earlier process.

The other input that I will mention is the new knowledge that has come to light over the past few years from academic publications and presentations, which are all very important to us. We also draw on the evaluation work that we have done ourselves. We take a substantial body of new knowledge and new ideas into the process.

Members of the committee are probably familiar with a couple of conclusions that come from that evidence. First, there was very little demand in the external community for us to undertake a fundamental rewrite of FEDS. The view was that FEDS 1 had stood up pretty well and there was widespread endorsement of its fundamental approach. Nonetheless, we felt that some new emphases were worth drawing out as two or three years had rolled past.

The second point relates to an issue that is particularly relevant to the committee's inquiry. One of the key characteristics of FEDS is the recognition that the determinants of economic development are wide ranging. A broad set of factors is important, some of which are fundamental. Some of the crucial drivers are very long term in nature, which is why FEDS is a long-term, strategic approach over—as we have usually cited—five or 10 years.

Some of the crucial drivers do not impact directly on the internal operation, productivity or activities of enterprises but provide the crucial external context in which economic development takes place. However, there are other drivers that impact directly on the internal operation of enterprises. The conclusion that can be drawn from that is that there are few parts of the Executive whose work does not impact on economic development. That is an important point, which has implications for the complexity of the work that the committee is doing and the work that we do. If that broad approach is accepted, the identification of economic development spending, the attribution of outcomes and the prioritisation of policy and spend become very difficult.

However, FEDS provides clarity about the Executive's vision for economic development, the key outcome objectives and the intermediary or enabling objectives. FEDS therefore provides a framework and a context for both the policy and the consideration of spending decisions.

Dr Elaine Murray (Dumfries) (Lab): On the priority areas, page 7 of the Executive's written evidence states:

> "The Executive is committed to seeing increases in business investment in R&D".

We know that Scotland has a poor record of private investment in research and development. What is the Executive's thinking as to how such investment can be encouraged? I know that there is no direct funding capability to do that, but how can increased investment in research and development be encouraged?

Dr Goudie: Jane Morgan might say something about Scottish Enterprise in that context, but I endorse your point. The data indicate that spending on business R and D in Scotland is well down on the level in the rest of the United Kingdom—it is about half the UK level and about a quarter of the level of the leading quartile of Organisation for Economic Co-operation and Development countries, with which we are often compared.

I will make a couple of points. First, important things are happening at UK level that feed into the area. For example, the R and D tax credits seem to play an important role. We are conscious that there is an important complementarity between what happens in the rest of the UK and what we are trying to do in Scotland. Secondly, we use our devolved powers. Many of the channels that we use run through Scottish Enterprise—Jane Morgan can speak about those. There is a sense that public policy has a role to play in promoting R and D, because aspects of the chain between the generation of knowledge and the innovative use of knowledge in enterprises are not particularly easy and might be subject to different types of market failure. Jane Morgan might add some detail.

Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department): I will add a little detail. Along with Scottish Enterprise and Andrew Goudie's department, we recently considered R and D support. The main finding was that we need a range of measures, rather than a focus on a particular measure such as tax credits. That finding has informed the attempt to create a pipeline of support that takes people through different stages. As Andrew

Goudie said, the R and D tax credits operate at Great Britain level. There is also a range of support for small companies in the early stages of research and development. Some of that support is directly administered by the Executive, so its budget falls into the "other" category rather than the enterprise networks budget. The enterprise networks use a number of measures, some of which are directly oriented to companies, such as the proof-of-concept scheme. Also relevant is the funding for the intermediary technology institutes to carry out more commercially oriented research. Such research might be undertaken by universities, but the intention is to identify intellectual property that can be developed by companies.

More recently, European approval has been secured for support for large companies—I do not know about that in detail. The state-aid regime mainly allows us to support small and medium-sized companies, but R and D plus is now allowing Scottish Enterprise to support research and development in larger companies. There is quite a wide-ranging system of support, which should be able to help especially smaller companies move from the early stages of research and development to production.

Alasdair Morgan (South of Scotland) (SNP): Paragraph 1.3 of the FEDS document, under the heading "The Scale of the Challenge", includes a table of gross domestic product per hour worked—I do not know whether that is the right measurement to indicate how the economy is doing, but I will assume that it is, given that FEDS allocates almost a page to it. If we leave aside Germany, Scotland is performing poorly even in comparison with the rest of the UK and it is clear that since 1996 there has been about a 5 per cent fall in GDP per hour worked. Do you expect your strategies to change the situation? If so, how soon will the figures improve? What is the lag?

10:15

Dr Goudie: You are correct to say that the table shows a lag over the past few years. That is very much a function of the cycle that we have been through and the structural change that we have experienced during part of that cycle. It is undoubtedly true that areas of the economy that would typically have higher productivity, such as electronics, have taken a bit of a hit. It is equally true that parts of the service sector, which tend to have lower levels of productivity, have been a smaller part of that.

Your question relates to a point that I made in my opening remarks. One of the key points in FEDS is the attempt to reduce the emphasis on short-term interventions. This is a caricature, but historically the view has been that short-term subsidies to companies were not the way to build long-term strength in the economy, so the emphasis in FEDS has been very much on a broad range of measures. For example, big changes are being introduced in relation to enterprise in the education curriculum, which is regarded as an important part of building up children's understanding of the economy. We would realistically expect the impacts of such changes to be felt over quite long timescales—perhaps in 15 years' time if we are talking about children who are now 10 years old. Quite deliberately, parts of the FEDS agenda are very long term and acknowledge the need to address deep-seated attitudes and behaviours.

However, in principle, some of the measures that Jane Morgan mentioned can have an impact in the shorter term. The universities sector in Scotland is strong in research in some areas. Whereas measures in education might take 15 or 20 years to have an impact, the capture and mobilisation of research and the intermediation between knowledge generators and new and existing businesses can in principle be done on a much shorter timescale—5 to 10 years is a realistic timescale. I am sure that ministers want that to happen.

Alasdair Morgan: I am trying to get you to set yourself a target. The budget is full of targets for other departments, but the Finance Committee—before I became a member—complained that the budget sets no target for economic growth. Are you setting yourselves a target for the next five to 10 years? If so, what indicators would you like to see at the end of that period?

Dr Goudie: Ministers have taken the view for quite a while that setting an aggregate target for growth is not necessarily the direction in which they want to go. FEDS is pretty explicit in setting a target, in that it talks about the wish for

"an accelerated and sustainable rate of economic growth."

Ministers have taken the view that that is a strong enough indicator of direction and intention to stimulate the underlying policy. They think that the design and implementation of the policy would not be the better for including a quantitative figure. In other words, the qualitative target is sufficiently strong to generate a particular set of policies and implementations.

The other part of the answer to your question is that ministers have taken the matter down a couple of levels and identified the key drivers of economic development. On those drivers, we aspire to the best that there is among the OECD countries, which are our key competitors in many senses. You will be aware that the analysis of the progress measures in "A Smart, Successful Scotland" provides—as well as the data allow—a detailed account of how we compare to the OECD countries on a range of indicators. The commitment is to aim towards being in the first quartile of OECD countries.

Alasdair Morgan: My question was phrased in quantitative terms because the Executive included the figures to which I referred in the FEDS document. If such a document is produced in five years' time, do you expect the figures for Scotland in relation to other countries to be significantly better?

Dr Goudie: Yes. I mentioned cycles and we must always be careful about cyclical effects, because they can disrupt the figures, as they have done this time. However, I hope that over the course of eight or nine years the cyclical effects will be evened out and shorter-term policy instruments such as R and D will be having an impact. That is certainly the intention and I am sure that ministers take that view.

Jim Mather (Highlands and Islands) (SNP): The target issue is important. When Professors Bell and Lapsley gave evidence to the Finance Committee, I asked them whether it would be

"reasonable for the Scottish people to expect Holyrood ministers to sit down with Westminster ministers to produce a target"

for economic growth for Scotland. Professor Lapsley replied:

"That is an interesting observation."—[*Official Report*, Finance Committee, 2 November 2004; c 1821.]

Is that what is lacking?

Dr Goudie: I have mentioned what I believe is ministers' attitude to what drives policy and the seriousness with which policy is taken. Ministers regard the qualitative commitment that is made in FEDS as being strong enough. In addition, some in the academic community have shared with us the view that, because the mechanisms that are at play are, as you know, incredibly complicated, it is difficult to create a model that can capture the way in which policy and spend link to an outcome. Some groups in our universities attempt to do that, but most agree that it is extremely difficult to capture such relationships. The question has always been partly how much effort and resources we should put into trying to do such modelling work, given that it is not clear how much it would affect the direction of policy, but also whether we have the knowledge to capture the detail of the mechanisms that are at play within the economic system.

Jim Mather: I understand the potential to penetrate the complexity and enter the morass of cause and effect, but I do not see that happening in other countries, such as Ireland, New Zealand or the Czech Republic. Would they succeed as well as they have done with an absence of targets and a similarly relaxed long-term approach to remedial outcomes?

Dr Goudie: Ministers would not regard their approach to the outcomes as relaxed.

Jim Mather: We are talking about very long-term drivers.

Dr Goudie: The long-term nature is not related to any degree of relaxation. There is a view that the economic mechanisms that are at play are long term; the education example is perhaps the best one to give us a feel for that, but there are others in the system. For example, on physical infrastructure, there are significant lags between the moment of decision and the moment when infrastructure is in place. There is realism that some such measures will necessarily take longer, unlike shorter-term solutions such as appearing to subsidise companies for the immediate future.

Jim Mather: Perhaps I can draw you on some short-term issues. In July or August next year, the International Institute for Management Development, which is based in Switzerland, will bring out a report that will examine Scottish competitiveness. In its previous report, Scotland was ranked 36th out of 60 and the UK was 22nd, which suggests a gap in competitiveness, which might be wider between London and the south-east of England on one hand and the Highlands and Islands on the other. However, what was depressing about that report was that Government macroeconomic policy was placed 39th—which is what dragged us down to 36th place—and Government microeconomic policy was placed 38th. Do you have plans in place to get a better outcome when that assessment is redone in 2005?

Dr Goudie: I will make a couple of points about that. First, in my mind, there are questions about the robustness of the exercise to which you refer. Some of the indicators that are used have difficulties. For example, it appears from what the researchers write up about their methodology that the total size of employment in an economy has a bearing on the ranking of the country, which I find difficult to understand.

Jim Mather: It did not work that way for Estonia, which was ranked 28th.

The Convener: Let the witness respond.

