

FINANCE COMMITTEE

Tuesday 7 December 2004

Session 2

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2004.

Applications for reproduction should be made in writing to the Licensing Division,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

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

CONTENTS

Tuesday 7 December 2004

Col.

CROSS-CUTTING EXPENDITURE REVIEW ON ECONOMIC DEVELOPMENT	2037
EFFICIENT GOVERNMENT	2066

FINANCE COMMITTEE

32nd 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 ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Richard Dennis (Scottish Executive Finance and Central Services Department)

John Downie (Federation of Small Businesses Scotland)

George Kerevan (The Scotsman)

Donald MacRae (Lloyds TSB Scotland plc)

Mr Tom McCabe (Minister for Finance and Public Service Reform)

Colin McKay (Scottish Executive Finance and Central Services Department)

Alf Young (The Herald)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 7 December 2004

[THE CONVENER *opened the meeting at 10:03*]

Cross-cutting Expenditure Review on Economic Development

The Convener (Des McNulty): Good morning. I welcome members, the press and the public to the 32nd meeting this year of the Finance Committee. I remind everyone to turn off pagers and mobile phones. Our only apology is from Jeremy Purvis, who will be a bit late in joining us.

Our first item is our third evidence-taking session for our cross-cutting review on economic development. Today, we will take evidence from expert commentators and business. I welcome Alf Young, policy editor of *The Herald*; George Kerevan, comments editor of *The Scotsman*; Donald MacRae, strategy and finance director for Lloyds TSB Scotland plc; and John Downie, press and parliamentary officer for the Federation of Small Businesses in Scotland.

We have received written submissions from both the FSB and Lloyds TSB Scotland. I propose that we hear a brief opening statement from each witness and then move to questions from members. I am not sure whether to go from right to left or left to right. If I went right to left, would that inconvenience you?

Alf Young (The Herald): Do you mean right to left from our point of view or from your point of view?

The Convener: From my point of view, I suppose.

Alf Young: Okay. Good morning, convener, ladies and gentlemen. I apologise for not having submitted a written statement. As a working journalist who writes four columns a week, writing becomes something of a chore in my life. Given that I have read most of what the committee has considered so far, and having observed that you are already drowning in paper, I thought it better to simply come and talk to you straight about my views on the committee's inquiry.

The inquiry that you are undertaking is extremely complex, and I am not sure that you will arrive at easy conclusions. To assess policy objectives against the resources that are being spent on them is exceedingly complex, and to do so on a cross-cutting basis makes the task even

more complex—you will have difficulty coming to significant conclusions.

In analysing the subject against my background, which is 25 years of writing about economic policy and business in Scotland, it struck me that one thing was missing: no one has ever done such a deep study on what we do. I was here yesterday for the Presiding Officer's thinking session, at which we were encouraged to understand the past better so that we could look to the future and do things better. Nowhere do I see any deep analysis of where we are in terms of the various stages of economic policy and the impacts that those stages have had on growth and the economy. I do not see any big studies of inward investment or of specific projects that have started and failed. I am aware that there has been occasional analysis of things such as the creation of enterprise zones, but I do not see in the welter of paper that is before us any serious analysis of our past strategies and of whether they succeeded or failed.

Much of the committee's inquiry is predicated on the almost universal belief that we are failing economically—that our growth rate is off the pace of that of the United Kingdom as a whole and that of competitor nations. In analysing Scotland's growth record over the past 30 years, we are not understanding our past. In that period, the Scottish economy has been through a number of massive and significant shocks. First, we lost our major indigenous industries, which were the primary industries such as coal and the secondary industries such as shipbuilding and heavy engineering. In the 1960s, under the Wilson Government, we tried to replace those industries with a series of shiny new investments. Some of those were in rural Scotland and all of them failed within about 15 years. We then replaced those with a new wave of inward investment in electronics and other sectors, great chunks of which—although not all of it—also failed within a very short time.

Against that background of past economic development strategy—I have given only a brief précis—and the shocks that have faced the Scottish economy, I would have thought that our present rate of growth's being 0.4 per cent or 0.5 per cent off the pace of the entire UK economy is not bad at all. However, that is not reflected in people's mindset. I looked at the most recent benchmarking of the evidence of the success or otherwise of the smart, successful Scotland strategy. I looked at "Measuring Scotland's progress towards a Smart, Successful Scotland 2004" with respect to how independent assessors had examined the various goals that the strategy had set. That report concluded:

“The overall picture which emerges ... is of a relatively low output, high emissions economy characterised by ... business sector underperformance”

and

“a skills development system and labour market which perform well for the majority, but not for an important minority.”

If we turn over a few pages in the report, we discover that, in terms of its 2002 performance, the Scottish economy was the best performing region—if I may use “region” in this context—in the United Kingdom outside London, the south-east and the east of England. Scotland performed better than all the other regions, but the conclusion that the experts reached was that Scotland is a “relatively low output” economy. If we turn to another page in that report, we discover that, on gross domestic product per capita—although Mr Mather will not consider GDP per capita to be a relevant statistic—Scotland outperformed the average for countries in the Organisation for Economic Co-operation and Development.

My plea to the committee is that we learn from the past and take a more rational view of where we have come from and where we have got to before we try to assess the impact of current economic development spending.

George Kerevan (The Scotsman): I am honoured to be invited. I do not profess any great expertise in public accountancy, but I thought that, having spent many years pontificating on the Parliament and the Executive, it was time that I let you have your revenge. As Alf Young did, I thought that the best way that I could help would be to read through all the supporting papers with a reasonably objective eye and see what surfaced.

What intrigues me about economic development spending—which is, par excellence, the budget that crosses all departments—is the lack of central targets. I respect the fact that the Executive has decided that it would be dangerous and ineffective to set a GDP growth target because so much in the rest of the world influences what happens to the Scottish economy from year to year that such a target might be seriously misleading. However, if we have no target, how do we know that we are spending the money effectively? Above all, given that support and primary funding go right across departments, how do individual departments know that they are contributing to the overall goal? As economic development demands a partnership between Parliament, the Executive and the business sector, how do we enlist the business sector if there is no overall goal towards which everyone is marching?

Over the past year, I have been particularly interested in examining economic development strategies in the United States of America

because, over the past 10 years, the individual states of the USA have caught up with Europe in creating their own development agencies and in trying to do all the things that we take as normal. It is fascinating to watch them struggle with that. By and large, they are roughly where we were in the 1970s in setting targets for increases in employment—which is just as complicated a surrogate as GDP growth—and are about to make all the mistakes of spending money on easy creation of jobs rather than looking to the long term.

The issue is a universal one, and the committee should press the Executive further on whether there are better targets than GDP growth. I think that there are. We could, for example, consider trend growth, which is average growth over a period. It is not a random average, but is wired into the productivity of an economy and that economy’s ability to attract factors of production. The Scottish trend rate of growth is well below the UK rate—by about a third—which seems to me to be a significant gap. A consistent gap between a regional economy’s trend rate and the average tends to suggest that the problems lie with the region rather than at the centre, so the problem falls clearly into the committee’s court.

It would be possible to experiment with a target for increasing GDP trend growth. That could not be done on a year-to-year basis; it would have to be done over a business cycle at minimum, which would be two of the Executive’s three-year budget cycles. What would the target be, however? It could be paced against the UK average, although I accept that there are difficulties in that, because everything in the UK is biased by the London and south-east English economy, which is radically different from the regional economies. It could also be tracked against the European Union 15 trend growth. As Alf Young said, Scottish trend growth is not massively bad compared to the bottom average of the EU 15, but we could go for the higher average.

We could also eschew any kind of external benchmark and simply state that, over a period we will move from 1.6 per cent trend growth to, for example, 2 per cent or 2.5 per cent and benchmark ourselves against our past experience. There are other ways of doing it; that might not be the best and I accept that the device is so technical that it might be difficult to sell it to the general public, leaving aside the issue of what the headline writers in my paper or Alf Young’s paper might do to it. However, without some form of overall target for the economy, you are to an extent moving in the dark and you will not quite know whether the cash that you spend is effective. That is the overall message that I get from reading the various documents.

10:15

Donald MacRae (Lloyds TSB Scotland plc): I declare an interest in that I am a member of the board of Scottish Enterprise. Today, however, I am speaking to you in my personal capacity. I will try to follow the headings of the review in my remarks. I have given the committee some written evidence as well.

The Scottish economy has performed weakly over the past few decades. GDP per head is 94.6 per cent of the United Kingdom average and, compared to the OECD countries that Alf Young mentioned, we are in the third quartile—that is, we are near the bottom—in respect of eight of 12 indicators of performance. We come in the second quartile of two indicators and are in the top quartile in only two. We come 20th out of 31 countries in terms of GDP per head.