Dr Goudie: Leaving aside the questions about the methodology and taking the point about macro policy, I think that ministers' judgment is that, over the past five or 10 years, the conduct of macro policy at the UK level has been beneficial to the Scottish economy. The Scottish business community has been receptive to the view that stability in macroeconomic policy is extremely important and that stability in the outcomes to do with inflation and growth has been important in providing the context for the investment decisions. My understanding from talking to the business community is that it is supportive of the stability that we have had during the past five or 10 years.

On microeconomic policy, some of the levers in the Executive's devolved powers are fundamental to economic development, and the priorities that are set out in FEDS—which, for obvious reasons, focuses on the powers that the Scottish ministers have—are recognised throughout the world and the academic literature as the most important ones for bringing about economic development. In that sense, it is appropriate that FEDS focuses on those levers.

Jim Mather: I suspect that you are talking more to organisational leaders than to individual business people, because that is not the feedback that I get, and the recent Ernst & Young survey that showed that 46 per cent of Scottish businesses wanted more power for the Parliament and 26 per cent were neutral on the issue suggests that there is a different undercurrent in the business community. I will home on one thing—

The Convener: Just one thing, Jim.

Jim Mather: With the multiplicity of different initiatives that are on the go, how will the formula that you are working on now close the economic gap and reverse our current population decline and when will that happen?

Dr Goudie: It is difficult to resolve what the formula's impact will be on the demographic trends. I am sure that we can find examples in which economic development and buoyancy lead to stronger migratory trends that are favourable, but there are other examples in which the migratory trends have themselves stimulated economic development, so the causality can run in both directions. As you know, the First Minister is pursuing the latter of those directions through the fresh talent initiative, which focuses on trying to bolster the skills and entrepreneurial spirit in the country to try to contribute to the overall picture. The population question is complicated, but it has obviously been addressed through some of the Executive's initiatives.

On timing, I am not sure that I have a great deal to add to the answer that I gave to Alasdair Morgan. We have to break it down into which piece of policy we are talking about, because FEDS is explicitly designed to hit at different points through the process. I reiterate the point that FEDS deliberately does not talk about reserved policy areas in any detail except to the extent to which they complement the devolved ones. It is taken as a given that that is the remit for the strategy.

Jim Mather: I understand that point.

The Convener: I will pursue you slightly on that, Dr Goudie. There is a Treasury view on the long-term sustainable growth of the UK economy, which is embodied in, for example, budget forecasts. Does the Executive consider that the sustainable growth rate for the Scottish economy is above, below or at the same level as the UK rate?

Dr Goudie: At the moment, the long-term growth rate for Scotland is about 1.6 per cent and the latest for the UK is, I think, 2.1 per cent. The Executive's view is that the sustainable rate is higher than the 1.6 per cent growth rate that we have at the moment, but I do not think that ministers have taken a clear view on what that long-term rate might be. There is a qualitative view about the fact that it can sustainably be accelerated, but there has been no discussion of any particular figure.

The Convener: You said that you had an aspirational target of getting into the OECD's top quartile.

Dr Goudie: The aspirational target for the contributory drivers of productivity and growth is certainly to get in towards the top quartile and you will know the structure for that from the analysis that we have done in "A Smart, Successful Scotland".

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Dr Goudie, excuse my ignorance, but you said that the growth rate in Scotland is 1.6 per cent, and the Scottish ministers believe that it is higher. Will you clarify that?

Dr Goudie: I am sorry; I will clarify that. Our estimate of the long-term trend in the rate of growth, based on the period 1974 to 2003, is 1.6 per cent. The figure for the UK is 2.1 per cent. The intention is to abstract from the cycles over the period 1974 to 2003 and get a feel for the long-term structure. The point that I was making was that, as is set out in FEDS, ministers are sure that we can accelerate that long-term rate of growth to something that is sustainable but higher than 1.6 per cent and towards the UK figure.

Jeremy Purvis: In your written submission to the committee, you say that one of the principal outcome objectives is economic growth and talk about it being

"accelerated and sustained through greater competitiveness in the global economy".

One of the drivers of that is productivity, which we have touched on, but the figures in your submission show that our productivity is lagging quite a way behind that of other countries and not catching up. I was interested in what you said about productivity in particular sectors. Regardless of sectors, how much is productivity an indicator? I thought that productivity meant output per hour worked. Therefore, productivity will not necessarily be affected by the small size of a sector. There might be higher productivity in a smaller sector that is in decline but which is more efficient and potentially more profitable for the Scottish economy. Will you clarify what you said?

10:30

Dr Goudie: Typically, it might be expected that productivity levels in manufacturing would be higher than in service areas of the economy, although that is, of course, a generalisation. However, the point about FEDS is that, whether we are talking about manufacturing or services, raising productivity in those sectors to the extent that we can do so will make them more competitive within their own market. We have taken an uncontentious view throughout FEDS that the market that we must talk about is the global economy, as that is the market in which internationally traded services and manufacturing compete. Even if we are talking about an area of the economy in which there is no international trading—obviously, we can think of quite a few such areas; construction is usually cited as an obvious example—the competitiveness and productivity of that area are important, as they bear on the costs of sectors that trade. Therefore, putting productivity at the centre of things is crucial, whether we are talking about the traded, non-traded, manufacturing or service parts of the economy.

Jeremy Purvis: As you know, the review is a cross-cutting review. How much work is being done across all the Executive departments to look in more detail at productivity problems? I have asked the minister parliamentary questions about productivity, and I want to give an example. If my recollection is correct, more than 8 million days are lost to the Scottish economy through absenteeism for one reason or another, which is a considerably higher figure than that for economies of an equivalent size.

I share your suspicion of the report that Jim Mather mentioned. However, one aspect of that report with which I agree relates to productivity and the indicator that we have a higher share of alcohol and drugs misuse, for example, in the work force than other countries have. Our public health record speaks for itself. How many discussions that are specifically about productivity are there with the Health Department, for example? At what level do they take place? Do you regularly speak to the head of the Health Department about work force health and absenteeism?

Dr Goudie: I agree very much with the general thrust of what you say, and will pick up a couple of threads.

I refer to what I said earlier. It is important that FEDS, as a matter of principle, tries to understand and set out why different parts of the Executive have an important role to play in economic development. I agree that we can develop much stronger linkages in respect of health. I do not want to put the blame elsewhere, but one frustration has been that academic work that tries to make links between health and the economy is not as developed as we would like it to be. I do not personally speak about such matters with the Health Department, but there are analytical divisions in each department whose role is to make the linkage between subject areas, analytical work and evidence.

You mentioned absenteeism. There is great awareness of absenteeism in the Executive. I point to the fact that one of the aspects of the work on efficient government in which the Minister for Finance and Public Sector Reform is extremely interested is the degree of absenteeism in organisations and its knock-on effects on the costs of providing services or whatever. Therefore, we are aware of the general issue that you raise and we try to take it into account. I accept that we could do more.

Jane Morgan wants to say something about the details.

Jane Morgan: One piece of work that is signalled in “A Smart, Successful Scotland: Ambitions for the Enterprise Networks” is the building up of an employability framework. The document recognises the issue of economic inactivity, so as to identify roles of a whole range of organisations in helping inactive people who may be able to get back into work. For example, there already are, and there will continue to be, close discussions between the Health Department, which may be concerned about people with mental health problems getting back into work, and the Development Department, which has a particular interest in other groups. Many client groups need to be addressed in an integral fashion, and cross-working is happening in working towards the employability framework.

The Convener: We must move on. I want to ensure that Jim Mackinnon is not forgotten, so I remind members that they can talk about “A Smart, Successful Scotland” or the national planning framework.

Ms Wendy Alexander (Paisley North) (Lab): I want to deal with FEDS, although I do not want to pass up the opportunity to discuss the national planning framework.

I would like to continue from where Jeremy Purvis left off. Obviously, one encouraging sign from the FEDS document and the FEDS background document is the recognition of the role of the public sector in delivering growth in Scotland. The Executive highlighted the productivity of public services as the centrepiece of the strategy on the day of the strategy's launch. The background paper that officials have circulated to us helpfully confirms that

"the Efficient Government plan will be published shortly, setting out annual efficiency savings rising to at least £650m by 2007-08."

That confirms that there will be an annual efficiency savings target for year 3 of the spending review, but there is no mention any target for years 1 and 2.

The "Background Analysis to the Framework for Economic Development in Scotland" states:

"Ministers are looking … to deliver around 2-3 per cent real-term savings from the Executive budget as a whole (that is, at least £500 million per year) as part of the SR2004 process … Departments will need to define strategies for delivering their stated savings by the start of 2006-07."

It appears that there were no savings targets for year 1, but that there were some for year 2 in that background document, which was published in September. It now appears that things have lagged behind a year. Has the target slipped a year since September? If so, why?

Dr Goudie: I will not challenge your quotations, which I am sure are correct. However, I will describe what I think the current picture is, as I do not think that it has changed from what it was. In our work on efficient government, we have put together an implementation plan that will be launched either at the end of this month or early in December, which will set out much more detail on what is going on.

The question of when things get up and running fundamentally relates to the 2004 spending review period, which is 2005-06 to 2007-08. The target that we have set so far is that, by 2007-08, there will be a figure for savings of £650 million. As you probably know, there is also a second target of £1 billion, which relates to 2010. Targets for the intermediate years—years 1 and 2—have not been put back at all. On the contrary, some things have been accelerated, which is why the original target of £500 million was increased to £650 million. I am pretty sure that ministers have not stated intermediate targets for years 1 and 2 that lead up to the £650 million figure, but the work to reach £650 million is set on the basis that we must get into the process rapidly, which will generate significant savings in years 1 and 2. I think that ministers are looking for a fairly rapid acceleration of savings, so that the £650 million in year 3 is secured.

Ms Alexander: I have a follow-up question. We received a helpful departmental letter last week that confirmed that it had been agreed with the Treasury that we were pursuing comparable efficiency savings programmes in the spending review. In addition, Tom McCabe said in response to a parliamentary question that the Executive

"will seek to secure comparable or greater gains in efficiency."

If we were doing so over the same spending horizon as the rest of the UK, and we know that the savings are £21.3 billion for UK departments, what would be the order of magnitude of the Scottish equivalent of those savings over the 2004 spending review period?

Dr Goudie: I am not sure that I can give you a precise answer.

Ms Alexander: An order of magnitude will be sufficient.

Dr Goudie: The important point in this discussion is the comparison of like with like. Ministers have been keen to focus on the deliverability of what they have called the cash-releasing savings. Obviously there are two sides to productivity: cash releasing and time releasing. The focus has been on cash releasing and ensuring the robustness of that. The £650 million that you quote relates entirely to cash-releasing savings, as does the £1 billion.