The UK comparison is a little misleading because, in the OECD, the UK is the most disparate country in terms of how GDP per head is distributed. In terms of growth in the past 30 years, the GDP per head comparison is slightly better for Scotland than the overall GDP figure is because the slowly growing pie of national wealth is being divided by a population that is, as we all know, static or declining. Those figures are not mine, but are from “Measuring Scotland’s Progress Towards a Smart Successful Scotland 2004”, which was produced by the University of Glasgow.

I will not go into the issue of opportunities in great detail. I will say only that if any small nation is equipped to deal in the knowledge economy, it has to be Scotland.

On the theory of economic development, it is difficult to establish cause and effect. However, through my work on high-growth economies, I have discovered a number of trends that are associated with high growth—there is an important distinction between causing and being associated with. One such trend is, of course, increasing population—I suppose that the ultimate test of an economy is whether people choose to live in it. On that basis, we have a challenge, no matter whose figures you use. A high level of research and development by business is also associated with high growth, on the basis that research and development lead to innovation, which leads to greater productivity, which leads to higher growth. A high level of business start-ups is also found to be associated with high growth, as are adequate infrastructure, a benign corporate tax environment, high productivity—in relation to which we also have a bit of a gap—and adequate levels of human capital as evidenced by training and education.

I suppose that the committee is examining the effectiveness of expenditure over the years and—

again—I have to disappoint you and say that it is difficult to be precise in that regard. However, I can say that we should concentrate much more on outcomes than on outputs. Failure to do that has been a bit of a problem in the past.

On the Tribal HCH Ltd review—whose author is present today—I would debate quite strongly the inclusion of common agricultural policy expenditure in the equation. However, I will highlight one conclusion that is fairly relevant. Between 1999 and 2005 the overall budget in Scotland increased by 41 per cent, but primary expenditure increased by only 10 per cent and support by only 22 per cent, which seems to be slightly at odds with the objective of having economic development at the forefront of policy.

I cannot resist making a few recommendations. Unlike Alf Young, I will not look backwards because, once I have understood what has happened, I like to look forwards. I recommend that the impact on the economy of all policy matters should be borne in mind at every instance. Secondly, we should have fewer indicators of performance and instead concentrate much more on outcomes.

We need to tackle productivity in the public and private sectors. We need a much clearer idea of what I call non-recurring expenditure on the building of Scotland’s assets, which has benefited from substantial growth in public spending over the past few years that might not be repeated in years to come. We should limit the enterprise network’s activities to adding value in the private sector. We should also embed economic development in all areas of policy and shorten and make more efficient the planning process.

John Downie (Federation of Small Businesses): The Federation of Small Businesses submitted a response—which I will not delve into here—to the committee’s inquiry. We have continually called on the Executive to improve, as Donald MacRae suggested, its analysis of spending outputs, but particularly to improve analysis of outcomes, which are extremely important.

The real question on “The Framework for Economic Development in Scotland 2004” and the smart, successful Scotland initiative is where should the public sector intervene? The question is about evidence on the effectiveness of expenditure, but we are really talking about evidence on the effectiveness of public sector spending. In a number of parts of FESDS the Executive refers to responding to market failure. One can respond to market failure, but when we are deciding in a market economy where public money should be spent, we have to go through a process to ensure that the spending is effective. That is the key issue. We do not identify and

prioritise areas of market failure and we do not really understand the causes of our underperformance or market failure. We have not seen evidence-based policies being initiated that will help to remedy the situation. Those are three key areas that need to be addressed. The Executive has probably taken steps to address the first one, but we have not made progress on the other two.

The committee took evidence from Highlands and Islands Enterprise and Scottish Enterprise. Scottish Enterprise is unable to answer basic questions on the forms of market failure it is addressing but, if we are to address market failure, we need to be clear why we are intervening. That is not to have a go at Scottish Enterprise—it is just to say that we need evidence on the policies that are effective in addressing the failings in the Scottish economy.

I hope that our response touched upon a range of issues. We are continuing the work and the committee's inquiry will help us to focus on where the public sector should intervene and the policies it should spend money on.

The Convener: Before I open up the meeting to questions I will make the same two points that I made last week. First, I remind members and witnesses that we are engaged in a cross-cutting inquiry. We are not focusing narrowly on economic development spending; rather, we are interested in how it relates to other spending, for example on transport or and broader policies of the Scottish Executive.

Secondly, I will not allow members to ask all four witnesses the same question—I will ask members to identify from whom they want a response to their questions. I will promote dialogue in that way, so that everybody gets a chance to come in.

Alasdair Morgan (South of Scotland) (SNP): I have a question on something that Donald MacRae said, although I suspect that any of the witnesses could answer. I will let you control that, convener.

Donald MacRae said that we are spending record amounts, which is correct, and suggested that the situation might not be repeated in the immediate future and is probably a one-off. Given that opportunity, are we spending resources in the right places, given what the convener said about all areas potentially contributing to economic development? If you think that we are not spending in the right areas, why do you think that?

Donald MacRae: There were three or four questions there, but I will do my best. By my estimate, total public spending in Scotland is 54 per cent of GDP, which is too high. There is evidence that that will inhibit the growth of the economy and the private sector. The rate is

significantly higher than the UK rate and that of many other countries in Europe.

Growth in recent years has been significant. The budget of the then Scottish Office in 1999 when devolution took place was £14.5 billion and will—I am sure that people will correct me if I am wrong—be about £28 billion in 2007, which is a substantial increase. My point is that some of that expenditure might have been better used in sorting out infrastructure and in building up assets for the future rather than in recurring expenditure that will repeat from year to year and for which we do not get the same kind of return.

I admit that there will be some very hard decisions to make. For example, who is to say that we should not increase spending on health? My response to that question is that I am as keen as anyone on improvement of health in Scotland. However, why do we spend about 19 per cent more per head on health in Scotland yet have worse outcomes than the rest of the UK? Perhaps there is a question to be asked about efficiency.

George Kerevan: I am intrigued about two areas of spending and about whether the spending was in the right or the wrong place. I was intrigued to see that the rate of growth in funding to local authorities was less than I had expected. In my experience of local authorities, when they are doing well and are focused on their economic development strategy, they probably do better than the other agencies because they are closer to local markets and, because they are in close contact with the business community, are usually better able to judge the best infrastructure projects to go with. Whatever broader negative comments I might have made about local authorities over the years, I think that they are primary tools of economic development. If you are going to micro-manage, they are often the best agencies through which to do that. I therefore urge consideration of funding of local authorities, particularly for economic development.

The other area is capital expenditure as opposed to recurring expenditure. Some of the best broad economic research from north America and Europe suggests that there is a strong correlation between investing with local capital, particularly in transport infrastructure, and overall productivity in the private sector.

More research needs to be done in Scotland because although we have a curiously high element of fixed-capital formation—relative to the other UK regions—our economic growth performance does not match that. In the other UK regions, GDP growth has a bigger share than capital investment, which means that their capital investment is productive. However, for quite a few years, Scotland's share of UK capital investment has been a lot higher than its share of growth,

which means that we are investing a lot in capital formation, but are not getting a return on it. That does not necessarily suggest that we need to spend more on capital formation, but that we need to consider where we are spending it and whether we are getting the best value for it. Some of the numbers suggest to me that we are less productive with our capital investment than are other regions.

Alasdair Morgan: The point about capital investment is interesting; perhaps someone else will follow it up.

Donald MacRae's point about the total amount of public spending is something that we have heard from other people. Given that we are in the peculiar situation of having a devolved Administration to which money for public spending is given in a block, how would we reduce the proportion of public spending? Obviously we could grow the private sector, but the situation is like the question of the chicken and the egg.

The Convener: That is really a question for Donald MacRae.

Donald MacRae: I feared that, convener.

I am on record as having said—I will say it again—that the Barnett formula encourages increased public spending. That will have to be addressed at some point, which will be very difficult and will involve tough decisions.

The Convener: I will move on to Alf Young's historical perspective. It seems to me that one of the characteristics of Scottish Enterprise during the past eight or nine years is that it has increasingly become a business support and strategic agency and has moved away from the land and property emphasis of the old Scottish Development Agency. If we consider the activities of English partnerships and what we heard from the regional development agencies from south of the border, we see that they operate more in a strategic land and property direction than we in Scotland do. Should we consider that shift and, perhaps, focus on whether we have succeeded in mobilising the opportunities around the Clyde or the Clyde gateway, or in properly co-ordinating developments in Edinburgh?