Ms Alexander: Including the local government element?

Dr Goudie: Yes.

Ms Alexander: We might want to write to you about that, but I am happy to leave that question for another day.

Dr Goudie: The plan will be published in a matter of days. You might want to have a look at that and then come back to us on that point.

Ms Alexander: I have a final question. I concur about the need for like-for-like comparisons, so when a parliamentary question gets an answer that refers to securing

"comparable or greater gains in efficiency",

is that over the same time horizon as SR2004?

Dr Goudie: I am not familiar with that exact parliamentary question.

Ms Alexander: Many parliamentary questions have received answers that the Scottish Executive is undertaking an efficiency initiative that is as ambitious as the Gershon review in its scope, and it has said that it and will seek

"to secure comparable or greater gains in efficiency."—[*Official Report, Written Answers*, 27 October 2004; S2W-10531.]

Is that over the same time horizon?

Dr Goudie: It will be over the same time horizon in the sense that Gershon goes up only to 2007-08 at the moment. It will not be comparable in the sense that the Scottish ministers are already looking at taking the efficiency work up to 2010 and have already set out their targets for that period. Comparisons have to be made over the same time period.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): I want to talk about the refreshed version of "A Smart, Successful Scotland" and contemplate the four years that have gone before. There has been much criticism that the strategy has been neither smart nor successful and that it has choked, rather than helped, our economy. Are you able to point to a single measurable achievement of the smart, successful Scotland strategy during those four years?

Jane Morgan: First of all, we have to decide whether we are talking about outputs or outcomes. We could list many outputs and I will give you one or two. There are also some issues about the time period during which those outputs will impact on the economy. There are many outputs, such as the businesses that have been supported or have undertaken research and development, or the young people who have undertaken modern apprenticeships. All those outputs are designed to improve the productivity of the skills base and the technology that contributes to the improvement in productivity.

As Andrew Goudie said, economists will undertake a range of measures of the impact on the economy. We have a range of indicators that reflect the smart, successful Scotland strategy in particular. They show some slow progress to date, but that is after measuring for two to three years and the important thing is to consider it over that time horizon.

Mr Brocklebank: One of the indicators that you outlined that you are determined to resolve is the one on entrepreneurialism. Even using such a basic measurement, we seem to be going backwards. The number of new companies in Scotland fell in the year to the end of June.

Jane Morgan: It might have done; I do not have the exact figure. However, it is not helpful to consider one short time period. The SSS report shows that between 1999 and 2002 there was some positive progress.

Dr Goudie: We need to be careful about the years that we look at. I strongly emphasise that the nature of this strategic approach is to take a longer-term, non-cyclical look at the way in which the economy is running. Ministers' intention not to respond immediately to the economic cycle is an important difference, and an important characteristic of FEDS is to take a longer-term, strategic view. So if, in the course of a difficult period of global or Scottish growth, fewer companies are being formed, that has to be accepted as part of the strategy. I do not think that there is any sense in which the strategy is aiming to counter that cycle; it is focused on trying to counter the long-term structural position of the past 20 to 30 years.

10:45

Mr Brocklebank: Would you not accept that even a simple measure such as lowering business rates might have had a tremendous effect? It seems that we are now going in that direction.

Dr Goudie: Ministers have taken the view that business rates have an effect on corporate behaviour. They are a relatively small part of total corporate costs but the revenues that are raised from business rates have a role to play in supporting other forms of public expenditure. The priorities that are set out in FEDS entail public expenditure and ministers have taken the view that some of the drivers of economic development set out in that framework need to be well funded, and they are content with the balance between business rates and the funding of those important programmes.

Alasdair Morgan: In view of the long-term view that you are taking—which is quite right in many ways—why was it necessary to refresh and reissue the document if, by its very nature, we were not going to have the results of the first version, or be able to tell whether the strategy was working, for a much longer period than has elapsed since it was first published?

Dr Goudie: That is a fair question. The reason why we refreshed the document and why ministers requested that we undertake the consultation was to confirm that other people shared our view. Ministers were of the view that there had been some fairly dramatic changes in the global economy during that period of time, as you will recollect, and that there was an important question about whether those major global developments could have had an impact on the type of strategy that we were pursuing. It is only fair to say that ministers' starting point was that they felt that such an impact was unlikely, but that it was only correct that after those four years of quite serious global upheaval, we should revisit the question. That was why we did so.

The other point is that ministers would not suggest that the first version of FEDS was a perfect document. There were some emphases that had not had the attention that they deserved in the document and which had become clear over a period of time. The second version of FEDS is an opportunity to try and improve the balance a little bit.

We have just discussed one of the key areas; the first version of FEDS gave very little attention to public sector productivity. That is not because the subject was not considered to be important but because the balance was not quite right in the document. The second version of FEDS has allowed the importance of both private sector and public sector productivity to be rebalanced and we now have a much stronger overall picture of what drives economic development.

The Convener: I will be a little more direct than Alasdair Morgan. In a sense, it is always important to do a little bit more horizon scanning but, instead of a refresh of FEDS, would ministers not have preferred an integrated action or implementation plan that says what ministers are now going to do?

Dr Goudie: The approach that was adopted with the first version of FEDS is still the current approach. FEDS is a strategic framework for the direction of activities, but not the action plan itself. The action plan should come from different portfolios in the Executive in relation to how they interpret and implement FEDS. For example, an obvious example is the way in which the action plans for the enterprise network implement FEDS. Similarly, we expect other departments, such as the Education Department, to capture the key principles or drivers in FEDS in the work that they do. It has never really been the intention that FEDS, or a second supporting document for FEDS, should try to provide that action programme for the Executive as whole. The intention was always that that should be embedded in departments or portfolios and in the way in which they define their strategic approach, with FEDS as a clear objective—alongside others, no doubt. Jane Morgan might want to say some more about the enterprise action programmes.

Jane Morgan: Obviously, the smart, successful Scotland strategy develops some of the strands of FEDS in greater detail. It is for the enterprise networks to produce corporate plans that are, in a sense, the action plan that takes that forward. The enterprise networks are best placed to do that, but they do so in dialogue with the Executive. The process involves FEDS, then the smart, successful Scotland strategy and then the corporate plans, which set out the action plan in detail.

The Convener: The question that I want to ask on the back of that might be best put to Jim Mackinnon. In west-central Scotland, since the second world war, we have had a series of planning frameworks that have had an effect on, for example, the regional council's structural plan, and which sought to tie together issues of economic development, transport, water and sewerage investment and regeneration plans. For some reason, housing was excluded, but it should not have been. The frameworks for implementation were partly to do with scanning the circumstances but they were also designed to present strategic choices. How the national planning framework, FEDS and the smart, successful Scotland strategy contribute to an integrated programme of decision making is not clear to me. In what way do they allow us to determine what is needed and how we can prioritise the spending across the various portfolios? If we view such decisions as being a matter for the portfolios, there is no drive from the strategy framework towards a strategy.

Dr Goudie: Jim Mackinnon might want to comment on the planning framework.

Although I would argue that the main emphasis is for departments and portfolios to develop their policies in support of the economic development framework, the prime responsibility for which lies with the departments, that does not imply that there is no collective interest in what they are doing or in the way in which they contribute. For example, in the discussions in the Cabinet around various areas of policy, ministers are conscious that all areas of the Executive have to contribute to what the Executive has stated as being its number 1 priority, which is economic development. The fact that ministerial responsibility for departments is the primary starting point for the application of FEDS detracts from the fact that, once the Executive has made proposals—whether they are policy or spending proposals—there is a collective consideration of the way in which those proposals contribute to ministers' cross-cutting objectives.

Jim Mackinnon (Scottish Executive Development Department): The national planning framework was a first attempt to examine Scotland as a place, how it was changing, what the drivers of change were and what the implications of that were for the various parts of Scotland. We were clear about the fact that the policy had geographic implications and that some areas were growing rapidly while others were in need of regeneration.

We wanted to develop the process in an inclusive way and ensure that the framework was not just a local planning document. We wanted it to reflect a national view on where we were going. Many of the implementation mechanisms are often at the local level. There are issues about the implications for various parts of the Executive portfolios, but many of the matters have to be resolved locally, for example, getting the balance of land use and infrastructure provision right in the east side of Glasgow. A lot of work has to be done in that regard, but the fact that those are important issues has been signalled. The national planning framework takes as read what is happening over the next five years and accepts that funding relating to infrastructure is already committed in those areas. However, it looks to the period beyond that to determine what the priorities and choices will be. Although the national planning framework does not make those choices at this stage, we will review it in four years' time and might give it a harder edge. There has to be a much greater recognition that the fact that planning for infrastructure takes a long time and is controversial means that we have to take decisions sooner rather than later, so that we can approach the issue more systematically and strategically.

The Convener: Other members will want to pursue this issue but I am interested in how we get from the creation of the planning framework—which is a consensual piece of work—to making decisions and saying, "We could do a variety of things but we are going to do this for these reasons." I am not sure how we get to that point or what mechanisms exist between ministers to ensure that we can get to that point.

Mr Frank McAveety (Glasgow Shettleston) (Lab): Jim Mackinnon's answer to the convener's question captured precisely the contradiction that he is outlining. In Mr Mackinnon's paper, there is a legitimate claim that support for cities is needed as they are the main drivers of the economy and, in Dr Goudie's paper, there is an identification of the intractable problems of persistent high levels of unemployment in areas such as my constituency. How can the latter issue come to be reflected in the expenditure plan?

According to the information that we have seen, there is a reduction in the money that is being spent on urban Scotland and the dominant spend is on rural Scotland. That is contrary to some of the debates that we have had in the Parliament about the dominant philosophy with regard to policy direction. How can those two views be squared? I noted that there might be some room for influence in that regard, which is good because it is utterly perverse that, although we recognise where the intractable problems are, some of the spend does not follow that. We should explore that issue a bit further in the committee.

Dr Goudie: I have seen the review papers that you received as background information and I have some difficulties with some parts of them in relation to the urban-rural issue that you mention.

In the conclusions, there is a strong emphasis on the proportion of the economic development spend that goes on the rural areas. I would make a couple of points in that regard. The way in which the common agricultural policy is considered is important. If the emphasis of your work is more to do with the way in which the Executive determines its spend, I suggest that you view CAP money as being more to do with the UK spend than the Scottish spend.

The background papers make a division between primary and support expenditure. That raises some difficult—and uncomfortable—questions in regard to the rural-urban issue that you raised. If you take FEDS as the starting point—which, I think, ministers would do—the question does not relate to which policies and spend are predominantly interested in a particular outcome because, for example, education has multiple objectives, including an important economic objective. I would turn the issue around and suggest that you should consider the outcomes more. For example, you should ask what are the most important elements that could contribute to the economic development outcome that you want. That way of considering the spend is a little bit more helpful because it will allow you to pin down which parts of the Executive's spend that it controls are focused on economic development.

Of course, incredibly difficult questions are involved in such an approach—because, for example, education has multiple objectives—but it is more helpful to start with the outcome and determine the key elements that influence it than to start with the inputs. Obviously, the Executive would do that using the priorities in FEDS.

I mention that because, in your background papers, there is no division of the support expenditures into urban and rural areas. The primary expenditure is split that way, but not the support expenditure. Therefore, it is difficult to get a feel for what the figures mean. Some of the expenditure in rural areas is designed to benefit the rest of Scotland. For example, expenditure on the environment bears upon tourism in Edinburgh. Similarly, many of the projects that might be called urban have implications for the rest of Scotland. Are you more interested in where the spend takes place or in where the beneficiaries of that spend reside in Scotland? There are difficult questions around that division. Whether the background paper suggests that 60 per cent or 40 per cent of the spend goes on rural Scotland depends on whether CAP spend is included. As soon as the totality of the expenditure that bears on economic development is considered, the number is much lower. To be honest, I find it difficult to say whether some of the items are rural spend or urban spend.

11:00

Mr McAveety: Irrespective of how you arrive at that number, how the adviser arrives at it or how 20 other economists arrive at it, is the balance right at the moment?

Dr Goudie: The balance that the Executive is worried about is not so much to do with the urban-rural thing, although that is important, but to do with economic development. Discussions have been much more focused on whether the balance between the key components of skills and education, infrastructure and direct enterprise is right. That is where the main emphasis has come. Cutting across that, however, has been the important question whether the rural interest and the support that comes from the European Union side and through the Scottish Executive Environment and Rural Affairs Department is adequate for the sort of development that is sought.

There are two ways in which the Executive has come to that position—through the FEDS priorities and through concern about the urban-rural balance. The cities growth fund and the work done around the cities were trying to pick up the cities end of the equation. Work is also going on in SEERAD to concentrate not only on a narrow interpretation of the rural areas and their development but on the full range of economic activities that can generate development in the rural areas.

Ms Alexander: I want to come back to Jim Mackinnon on planning.

Your background paper states:

> "It identifies West Edinburgh and the Clyde Corridor as areas where major change is already occurring and … co-ordinated action is needed in the national interest."

My recollection is that in February 2002, two years and nine months ago, we committed to a national planning policy guideline specifically for west Edinburgh. Two years and nine months on, where are we in terms of a comparable NPPG for the other area that is mentioned, the Clyde corridor?

Jim Mackinnon: We published the west Edinburgh planning framework last March, with the agreement of all the stakeholders. The framework has been well received and that has been helpful in the debate on heavy rail and tram systems for the city. To reinforce the point that Andrew Goudie made, within two hours you can get from west Edinburgh to very many parts of Scotland.

We are in the process of revising the west Edinburgh planning framework because there was an air transport white paper that said that we need a second runway at Edinburgh. That has implications for the Royal Highland showground, and we are working with the Royal Highland and Agricultural Society of Scotland to look at options for relocation.

As you probably know, a lot of work is under way on the Clyde. Scottish Enterprise Glasgow and the local authority are actively bringing forward plans for the Clyde gateway with the Glasgow and Clyde valley structure plan team. As I said to Frank McAveety on the disposition of land uses, there is a commitment to the M74 extension on the east side of the city, but there are significant water and drainage issues as well as issues of poverty and dereliction. Andrew Goudie mentioned the cities growth fund, and money is being made available for vacant and derelict land to support regeneration in Glasgow. However, the decision on where precisely to put that is for Glasgow City Council.

Ms Alexander: You have just confirmed that it took two years from when the Executive announced its intention to have an NPPG for west Edinburgh for all the stakeholders to agree, and you reached an NPPG in March 2004—

Jim Mackinnon: No. It actually took a year.

Ms Alexander: So it took a year from the announcement of the intention for the Executive—

Jim Mackinnon: That involved working with the stakeholders, with a three or four-month consultation period, and getting the document finalised. Given that most local plans in Scotland take the best part of five years to produce, and given that 40 per cent of local plans are more than 10 years out of date, I think that doing such a strategic document with considerable stakeholder support in a year is quite an achievement.

Ms Alexander: Sure. Is there an intention for the Clyde corridor yet? How long do you expect that to take? Given that the intention to pursue such a plan in both areas was announced two years ago, what is your timescale?

Jim Mackinnon: Jane Morgan might be able to say more about the Clyde corridor, as she has been closer to Clyde regeneration than I have been.

Ms Alexander: Do we have a policy intention for an NPPG or not? I am just trying to establish the position.

Jim Mackinnon: There is no intention and no commitment to do a Clyde corridor planning framework at the moment.

Ms Alexander: The Executive's target for the processing of major applications, both industrial and residential, is that 80 per cent of major applications should be determined in four months. It is clear that delays in the system are a problem. It would not be possible for any member of the public to determine, from looking at the current planning audit that the Executive publishes, where our performance is against that target over any recent time horizon, because major applications have two composite elements. Could the Executive publish data on its own performance in relation to major applications against its own target, to elucidate the debate in the run-up to the discussions on planning that lie ahead of us? It is unfortunate that the published planning audit of performance does not let us look at trend performance against the Executive's target. That may be an oversight, but I think that it would help the current debate.

Jim Mackinnon: We publish figures, and not just for local performance, but I am not sure whether we do so on a trend basis. We also publish figures on our own performance, which are quite commendable in relation to the processing of major applications. That includes notified applications, which we have the option to clear back to the councils—for example, the application for the world headquarters of the Royal Bank of Scotland was cleared back to City of Edinburgh Council within three weeks—and appeals that are recalled for decision by ministers. Our performance targets for those things are in the public domain, and I think that they are quite commendable.

Ms Alexander: I do not want to pursue the matter now, but it would be helpful if Jim Mackinnon could write to the committee to clarify where we can find performance data on the target of 80 per cent of major applications being dealt with over four months, that being a composite of both industrial and residential applications. It would interest the committee to see those data, but I am happy to receive the information in writing.

Jim Mackinnon: I am happy to write with more data on that if it would be helpful. The other thing that I should say is that the Glasgow and Clyde valley structure plan team is taking an active interest in providing and articulating a framework for the regeneration of that area.

Jeremy Purvis: With regard to the spatial work that is being done, I am slightly alarmed by some parts of the paper that you have presented to us. I understand the Commission wanting more spatial work to be done, which will shape decisions on distributing expenditure, and you also have a strategy that is predominantly based on the cities. What mechanism will there be in the spatial work for deciding on the distribution of expenditure? What will be the process and the decisions on that? Your planning policy is stated in black and white, but there is uncertainty with regard to how the spatial work will be put together.

Jim Mackinnon: I shall deal first with the first point, about the European Commission. Strong signs are emanating from the Commission that suggest that it wants to see spatial frameworks being prepared so that it can see how resource allocation fits, not just in Scotland but in other parts of Europe. That was one of the drivers for the work that has been undertaken.

On the point about cities, it is important to recognise—as the planning framework does—that we are talking about not just cities, but city regions. The Scottish Borders area has a distinctive Borders identity, but it also has a distinctive identity as part of Edinburgh city region. That is not true of all of the Borders; I guess that the southern Borders area does not relate to Edinburgh to the same extent.

This is the first time that we have drawn up the national planning framework. We started with a blank sheet of paper and we had to try to articulate where Scotland was going and what choices Scotland faced. Growth and regeneration come with a price tag, and we are trying to hold a debate on what the relative priorities are. That is why we said that ministers will take that into account in future spending decisions, because simply defining an issue in spatial terms does not resolve the dilemmas that ministers face.

There are lots of other ways of looking at the problem and of making an input to the debate, which has already had implications for specific concerns in the development industry about investment in water and drainage. We now see services in developments as a key priority rather than as something that is less important, so the framework is beginning to have an effect. However, it was produced only six months ago and, in the longer term, it must feed into other decisions. We are not trying to question decisions and commitments that have already been made. It is about the longer term and thinking about where we get the biggest bang for our buck.

Dr Murray: I am like Jeremy Purvis in some respects, because my area of Dumfries and Galloway does not identify with any Scottish cities. The identification at the Dumfries end is with Carlisle, not Glasgow or Edinburgh.

I am pleased that progress has been made towards a spatial strategy. In looking at relocation, we felt that an overarching strategy was necessary. Your submission states:

> "Scottish Enterprise has identified business locations which have the potential to become the focus for key industries and clusters."

How many of those locations are there, where are they and what criteria were used to identify them? Were they identified because they are already well equipped with infrastructure, or was consideration taken of need?

Page 12 of your submission states that the national planning framework

> "is being taken forward through … The statutory planning system, community planning and the programmes of the Enterprise Networks."

How is that happening? Current planning mechanisms within local authorities are, quite rightly, about authorities doing the best they can for their own areas. They are not part of a spatial strategy at all, other than being part of the council's own plans.

The remit and way of working of Highlands and Islands Enterprise are different from those of Scottish Enterprise. How can you develop a national strategy with two enterprise networks that operate in different ways?

Jim Mackinnon: Your point about the position of Dumfries and Galloway is absolutely right, and it is reflected in the national planning framework, which recognises that Ayrshire and the south-west form an important gateway to Scotland. We have become terribly interested in connections to continental Europe, which are important for Scotland, but connections to Ireland are critical and it is important that we do not lose sight of that. Ayrshire and the south-west are critical. We also recognise the important economic generator in the south-west that is Crichton campus. In terms of devolved education and being a generator of economic development, the campus has been hugely impressive. We recognise other opportunities, which often are small scale, such as Wigtown as the national book town.

Economic development zones, which are shown in map 15 of the national planning framework, were identified by the enterprise networks as priorities. It might be worth pursuing that with the networks when they give evidence.

You are right that the Scottish Enterprise and Highlands and Islands Enterprise networks work in different ways and face different challenges. That is reflected in the framework, which recognises for the first time that Inverness and the inner Moray firth are key drivers of change in the area. Particular challenges are associated with fragile areas and communities. The map recognises those, from the Shetlands down to parts of Orkney and the Western Isles. Initiative at the edge—the fragile areas programme—is designed to support such communities.

The national planning framework tries to recognise Scotland's diversity without interfering with local authority subsidiarity. It is horses for courses. The problems of the Highlands are not those of the Borders or the south-west. The issues are different, and they have to be responded to differently.