10:30

Alf Young: Scottish Enterprise lost those functions through Government decision making. In the old undeveloped Scotland, the Scottish Office decided to sell off much of the SDA estate. Responsibility for physical development became a small feature and many good people left the SDA because the challenges were smaller. At the same time, England was creating time-limited urban regeneration companies on the Tyne, in

Manchester and elsewhere. Those companies were set a 10-year timetable and were given a budget and property powers and told to get on with the job. In the late 1980s and early 1990s, I worked with the Tyne and Wear Development Corporation, which was a successful model that was run by Scots—five of the top people in that organisation were Scots from the East Kilbride Development Corporation, the Govan Initiative and the old SDA, all plying their trade elsewhere. The physical regeneration of those two rivers in the north-east of England is testimony to the corporation's impact.

We must reconsider the matter. The story so far of regeneration on the Clyde is pretty poor. Too many warring bodies want to be top dog in delivery. The master plan is taking an awful long time to complete and, to be frank, there is not a lot of vision in it. The plan is for a lot of housing, but there is not much vision about how to reconnect Glasgow with its river. I spent some time in a boat off Greenock the other week looking at sites for the council. Another huge set of challenges exists there, but I do not sense dynamism in the physical regeneration process.

The Convener: Three linked questions arise. One is the planning or land-assembly question of whether we have sufficient capacity to purchase and acquire the necessary land. The second is about the integration of economic development activity with transport infrastructure. If we identify a project, we need to consider whether we can co-ordinate the different issues that we need to unlock to make the project work. The third is a process issue about where economic development sits in the Executive.

Alf Young: There is also a cross-cutting issue because a lot of players out there want to have a say.

The Convener: You are saying that the number of institutions is a barrier to progress.

Alf Young: The number of institutions has always been a barrier to progress. I am not sure what the evidence is for George Kerevan's claim that local authorities are a better economic development delivery vehicle at micro level than are the local enterprise companies. There are many agencies.

In the first session of Parliament, I was an adviser to the Enterprise and Lifelong Learning Committee in its first inquiry, which was on the delivery of economic development. I recommended strongly that that committee take a stronger line on rationalisation of the bodies that carry out delivery, but the committee fudged the issue and recommended the creation of local economic forums, which I despaired at. The Auditor General for Scotland now says that the

local economic forums should be wound up and that they are trying to create a life for themselves. That is the trouble; if we create a new agency, it will create a life for itself and the system will become even more complex. The great virtue of the regeneration agencies in England in the 1980s and 1990s was that they had to die in 10 years; they had to get the job done and go.

John Downie: I agree with Alf Young that the Enterprise and Lifelong Learning Committee was not strong enough and that we did not rationalise the system enough. We still have an amalgamation of local authorities and LECs working on economic development, but one organisation should take the lead.

A bigger issue—to which the convener and Alasdair Morgan referred—is about where the Executive might best spend money to improve economic performance. There are three main possibilities. The Executive could spend money on intervening in the market, as Scottish Enterprise has done at certain times to try to second guess where the private sector will underperform. We have tried that with business start ups, high-growth firms and clusters. We can spend money where there is clear market failure, which is about individuals or geographical areas in which there is little or no contribution to the economy. That relates to skills and training and aspects of physical regeneration.

The key, however, is to spend money on public services that improve the economic environment. We are talking about education and infrastructure. In the other two areas there is less evidence to say that we are getting the best economic bang for our buck. On the returns on investment in physical infrastructure and education there is a lot of evidence of policy success. Less risk is involved and the returns are more certain in that type of investment.

Any enterprise agency and any Executive would have a combination of spending on the three areas to which I referred, but it is about how we prioritise things to get the biggest economic bang for our buck. The Executive has spent a lot on transport and we have invested more in broadband, but investment in infrastructure has perhaps been marginalised over the past few years as Scottish Enterprise has moved to being a more business-support type agency.

Jim Mather (Highlands and Islands) (SNP): I am interested in Alf Young's idea of looking in the wing mirror at what has happened in the past and considering indigenous heavy industries, such as coal, steel, shipbuilding and the new industries of smelting and pulp mills, and the electronics industry. The message is that we are not able to sustain long-term competitiveness. On what outcomes and measures of economic

performance and competitiveness in the long term should we be focusing?

Alf Young: The debate tends to cluster around the idea that we should set a target for growth for Scotland. I am told—it comes up all the time—that other people set such targets and am asked why we do not. I went looking for the Irish growth target the other day. I read a great many things, such as the national development plan and the economic review and outlook for 2004, but I have still not found the target. Governments make forecasts of how they think their economies are going to grow, but it is not my experience that they set targets, because, being politicians, they are too smart and realise that if they set a clear target for growth and do not meet it that is another stick with which the electorate can beat them.