John Swinburne (South of Scotland) (SSCUP): We all agree that small businesses are an important part of economic growth and development in Scotland. Great emphasis is placed on that in various ways. What analysis has been made of the failure of small businesses, to prevent such businesses from failing in the future? Every business is a potential failure. Unless the matter is properly analysed, how can we stop the domino effect?

Dr Goudie: I am not sure whether Scottish Enterprise has done any work on that. About two years ago, the University of Strathclyde reviewed the Scottish Executive's business birth rate strategy, which focused on why we had not succeeded in increasing the business birth rate at the rate that we had hoped. I am not sure whether that went into detail on what you ask; Jane Morgan may remember.

11:15

Jane Morgan: I do not, but I know that the problems that companies face in the early stages and later have been addressed over the past few years. One such issue is access to finance. Over the past five years, there has been a considerable increase, for example, in helping companies to access equity investors such as business angels. That is a particular problem area, which is increasingly being addressed, for example through the co-investment fund.

John Swinburne: Surely a good way of helping to grow the economy would be to examine the obvious pitfalls that many small companies face and to highlight them for the future benefit of new start-ups.

Jane Morgan: Yes. We might have to look back over that and give you an answer in writing on what has been done, because many issues contribute to business failure. However, one would always expect to see a degree of churn. One will never get to the stage at which there are no business failures. The important point is to increase the volume and accept that there will be a degree of churn.

The Convener: Margaret Curran's introduction to the planning framework states:

> "The framework is, however, one of the factors we will take into account in coming to difficult decisions on policy and spending priorities as well as providing a context for development plans and planning decisions."

I am not sure that I picked up Jim Mackinnon correctly. He seems to be using the framework as a celebration of diversity throughout Scotland, but I am not clear how the framework helps us to reach those decisions, or what links there are between the national planning framework and FEDS and "A Smart, Successful Scotland".

Jim Mackinnon: At the end of the national planning framework we talk about making it happen. The framework covers a wide range of subjects. Many of the issues are decisions not for the Executive, but for agencies, local authorities and the private sector. We have posed some of the choices for Scotland in terms of regeneration and development. Andrew Goudie might be able to say more about how that has begun to feed through into the framework for economic development. We have already seen it have an impact on, for example, the work of Scottish

Water, in terms of the priority that has been afforded to servicing development, which is a key concern of the development industry.

We want to engage with those who are investing in development in Scotland, including other parts of the Executive, as we bring forward the revised national planning framework in four years' time. The framework was our first toe in the water. It was something that we had never done before, and it was not a spending document. However, it is beginning to be picked up in FEDS and other documents, and that should feed into further versions of the national planning framework.

Jane Morgan: Scottish Enterprise, for example, fed views to Jim Mackinnon for the national planning framework. Those views are reflected in two main ways—first, in the provision of bespoke business infrastructure, such as science parks, and secondly in more integrated, wide-ranging regeneration projects, in which the networks require to work with other partners. Analysis will feed through to expenditure on property and, to an extent, to the allocations to local enterprise companies, in recognition of the opportunities and challenges that they face in their areas.

The Convener: I presume that that applies to transport issues and across the broad expenditure framework.

Dr Goudie: That is broadly right. I return to the point that FEDS is designed to set a relatively high-level framework for activity, and to raise the priorities for consideration within portfolios and departments. It is important that the interaction between the planning framework and FEDS has had an iteration over the past four or five years. It feeds through to transport in the same way. That is a good example.

The Convener: I thank the witnesses for coming along. I remind members that our next three evidence sessions will be next week, 7 December and 14 December.

We will pause for a minute or two to get the next group of witnesses in.

11:20

Meeting suspended.

11:22

On resuming—

Transport (Scotland) Bill: Financial Memorandum

The Convener: The third item on our agenda is consideration of the financial memorandum to the Transport (Scotland) Bill, which was introduced by Nicol Stephen on 27 October. As I said on 9 November, because of the delay in publication of the efficient government plan, we cancelled the meeting that we had planned for 16 November. No doubt that was welcomed by members, but the cost of that is that we will have a lengthy meeting today. We will take evidence from bodies that will be affected by the Transport (Scotland) Bill, and from the Executive.

To help us in scrutinising the bill, I welcome from the Convention of Scottish Local Authorities Councillor Andrew Burns, who is transport spokesman for the City of Edinburgh Council, and James Fowlie, who is COSLA's policy manager. We also have representatives of Strathclyde Passenger Transport: Dr Malcolm Reed is the director general of the Strathclyde Passenger Transport Executive; Valerie Davidson is head of SPT's financial services; and Hilary Howatt is its policy development manager.

Members have submissions from SPT, ScottishPower plc, Highlands and Islands strategic transport partnership, Stagecoach Scotland Ltd, the Confederation of British Industry Scotland, Cable and Wireless, the National Joint Utilities Group and north-east Scotland transport partnership. We also have late submissions from Susiephone Ltd, Lothian Buses plc, Scottish Water Ltd, west of Scotland transport partnership and the Convention of Scottish Local Authorities. Those were sent out yesterday and last Friday.

Dr Malcolm Reed (Strathclyde Passenger Transport Executive): Thank you for your introduction. We very much welcome the opportunity to speak to the committee and to elaborate some of our concerns about the bill and its financial memorandum. Of all the public authorities that will be affected by the Transport (Scotland) Bill, SPT is the one that is in the firing line, both generally and financially.

As the convener said, the committee has our written evidence, so we will be happy to answer questions. I start, however, by apologising for an error in appendix A to our memorandum, which is on page 23 of the papers that members have before them. Perhaps because of wishful thinking, the legend on the vertical axis of the bar graph has been inflated. It should read "£thousand" rather than "£million", for which I apologise. If it will help, we will be happy to submit a corrected version of the graph.

I will summarise some of the key issues behind our written submission. First, SPT considers that the financial arrangements that the Scottish Executive proposes for future regional transport delivery in Scotland fall far short of what will be required to achieve the bill's stated objectives. That comment applies at two levels. At the macro level, the Scottish Executive's own research has demonstrated that transport is significantly underfunded in Scotland in comparison with good practice elsewhere. In addition, at the more detailed level, the funding mechanism that the Executive proposes to put in place to support regional transport partnerships' revenue and capital expenditure does not seem to be fit for purpose. The capital and revenue funding proposals appear to reflect a lack of awareness of the realities of local government finance and of the economics of the public transport sector. The likely consequence is that, even within the limitations of planned local government spending, transport will not be able to secure the financial support that the Executive assumes will be available to support the policies of the transport white paper.

Secondly, we feel that the financial memorandum understates the direct cost of the Transport (Scotland) Bill's provisions and fails to explain how local government will be funded for the extra burdens that will pass to it after the short period of transitional Scottish Executive support. In our view, the additional transitional and on-going costs will represent a significant diversion of resources from front-line service delivery.

Thirdly, we do not feel that the white paper and the bill have paid sufficient attention to the other opportunity costs of the proposals. SPT is the only regional transport delivery organisation, and the current consultation envisages that the west of Scotland will probably remain unique in having both direct service delivery and transport planning administered at regional level. Consequently, SPT will have to manage a complex transition process while continuing to deliver public transport services and projects that affect 42 per cent of Scotland's population. That will inevitably result in competing demands being made on financial and human resources and could threaten the implementation of key projects in the current programme.

The committee will be aware that the Scottish Executive now proposes to implement its plans for a national transport agency without introducing primary legislation. In our policy evidence, we point out that all the white paper's objectives for transport partnerships and regional delivery could likewise be achieved under existing legislation, thus avoiding all the transitional costs and the substantial delivery risks that are associated with the current proposals. As a consequence, we find it difficult to see how those aspects of the bill's provisions could satisfy any objective best-value test.

We feel that the financial memorandum is inadequate, so we ask the Finance Committee to take account of our specific concerns in that respect and, perhaps, to seek further clarification from the Scottish Executive. In addition, SPT considers that the financial case has not been made for the sections of the bill that deal with regional structures, and that fundability issues and the broader economic context have not been properly addressed. We do not feel that there has been a rigorous appraisal of the full costs of that part of the proposals or a demonstration of any tangible additional benefits that could not have been secured under existing legislation. In short, options have not been fully evaluated. That seems to be a strange omission in view of the Scottish Executive's commitment to transparency and evidence-based policy making.

We hope that when the Finance Committee makes its recommendations on the Transport (Scotland) Bill, it will consider that the financial and economic justifications for the proposal warrant further scrutiny.

The Convener: Thank you. I invite Councillor Andrew Burns to make an opening statement on behalf of COSLA.

Councillor Andrew Burns (Convention of Scottish Local Authorities): I add my thanks to the committee for allowing us to give evidence this morning. We welcome the general principles of the bill. We agree that there is a need to set up the regional transport partnerships and we are grateful for the shift and growth in funding in the general transport budget; in particular, we are grateful for the shift away from road building towards public transport provision. By 2006, some 70 per cent of the transport budget will be within the ambit of public transport provision.

We welcome the general tenets of the bill and the general thrust to establish regional partnerships, but we share some of the concerns that SPT expressed. Before I mention those, I add that we feel that we are in a catch-22 situation because the consultation on establishment of regional transport partnerships is on-going and will not finish until the third week of January. All the comments that we have made in our submission, and those that I will make this morning, must be taken in that context. We do not know the final structure of the RTPs—we will not know that until early next year, so I stress that caveat.

I will not go into all the details unless I am questioned on them but, from our reading of the financial memorandum, we feel that about one year's worth of Executive transitional funding for the establishment of regional transport partnerships is too limited. Some of the points that SPT made in its evidence are repeated in ours; for example, we believe strongly that there must be a longer lead-in period. COSLA argues that transitional funding must, as a minimum, be available for the current three-year spending round, until April 2008.

We accept that regional transport partnerships are the way forward; there is no question but that they will result in significant changes to regional delivery of transport and to local government delivery of transport infrastructure and provision. However, it will take much more than one year to work through the financial requirements that will be imposed by the changes, especially on the local authorities that will make up the RTPs.

11:30

In summary, we welcome strongly the general principles of the bill, the establishment of RTPs and the shift and growth in funding, but we have concerns about transitional funding and the period for which it will be available. We urge the committee to consider carefully that period and whether—as we argue—such funding should be available for at least three years until the end of the current spending round in April 2008.

John Swinburne: I am interested in concessionary travel. Reports that I receive suggest that the phantom passenger is the biggest problem that the transport industry in Scotland faces; companies are making a killing and augmenting their income from local authorities by saying that passengers who do not exist are using the scheme. Do you support the introduction of smart cards for senior citizens, and others who receive concessionary travel, as being the only sensible and controllable way of preventing the fraud that is currently taking place?

Dr Reed: There is an issue about phantom passengers. SPT backs up evidence from operators with on-board surveys and we cross-check the claims that are made. There is certainly a perceived problem.

I agree that smart cards are probably the way forward, but no transport organisation in Britain—including Transport for London—has been able to make a business case for their introduction; external funding has always been required. If we want accountability and proper allocation of revenue through a concessionary fares scheme, smart cards are probably the only technical answer, but their introduction would cost a lot of money in addition to what is already being spent on the concessionary scheme.

John Swinburne: What is your answer to the problem? It is all right to sweep the matter aside and to say that smart cards are not the answer, but what would you be comfortable with? Do you favour inspections and spot checks? All over the country, there are empty buses running for which local authorities are paying.

Dr Reed: I declare an interest in that I will become eligible for the concessionary fares scheme tomorrow.

John Swinburne: We will send you an application form.

Dr Reed: We can go as far as possible with spot checks, but ultimately there must be a method of checking every journey. In that respect, there may be a difference of philosophy. Although I understand the benefits of the scheme, I do not think that the cost in loss of data and records of transaction that resulted from the move to the scheme was taken fully into account. That cost must be weighed in the balance as being part of the downside of moving to a completely free scheme.

Dr Murray: While I was reading the evidence, I became increasingly concerned not about the policy intentions but about the amount of consultation on the financial memorandum and the uncertainty that surrounds the bill. That said, SPT did not comment specifically on whether it was consulted on the financial memorandum. How much consultation was there?

As with other bills that we have considered, the cost of the proposed legislation will be dependent on guidance and secondary legislation, which we have not seen and on which we cannot comment. Indeed, much of the written evidence suggests that no one can comment on the costs because no one knows what they will be. How much did the Executive consult, particularly organisations such as SPT and other voluntary regional partnerships that have experience of the regional transport planning function?

Dr Reed: We have been having general financial discussions with the Scottish Executive since the consultation process began, but we were not specifically consulted on the financial memorandum—we certainly had no input in respect of the values that are set out in the memorandum. My colleague Valerie Davidson can detail some of our concerns about the amounts, which we think have been understated. In fact, we think that there has been a complete omission from the memorandum.

Valerie Davidson (Strathclyde Passenger Transport): SPT is concerned that the level of financial information in the memorandum is very thin and very difficult to get behind, principally because secondary legislation will be used and we do not know exactly what the orders will say.

I want to concentrate on one or two specifics in the memorandum. First, £1 million has been highlighted as a transitional cost for one year only. Given that level of detail and the workings of a transport organisation such as SPT—which is already a regional transport body—the costs will be very difficult for local authorities to subsume beyond year 1. We probably share that concern with the Convention of Scottish Local Authorities. The amount that is currently spent on transport via the local government mechanism makes it very difficult for us to argue the case for transport when we are, in effect, in competition with education, social work and other areas. As a result, it will be difficult for us to ask local authorities to contribute an additional £1 million without their receiving any additional funding. I seriously doubt that that money will come through into transport.

Although the financial memorandum says that £1 million will be made available for transitional staffing costs for SPT, it does not contain enough information for us to assess how that figure has been calculated. The Executive might be talking about simply transferring rail power staff, of which SPT has only a small number. However, those staff are supported by a raft of services that cover policy, financial, legal and other matters, which appear not to have been taken account of. When one goes down into the bill's detail, it is not clear what costs the proposed move would generate. I am concerned that the bill will cost more to implement than is suggested.

Our submission also highlights a concern that has been expressed by other voluntary partnerships, to the effect that the cost of RTPs has been significantly understated. Moreover, we feel that one aspect has been completely omitted from the financial memorandum. Paragraphs 19 and 20 on page 22 of SPT's submission focus on section 43, which seeks to amend the provisions of the Transport (Scotland) Act 2001. Those powers, which we estimate will cost about £440,000 per annum, do not appear to have been taken account of and are not referred to at all in the memorandum. Those costs may be somewhere in the detail, but we cannot identify them. What prompts our concerns about the level of detail is the fact that it is not possible to identify whether all the costs have been taken account of.

Dr Murray: I am concerned about the following statement in your written submission:

"The revenue funding received by SPT from its contributing councils has increased by no more than 2.5% per annum since 1998".

I do not know whether that is a real-terms increase or whether the figure includes inflation. We understand that local government is expected to make a significant number of efficiency savings in the coming period and that the budget for local authorities seems to be less generous than for other parts of Scottish Executive spend.

After local government reorganisation, the areas in which councils were expected to come together were often picked off first. That is because, when the screws are turned on councils, they tend to look at the services that they provide for their own populations rather than their contribution to the greater good. I am concerned that councils might, if local government has to find efficiency savings over the next three years, be reluctant to make the contribution to the wider aspects of the regional transport authorities, which may not benefit their indigenous populations directly.

The Convener: That was known as the Argyll and Bute question to people who were on Strathclyde Regional Council.

Jeremy Purvis: Paragraph 144 of the explanatory notes talks about costs on local authorities. It states:

"The Transport Partnerships will be encouraged, where practical, to maximise the benefit of shared services utilising, where appropriate, re-charge facilities. A Transport Partnership, for example, might utilise the legal services of one or more of its constituent local authorities rather than maintaining its own in-house service."

Do you anticipate that, rather than be replicated in every local authority area, some services will be pooled for greater efficiency?

Dr Reed: That is another area in which we feel the financial memorandum has not drilled down deep enough. That paragraph fails to take account of the fact that what is proposed is, for most parts of Scotland, an entirely new function. What is proposed is not the transfer of an existing function, but the creation of a new regional transport planning function. Because that function will be carried out by bodies that have a separate statutory locus, they will have to be sure that the advice that they get and the services that they require are sufficient to support that activity. As the service does not exist anywhere in local government except in the SPT area, it will have to be created and will, therefore, impose an additional resource requirement on local government. Although it may be possible for partnerships to draw services from the constituent councils on an agency basis, the councils will nevertheless have to provide additional resources.

When we started SPT after reorganisation, we tried to create a fairly lean structure; however, we found quickly that we could not rely on council provision for certain specialisms and services, first, because they were not priorities in their own service plans and secondly, because there could be conflicts of interest such as arose, for example, in relation to property issues. Whatever the intent is and whatever recharging basis is adopted for supporting the activities of the regional transport partnerships, within a short time most regional transport partnerships will likely find that they require to provide a good number of the services at their own hand, simply in order to discharge their statutory duties.

Jeremy Purvis: Does COSLA have any comment on the opportunities for pooling services?

Councillor Burns: I accept that there are chances for pooling resources. I speak from my experience of the City of Edinburgh Council's establishment of Transport Initiatives Edinburgh Ltd, which is now known as TIE. We have pooled and utilised resources from the City of Edinburgh Council. However, I concur with what Malcolm Reed said about the need for specialised resources for specialised projects, which cannot be pooled from individual local authorities. TIE has had to establish a legal support system that is wholly separate from that of the City of Edinburgh Council.

We did not want, and would rather have avoided, such duplication, but the nature of the projects in which the arm's-length organisations and the RTPs might be involved is such that it is almost impossible to pool certain types of resources. I am sure that there is potential for making efficiencies, but we should not underestimate the difficulties in providing the necessary support for the large and complex infrastructure projects that the RTPs are likely to deal with.

Jeremy Purvis: An important project for my area is the Waverley line, which is also a priority project for the City of Edinburgh Council. In effect, the partnership that is the promoter of the Waverley line and TIE, which promotes the city's many other projects, are two separate entities that put a burden on local authorities. A disproportionate burden has been put on the Scottish Borders Council, which has had to up its staff so that it could take on the increased burdens of that project. Could not an RTP, which would have a bigger centre, drive through such projects more efficiently and more cost-effectively than its constituent parts?

11:45

Councillor Burns: I accept that 100 per cent—that was a good example. However, I reiterate that even if efficiencies can be gained by having one RTP deliver projects such as trams or the Borders rail link, the RTPs will still require specialised legal support and other specialised services. I agree that there exists the potential for efficiencies, but it will not be possible to draw down from local authorities all the required resources. The RTPs will need to develop individual and specialised services in-house at significant cost.

The Convener: I had intended to let Ted Brocklebank ask his question, but he has gone away to sort out the Waverley line.

Mr McAveety: I hope that he is not away to dig the line.

Perhaps both Malcolm Reed and Andrew Burns can respond to this question. Earlier, Malcolm Reed made three points rather gently but quite lethally. First, you said that the RTPs will divert resources from front-line delivery. Secondly, you said that the bill does not meet the principles of best value, which I am sure Andrew Burns might want to comment on. Finally, you said that options have not been fully evaluated. Will you expand on any of those criticisms?

Dr Reed: I will attempt to do so.

On the lack of evaluation of other options, we pointed out in our policy evidence to the Local Government and Transport Committee that the Transport (Scotland) Act 2001 already provides Scottish ministers with the power to require public authorities to draw up joint transport plans. In many ways, that is a better power than the one that is proposed in the Transport (Scotland) Bill because it allows ministers to require, for example, transport-hungry organisations such as hospital boards or local enterprise agencies to be engaged in regional transport plans. We have found it difficult to engage such organisations in effective regional transport planning. In a sense, the power that the bill will provide already exists.

Also, local government has plenty of powers of general competence to set up the sort of joint working that is envisaged under the bill. Despite reports to the contrary, there has been no failure on the part of local authorities to work together in delivering transport plans or projects—the existing voluntary partnerships are testimony to that.

We do not need legislation to do what is already good practice and we are concerned that the bill has not been thought through in terms of best value. There is a case for re-examining the option of using existing powers so that we can see what value would be added if the existing powers proved to be insufficient. There is a case to be answered on that.

Councillor Burns: Shall I respond to the question too?

The Convener: I am anxious to avoid the situation whereby both groups of witnesses respond to every question.

Alasdair Morgan: My question is on the funding of the RTP organisations, which the SPT submission says will have a prudential borrowing power. From my reading of the bill, I am not entirely clear that that is the case, but let us assume for the sake of argument that such a power is provided if one reads schedule 1 along with the various acts that are cited. The SPT submission makes the fair point that prudential borrowing is meant to have a revenue stream to pay the interest.

Most of the transport schemes that local authorities will undertake are ones that the private sector will not undertake. That is simply because there is not enough income to pay for them, effectively. Private sector bodies might get into trouble if they get involved in a prudential borrowing scheme. You said that you were seeking clarification from the Executive on that point. Have you received any such clarification yet?