I am not convinced that we should become pioneers in setting a growth target, but that does not mean that we should not project how we think the economy should grow in the years ahead, in the same way that Gordon Brown has done in his pre-budget report—he went against the city consensus and said that the UK economy is going to grow between 3 and 3.5 per cent next year. I have no problem with projecting expectations of growth; I just do not see that it is politically sustainable to have a target for growth.

Jim Mather: Gordon Brown might or might not have made a stick with which to beat himself. In Ireland the rate of economic growth is the stuff of day-to-day debate in the press. The Irish look at what the rate is and what it is anticipated to be in the future. The data that we have in the public domain, such as population figures and international competitiveness indices that come in from the International Institute for Management Development and Robert Huggins and Associates, paint a picture that gives us genuine cause for concern. The prospect of losing 550,000 economically active people by 2043 surely suggests that we need to do something different. If so, what should that be?

Alf Young: I accept absolutely that we face major challenges, such as the demographic challenge and the competitiveness challenge. All I am saying is that the tenor of the debate that I observe and write about regularly seems to be focused so relentlessly on the downside that we make the task of upping our game even harder. The point of looking backwards is not just to be nostalgic—I have turned 60—but to understand the world that we have lived through.

In my lifetime, the Scottish economy has experienced massive shocks and has survived all of them. If I look around this country of mine, I find that it is not exactly an economic basket-case. I want simply to engage in a more meaningful debate about how we move forward. That may

include setting a clearer forecast for Scottish growth. It certainly involves focusing on what demographic statistics are telling us, although the registrar general keeps moving the goalposts. He told us that the Scottish population would go below 5 million in 2009, but a year later he told us that that would not happen until 2017. With that margin of error, setting targets becomes fairly difficult.

Jim Mather: If we drill down there is a steady trend in relation to people who are economically active that is worth considering. We must ask ourselves why, when the economically active population is dropping like a stone, our forecasts stop at 2043, whereas those for the UK continue until 2073? Is a worse story coming in that gap? Is there something fundamental about which we need to start thinking?

Alf Young: I do not know whether a worse story is coming.

The Convener: Get your crystal ball out.

Alf Young: Young women may rediscover fertility—I do not know. All sorts of social changes may take place in the next 50 years. We have no way of predicting those. Demographers simply take the graph, point it straight into the future and say, "That's where we're going." They know no more than I about where we are going.

Jim Mather: Population decline holds out good prospects for GDP per capita. Donald MacRae tells us that the figure in Scotland is 94.6 per cent of the UK figure, but Nicholas Crafts tells us that it would be 21.3 per cent higher if we could get life expectancy in Scotland up to the same level as in the UK as a whole. That dodgy piece of data, divided by the policy failure of population decline, is no comfort. When we are down to one pensioner and one oil rig, GDP per capita will be great.

The Convener: Donald MacRae would like to comment.

Donald MacRae: I will be quick, convener. I am not into counting angels on pinheads. First, I am optimistic about Scotland's future. We should never forget that we have many advantages. History shows that the only time when Scotland's population grew substantially was during the second world war.

The biggest lesson that we should learn from our economic history is that there is no magic bullet. We cannot simply import a new industry, as we have tried to do on various occasions. It is much better to try to improve the indigenous economy. The smart, successful Scotland strategy is all about doing that. Unfortunately, it will take years for the strategy to take effect.

In my opinion, population is the biggest single issue facing Scotland. I will choose my words

carefully—our birth rate is low and we are still losing people. We should aspire to be in the top quartile of OECD countries—I have all the figures with me and can give them to the committee, if members wish. GDP is just one of 12 indicators of economic performance. I agree with Alf Young that setting a target will not in itself enable us to achieve it. However, it is important that we have a forecast of growth. If my memory serves me correctly, we have never had one—unlike the Chancellor of the Exchequer, who a few days ago predicted growth of 3 to 3.5 per cent next year.

So yes, we should have targets, but not just for GDP, and yes, in my opinion, we should aspire to be in the top quartile of OECD countries. The lesson from history is that we cannot import magic bullet solutions and must grow the economy. The biggest single challenge relates to population.

Dr Elaine Murray (Dumfries) (Lab): The refreshed FEDS sets four principal outcome objectives: economic growth, regional development, closing the opportunity gap and sustainable development. Alf Young referred to the problems that arise even in regions, where there are warring factions and competitive interests and people do not know who leads on what and what they are supposed to be doing. In his introductory remarks, George Kerevan referred to the need for an overall goal towards which everyone marches and that is accepted by the private sector and others.

When we took evidence from Welsh Development Agency officials last week, they suggested that there is a team Wales approach. Of course, we do not know whether their claims that things are an awful lot better in Wales are actually true—we have not looked into them—but the picture that they suggested was one in which people knew their role and were focused on the objectives that were set by the Assembly. People seemed to know their place in the jigsaw.

I do not ask people to judge whether that picture is true—although, if they know, they might want to say—but I want to know what is the best way to achieve a team Scotland approach without having warring factions and the different models of support that we have under Scottish Enterprise and Highlands and Islands Enterprise. How do we get that overall goal?

10:45

George Kerevan: I am tempted to point out that the Welsh Development Agency is being abolished and is not very happy about it. That suggests that team Wales is a more complex issue than we might otherwise have thought.

Having spent years considering the issue, I think that there is no synthetic formula for getting a

common view among all the disparate actors. The Irish found that their lead came together principally because their economy was going nowhere and, after 20 years, they had exhausted every other possible solution. Finland had a major shock when its economy went into meltdown at the beginning of the 1990s and was forced to respond.

The issue is difficult but ultimately—this may not help any of you—it comes down to political leadership. The problem cannot be solved synthetically simply by setting up an agency. That is the problem on Clydeside, on which I agree with Alf Young. The redevelopment of Clydeside could be a big motor for the Scottish economy over the next decades, but it has been stalled because it is trapped between the different agencies and local authorities. An agency cannot simply be imposed over that political friction. Somehow, the issue needs to be solved politically.

Alf Young asked what evidence there was for my view that local authorities have a role to play. The evidence is entirely intuitive—I admit the weakness of that—but I spent 12 years chairing a local authority economic development committee and I have chaired the board of a local enterprise company. It strikes me that, ultimately, the issue comes down to people and to political leadership, which usually emerges once all the other possible solutions have been exhausted. I do not think that the committee can put anything in its report that says how we do that, because ultimately it is a people thing. However, if there is one way in which that people thing might be made to happen more quickly, it is perhaps to have a more area-based approach to economic development rather than the sectoral approach that has been the norm of the enterprise agencies for the past decade. The sectoral approach might have had some merit 10 or 15 years ago, but I believe that we need to return to an area-based approach. Once people start focusing on areas, leadership might emerge.

The Convener: Do you mean area or conurbation? An important issue is whether we perhaps have too many areas in Scotland.

George Kerevan: If I had to vote, I would say conurbation.

John Downie: In the annex to our submission, we proposed quite strongly that the Executive needs a national development plan, by which I do not mean a five-year Stalinist-type plan. The Irish plan is probably the most well-known example. However, if silicon valley can come up with a development plan, I am sure that we can produce a national development plan for Scotland.

The key aims of such a plan should be: to identify the positive changes to improve growth; to stop the important negative changes that restrict business growth; and, most important, to set out

the Government's vision, objectives and priorities for the economy. As George Kerevan said, that takes political leadership.

An example is the refreshed FEDS document, which I do not think anybody disagrees with. However, after reading the document, it becomes apparent that everything is important to the Executive. You must prioritise. They are all issues, but the Executive must take the lead in saying which is the most important and allocate spending to it. That is the part that we have not quite cracked yet. The Executive wants to do everything but, frankly, it cannot. We need to focus on what we can deliver on. That takes political leadership and policy prioritisation, followed by spending allocation.

The Convener: That is exactly the point that we will put to the minister next week.

Alf Young: We must not misrepresent what the Irish national development plan is or became. Essentially, the plan was the vehicle for spending structural funds. Latterly, as those structural funds declined, it became something more than that. However, from reading the national development plan on the website, it becomes clear that it is about the distribution of resource to projects. In effect, the national development plan is an online auction for who spends what where in Ireland. It is not a national plan in the sense that the federation would like you to think.