Valerie Davidson: We have received no clarification about that as yet. We are still in discussion with the Scottish Executive. The issue has been on-going for some time. We have reached the stage when contract awards cannot now be made, because SPT has no security of funding. That will delay transport delivery.

Alasdair Morgan: So unless you get another source of income—unless somebody else is prepared to put in the money—the schemes cannot go ahead. Is that what you are saying?

Valerie Davidson: That is correct.

Alasdair Morgan: I have a question on funding the partnerships. The explanatory notes state:

"if the Transport Partnership is unable to decide"—

with respect to the share of expenses to be paid by each constituent council—

"then the relevant shares will be prescribed by the Scottish Ministers by order."

Do you know what is meant by "unable to decide"? Does that relate to a majority vote by the members of the partnership? What constitutes a decision by the partnership as to what the relevant shares are? If a partnership does arrive at a decision, does that represent a legally binding requirement on councils or members to pay the money?

Dr Reed: That is still the subject of consultation through the separate consultation document on the funding and governance of the regional transport partnerships, which has just been issued. We might be wrong, but our assumption is that the allocation within RTPs will be decided by majority voting. That seems to be the principle that is embodied in the consultation document.

We are slightly lost with regard to the fact that the system that is described in the consultation document is the system that we have at the moment. We are a requisitioning authority. Frankly, it is difficult to make the system work. Whatever the statute says, such things inevitably come down to informal political negotiation.

It is very difficult to get a budget that exceeds the willingness of the least wealthy partner to pay. There have been situations when some councils in the SPT area have indicated a willingness to pay more but, because we have to operate with all 12 councils, our increase has been held back to what the smallest, or least well-resourced, council can afford. We do not think that the Scottish Executive has thought through the practicalities or the realities of local government finance or what mechanisms will be available to the new partnerships so that they can draw down from their constituent councils funding that is not already available to SPT. In our experience since local government reorganisation, that has not been a particularly robust method of funding public transport.

The Convener: Wendy, do you have a supplementary question?

Ms Alexander: I am aware that time is pressing. I will try to suggest a way forward, based on what we have heard so far. I want to steer completely clear of the policy dimensions, because the remit and focus of this committee is on the financial dimensions.

That said, we have heard of four areas in which there are big, outstanding questions. First, we ended on the point about requisitioning through precept and the meaning of the proposed legislation and the implied process in that regard. Secondly, there is the issue of whether it is practically possible to conceive of the prudential borrowing regime being made use of by the new regional transport partnerships. Thirdly, there is the issue of the adequacy of the transition costs and the time horizon over which they should operate. Fourthly, there is the Strathclyde-specific issue of bus-related functions and the exemption for Argyll and Bute.

Might it be possible for us to write to the Executive, in advance of Executive witnesses coming before us, saying that those are the four issues in which we have a specific interest, and that we would be grateful if it could provide us with a memorandum dealing with those issues well in advance of our meeting?

We might also want to alert the Local Government and Transport Committee to that, but we cannot prejudge the outcome until we have heard what the Executive has to say. However, it would be helpful if the Executive responded on those four issues.

I have one final observation. We have been here before but, given the complexity of the issue, the clerks might want to reflect on whether they need a little expert support in writing up our response on the financial memorandum to the Local Government and Transport Committee. No other committee of the Parliament would try to handle matters of this technical complexity without a little support. I do not expect the clerks to answer that today. I just think that they should be invited to reflect on whether they need some assistance in writing this up.

Four financial issues have been highlighted. I propose that we alert the Executive witnesses and the Local Government and Transport Committee to them and see what comes back.

The Convener: I could add at least one more issue, which is uncertainty. I remember that in Strathclyde there was an issue about being able to commit to projects or secure banking continuity. There is an impact issue for outgoing authorities in the context of taking transport projects forward.

The Executive witnesses are due after this discussion. I presume that they will have noted the issues that you raised—they will certainly be able to read them in the *Official Report*—and that we can question them on those issues.

On timescales, the Local Government and Transport Committee is looking to take evidence from the Minister for Transport on 21 December. We may want to take time over preparing our report and wait for written answers. I take your point about specialist advice.

Jim Mather: So far, we have been given a devastating critique, which has been backed up by comments from COSLA, Highlands and Islands strategic transport partnership, NESTRANS and others. What would be an ideal way forward, if you were starting with more of a blank slate than we currently have?

Dr Reed: As far as the west of Scotland is concerned, we do not think that anything is wrong with the present arrangements. They work effectively. The minister has commended the level of public transport delivery in the west of Scotland. Given that as recently as 1999 the Scottish Executive went into the whole issue of regional structures, I am at a loss to understand what has changed so much in four years that it wants to shake up the local government map yet again.

The situation in other parts of Scotland is different, and I would not presume to speak on their behalf, but the fact that voluntary partnerships have been able to do so much on the basis of co-operation shows that that approach can add value. I am not persuaded that moving to a statutory partnership will add any value when the underlying purpose of the statutory partnership—the delivery of a regional transport plan—is already available under the Transport (Scotland) Act 2001. Rather than shaking everything up again, the best and most effective approach in terms of delivery would be a period of stability to let local government get on with the job and start delivering what is already in the pipeline, which seems to accord with ministers' priorities.

As the convener said, any reorganisation, no matter how benign, is a distraction. I know from experience exactly what he is saying. In Strathclyde we lost an important rolling-stock deal simply because we could not offer the covenant to the financial sector that would have been available had we had continuity and an ability to plan more than two or three years in advance.

Jim Mather: Recognising the discontinuity between costs that you take on board and the wider economic advantage to local authorities and central Government, do you see any advantage to the economy in general in making the move?

Dr Reed: No, because, as we said in our evidence, the bill fails to address the chronic underfunding of public transport in particular, and transport in general, in Scotland. The Executive's own evidence has pointed out that we are spending about 50 per cent less in capital and about 20 per cent less in revenue than is spent according to examples of good practice elsewhere. We must address that problem. Moving the deck chairs around does not get to grips with the real issues that affect passengers, people who want to ship freight and the people who want modern communications in Scotland. To me, it seems that we are starting at the wrong end of the problem. If we can get the financing right, the rest will follow. Reorganisation should not be an excuse for lack of funding.

12:00

The Convener: As there are no other questions for our present witnesses, I thank them for coming along. I am reflecting on Wendy Alexander's suggestion. It would perhaps be useful to have a limited evidence session from the Executive today, for clarification, and to seek a more detailed session with the Executive witnesses in due course. I will try to reschedule the process to allow for that. Is that acceptable to members?

Members *indicated agreement.*

The Convener: The second part of this agenda item is evidence from the Scottish Executive officials who will talk about the Transport (Scotland) Bill. We have with us Jonathan Pryce, the head of the transport strategy and legislation division; Frazer Henderson, the bill team leader; and Claire Dunbar-Jubb, the group accountant for the roads policy and group finance division of the Scottish Executive's Enterprise, Transport and Lifelong Learning Department—which is a rather long title.

You have heard the previous evidence. We would like now to address some issues that require clarification and perhaps invite you back for a longer session of evidence taking. It is only fair to give you the opportunity to make some opening remarks before we move on to that limited questioning. Are you willing to come back for a further session, in a week or two weeks' time, once we have got some clarification, especially on the issues that Wendy Alexander raised?

Jonathan Pryce (Scottish Executive Enterprise, Transport and Lifelong Learning Department): We are grateful for the opportunity to talk to you about the financial provisions of the bill. If the committee would find it helpful for us to come back, we will certainly do so. I will make some general points to start off. I am sure that you will want to follow up some of the questions that we heard you ask earlier.

As you know, the bill has three main aims: to put in place new regional delivery structures for transport infrastructure and services; to improve the regulation of road works; and to provide a discretionary power to enable the Scottish ministers to run concessionary travel schemes at their own hand. It is worth emphasising the fact that the Scottish Executive already provides support for existing voluntary transport partnerships. There is no intention to diminish the level of that support as a result of the bill.

The financial memorandum concentrates on the additional costs of the transport partnerships that we believe may arise in the transitional year and the additional costs that the partnerships may wish to incur in getting their regional transport strategies off to a flying start. We do not believe that, in the longer term and directly as a result of the provisions in the bill, there will be significant additional costs to the partnerships and local government over and above those for which the Executive already provides support to the existing partnerships and to SPT.

On the regulation of road works, the intention is to provide funding to enhance the capabilities of the existing road works register, to provide training and information on the enhancements to those engaged in operating the register and to establish the office of the road works commissioner. You will also be aware that the Executive has made a substantial increase of around £100 million per annum from 2006-07 in the support for concessionary travel. That increase is not conditional on the powers in the bill, which provides the flexibility to allow Scottish ministers to determine later who should take responsibility for concessionary travel. For that reason there are no costs directly attributable to concessionary fares in the bill, although we refer to the overall concessionary travel bill in the financial memorandum. We are happy to respond to questions.

The Convener: One of the problems that we have is that in relation to at least a couple of elements, items in the bill are still out to consultation, so there is a great deal of uncertainty. The Executive's financial guidance note 2003/01 on the preparation of financial memoranda states:

> "Where a Bill proposes powers, or implementation is dependent on the detail in secondary legislation (or further primary legislation), it may not be possible to be precise. In these cases, the Memorandum should say so. But this should be supported by an outline of what the current intentions of the Executive are, what the financial implications of these intentions will be, and what the effect of varying the major assumptions will be."

You have not given us even a range for some of the costs, which we might reasonably have expected to have been provided.

Jonathan Pryce: Having taken account of the fact that we are still engaged in consultation, we have tried in the financial memorandum to estimate reasonable provision from the Scottish Executive budget for the costs of transition. I do not pretend that we have got those costs exactly right. We tried to overestimate rather than underestimate transitional costs. I apologise if we have not given you the sensitivity ranges. We have to take account of what we think the regional partnerships will need to spend on preparing their regional transport strategies in their first year to ensure that the funding is available in a period when they might not have their funding arrangements with the local authorities fully in order and to ensure that reasonable provision is made for transitional costs relating to staff, which we do not anticipate to be particularly high.

The Convener: But we have heard from COSLA that it anticipates that transitional costs will stretch over more than one year and it is difficult to see how the transition can be achieved within a single year. We heard from SPT and COSLA that specialist staff—whether providing technical expertise or legal or other support—need to be in place in order for the new regional partnerships to carry out their functions effectively and separate their functions from that of any local authority.

Jonathan Pryce: One of the things that make analysing the figures complicated is the fact that we could have different models of transport partnership in different parts of the country. The regional partnership in the west will build on Strathclyde Passenger Transport and the vast majority of staff from SPT will be subsumed within the regional partnership. It will therefore include the specialist functions to which you refer. I am not anticipating additional costs for the specialist functions in the west. The consultation paper states that there is the prospect of another four regional partnerships in other parts of Scotland. We are not clear that those partnerships will take on transport powers from the local authorities. That decision will be in the hands of the local authorities. If those regional partnerships are not Executive delivery bodies, they are unlikely to have significant costs, I believe, in relation to their specialist functions, although they will need to staff up for the strategic planning function.

The Convener: You have not left much scope for them to have significant costs or significant staff requirements, according to the financial memorandum.

Jonathan Pryce: We have assumed that the staffing for the existing voluntary partnerships will continue at those levels. As I said, there will be additional funding, at least in the first year, for the preparation of regional transport strategies.

The Convener: So five members of staff will be sufficient. That is the figure in the document.

Jonathan Pryce: Yes, that is the figure in the financial memorandum.

Alasdair Morgan: My question is a supplementary to the first point that the convener made. One of the problems that we have with the concessionary travel scheme is that, because statutory instruments do not come to this committee and because there are no financial memoranda for affirmative SIs, as far as I am aware, using that mechanism evades the purpose of having a financial memorandum in the first place. I am not saying that that is why it is being done that way, but the end result is the same; what could be a fairly significant part of expenditure is not subject to the scrutiny that is normally given to a financial memorandum.

Jonathan Pryce: I understand your point. That should be adequately addressed in the regulatory impact assessments that need to be conducted on any secondary legislation that has an impact on business.

Dr Murray: My first question is about the level of consultation that existed—on the financial memorandum specifically, as opposed to on the policy intent. For example, we have written evidence from NESTRANS, which says that although

"the financial assumptions … set out in the Financial Memorandum accompanying the Transport (Scotland) Bill are not drawn from any previous consultation they have sought to take account of the running costs of some of the existing voluntary Regional Transport Partnerships."

We also heard from Susiephone Ltd, which did not feel that it had been consulted and which had not been approached formally, despite the fact that it runs the current road work register.

I am a bit puzzled that there seems to have been a lower level of consultation with those bodies that are already undertaking some of the functions. I appreciate your comment that the financial memorandum is supposed to cover the additional costs rather than the existing costs, which are already funded. However, I would like your advice on the way in which those organisations have been consulted, specifically about the financial aspects of the bill.

I was a bit concerned about paragraph 143 on page 71 of the financial memorandum, which states:

"No increased costs for local authorities are anticipated as a consequence of the establishment of Transport Partnerships."

Given the uncertainty that surrounds the nature of those partnerships, how confident can you be in making such a statement?

Jonathan Pryce: I shall try to take your points in order. Please pick me up if I miss out anything on the way.

We have consulted quite extensively overall on the general policy, and the Local Government and Transport Committee has heard from witnesses that we have done a pretty comprehensive job of keeping in touch with people. We have not issued any formal written consultation on the provisions in the financial memorandum, although we have had some general discussions with COSLA and we have a reference group that consists of COSLA representation, Strathclyde Passenger Transport and the existing voluntary regional transport partnerships. In the course of those discussions we have touched on financial issues, but we have not, as you rightly point out, actually gone out and said, "Here is a draft of the financial memorandum. Can you give us comments on that?" We are continuing to engage with all those organisations as the bill moves forward to ensure that we can take account of the financial implications.

You mentioned Susiephone Ltd. We did not intend to omit that company, but it is small and works with the road authorities and utilities committee (Scotland). As a result, we thought that we had covered it the company in that context.

On the question whether there would be any specific additional costs for local authorities, the financial memorandum highlights our belief that it is a reasonable proposition that, in the long term, the bill's provisions will be at least cost neutral and could lead to savings for local authorities through economies of scale. However, much of that will depend on certain decisions by partnerships.

12:15

Dr Murray: How long do you mean when you say "in the long term"?

Jonathan Pryce: That depends on what you think is a realistic timescale for partnerships to take decisions to transfer functions into stronger regional bodies.

The Convener: We will come back to the witnesses, but I will take two more questions.

Jim Mather: The Executive claims repeatedly that transport spending is a key element of economic development spending. However, I do not think that that is mirrored in the financial memorandum, which does not contain anything that might be called a cost justification. For example, there is no mention of economic growth and the derivatives of additional income such as council tax, business rates or whatever that would come about as a result of the bill.

Jonathan Pryce: The financial memorandum concentrates on the bill's direct provisions and does not highlight the extent of the increase in transport funding in the Scottish budget. Between 2002 and 2008, that budget increases by 100 per cent or more. As a result, there has been and will continue to be very significant growth in transport spending.

Jim Mather: Evidence that we heard earlier suggests that this is not so much a zero-sum game as a negative-sum game. I would feel more comforted if the financial memorandum could pinpoint any additional flow of revenue, even if it were going to the Westminster Exchequer.

Jonathan Pryce: If I understand you correctly, you are asking whether we could provide any analysis of the general increase in gross domestic product and growth in business and the economy that would arise from that transport spend. That would be extremely difficult to quantify.

Jim Mather: Indeed, but that is the basis for cost justification.

The Convener: I am not sure that even Jim Mather would require every financial memorandum to contain a statement about how the proposed legislation would contribute to growth in GDP.

Jim Mather: I was asking for more prosaic measurements than that, convener.

Mr McAveety: What is the witnesses' gut reaction to earlier evidence that best value, capacity for diverting from front-line delivery and other options have not been fully evaluated? I know that we will get some more detail on that matter.

Jonathan Pryce: The framework in the bill will provide an opportunity to improve transport delivery in Scotland and will enable the rest of the country to take a more collective approach to more regionally based transport planning and delivery. To some extent, it will bring matters closer to the current situation in the west of Scotland. The proposals will enable councils even in that part of the country to pool some of their roads functions and secure better provision of bus services and the infrastructure that goes with them.

Mr McAveety: But the partnership in the west of Scotland, which, in a sense, led the way in Scotland, submitted to us half an hour ago that those were three principal concerns among many. If SPT is concerned, how does that give other parts of Scotland the confidence with which to follow a broadly similar model that will benefit the whole of the country? We agree that the direction is right; the questions concern how we get there, what it will cost and the implications for morale, confidence and future direction. If the key organisation that has done a lot of that feels uncertain, what message does that send to the rest of Scotland?

Jonathan Pryce: A time of change creates uncertainty and concern for everyone who is involved. I understand why staff at Strathclyde Passenger Transport will be unsettled by the prospect of change and the move to a regional partnership in the west. I know that staff in the Scottish Executive are, to some extent, unsettled by the move to a transport agency. However, that is something that we have to manage through.

The Convener: I thank our witnesses. As agreed, we will come back to you for another session. In the meantime, we will write to you with several issues on which we want a response before our next session. We are looking to have that session a fortnight from today, but we will get back to you to set a date.

Civil Service Effectiveness

12:21

The Convener: The fourth item on the agenda is consideration of a paper from the clerk on whether the committee wants to contribute to the Public Administration Select Committee's inquiry into civil service effectiveness. As the paper says, the PASC has begun its inquiry, which has a fairly wide-ranging remit. Our paper focuses on the two areas that fall within our remit, on which it is recommended that we focus.

As the paper also says that, given the fact that we would want to do this work in a relatively short period of time, instead of going through a wide-ranging report, we might flag up issues that we believe that the PASC should take into account in its consideration of the matter. That would feed into our inquiry on efficient government as well, so there would be a benefit to our proceeding on that basis. Do members have any comments?

Ms Alexander: It is an excellent paper; however, the seeking of evidence, which is mentioned in paragraph 12, seems slightly narrow in focus for what we would want to do. I have a number of suggestions. First, we should consider asking Andrew Turnbull, who is the head of the civil service in Scotland, to give evidence. Secondly, we should think about asking the head of the Prime Minister's delivery unit, Michael Barber, to submit written evidence and possibly to appear as a witness. Thirdly, we should seek evidence from Sir Peter Gershon, who is driving the public services review. Fourthly, in a specifically Scottish context, we might ask for evidence from either Lord Fraser or John Campbell, given the fact that the Fraser inquiry touched on such issues.

I also think that we should ask directly the head of human resources for the Scottish Executive and the new director of organisational change in the Scottish Executive for written evidence. We might also invite a couple of recent members of the Scottish Executive's management group who are no longer employees of the Scottish Executive—for example, Trevor Jones—and the most senior or most recent direct external recruit to the Executive, as 20 per cent of senior civil service jobs in England involve direct recruitment from outside the civil service. Finally, we should also seek written evidence from business organisations. Such a targeted approach would complement our asking all the civil service trade unions for evidence. We could just write to those people to ask whether they wish to submit evidence.

The Convener: We have to be careful to stay within our remit. I have some concern that, if we broadened our inquiry quite as wide as you are suggesting, we might exceed our remit. I have discussed with the clerk whether our remit is too narrow, as it does not specifically say that we can cover all the areas for which the minister has responsibility, unlike the remits of the subject committees. I take the point that there are issues such as the changing to deliver programme in relation to which it might be appropriate for us to consider what evidence can be brought forward.

Ms Alexander: Perhaps you and the clerks can consider the names on the list one by one and reject anyone who is inappropriate.

To raise an issue that I raise all the time, there is a question as to whether we need an adviser in an inquiry such as this one. Obviously, our inquiry parallels that of the PASC but I do not know whether that committee has an adviser. On that point, however, we should check who it is taking evidence from. Are we paralleling its approach to the taking of evidence?

Dr Murray: There are a number of people in Parliament who have experience of Cabinet responsibility but who are not ministers at present. Although current members of the Scottish Executive would be unable to express their views on this matter, those people might like to volunteer their views.

The Convener: There are probably a couple of members of the committee who have some such experience.

There seems to be general agreement that this is a good route for us to go down. It has been suggested that, once the process is under way, we invite the PASC up to Edinburgh for a joint meeting or an exchange of views at an appropriate point. That would be a good exercise.

Are we agreed, in principle, to do what we have been discussing?

Members *indicated agreement.*

The Convener: We will sort out the details and consider the suggestions that have been made by Wendy Alexander and others, bearing it in mind that we are talking about a confined piece of work that must feed into our work on efficient government. If members are agreeable, I will also take forward the issue of our remit. I think that there is a question about the nature of our remit and it is possible that we should be picking up some of the issues that we have been discussing in order to ensure that there is appropriate accountability in Scotland.

We agreed to take item 5, which relates to the budget process 2005-06, and item 6, in private.

12:27

Meeting continued in private until 12:50.

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