Dr Murray asked about the FEDS document. Why do we have both FEDS and "A Smart, Successful Scotland"? Why do we need two big, heavy policy documents on how we manage economic development in Scotland? It seems to me that the confusion about agencies that I talked about is superimposed on confusion about policy, because we have two potentially competing statements of where we are going, although there are huge areas of overlap. We do not need two documents. I have written about the matter and have been professionally involved in it for 25 years, but I do not know what the public makes of it. I suspect that they do not make anything of it, because at every level in the system there is utter confusion about which document is the statement of approach and who is delivering on it.

There has also been an unwillingness to make hard decisions. In one sense, the creation of Scottish Enterprise and the local enterprise company network was about bringing training into the game and not concentrating only on physical development and business support, but it was also about spreading the goodies around Scotland so that nobody felt left out and everybody got them regardless of their economic circumstances. As Donald MacRae pointed out earlier, we have a disparate economy. The performance of north-east Scotland and Edinburgh stands up in

comparison to the performance of many vibrant and prosperous areas elsewhere in Europe, but we also have areas of huge challenge and problems. Regardless of that, everybody gets their share. We are not even thinking in terms of economic development when we design the infrastructure for delivery.

John Downie: If we compare the assessment of the weaknesses of the Scottish economy in the FEDS document with the measurement in "A Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland", which was published in 2004, we see that there is not a particularly close match between the problem areas and Scottish Enterprise spending. There are winners and losers but they do not match up. That seems to me to be a clear problem. When we identify weaknesses, we should spend to address them.

Dr Murray: This is perhaps a philosophical question for people in the media, but is it possible to achieve consensus about goals in the Scottish political system, which is based on conflict? The media also play a confrontational role rather than being consensual. Within the Scottish political scene, is it possible to have the type of political leadership that would enable everyone to sign up to a strategy for Scotland?

The Convener: I call Donald MacRae, as a non-politician.

Donald MacRae: As a non-politician, I point out that part of the Irish transformation was the achievement of the consensus that Elaine Murray mentioned. Ireland's economy has growth at an enormous rate that is significantly greater than that of many other countries, and its GDP per head is almost at the top of the league of OECD countries. However, the reason why Ireland got that consensus is that its situation was so poor. It was well down the league. Those two things have to be considered together. I agree that competitiveness is critically important, and it too is part of the reason behind the Irish transformation. In answer to your question about whether that transformation is achievable here, there are people in this room who are much more skilled at answering that question than me and they are sitting on the members' side of the table.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): Perhaps it is something to do with reaching the magic age of 60, but I recognise many of the frustrations that Alf Young mentioned about the intractable problems with our economy in Scotland that we seem to have had for the past three decades. However, I challenge some of what he said. We went through the difficult period of getting out of heavy engineering when that industry became a branch factory and moved into electronics, but surely the biggest economic

opportunity that any country in western Europe was given during those three decades was the arrival of North sea oil. That should have been the catalyst to help us to move away from heavy engineering in the west to something related to developing a major oil economy, perhaps based in the north-east.

Back in the 1970s, Andrew Neil wrote an article in *The Economist* entitled "Eastward Ho! Westward Woe". What happened to that? Our economic growth rate per annum is currently 1.6 per cent, whereas the economic growth rate of Norway, which is the only other country that had a similar injection, is more than double that. How did we miss our opportunity?

Alf Young: I do not want to get into debate about that, sensing the party allegiances around the table. "Bring it on," says Jim Mather. The obvious difference is that, when the British Government discovered North sea oil, it allowed the multinational corporations in the industry to take over the running and development of the whole infrastructure. The Norwegians were much more canny in exploiting that opportunity, in developing significant players in the sector and in dealing with the revenues that flowed from the production and the rest of it. We missed out on much of that.

The number of Scottish companies that have emerged from 30 to 35 years of oil production in the North sea is very small. A bigger impact has probably been made on the private sector in Scotland by the privatisation and deregulation of things such as milk, transport and the utilities than has been made by the discovery of oil. It is a sad reflection of policy making in that era that we did not do more to exploit that opportunity. People created significant businesses, which I do not intend to belittle. The Wood Group is an obvious example of a business that now has global reach, and others in more specific niches did very well out of the oil industry. However, in general, the impact of that resource on our economic development has been very limited.

At the same time that we had the opportunity to exploit the discovery of oil, we were going around the world touting for big mobile plants almost regardless of their long-term stickability in the Scottish environment. I got terrible stick 20-odd years ago when Roche brought its Dalry vitamin plant to Ayrshire. I rooted around in the numbers and wrote a story about how much that cost per job. Roche flew six executives from Switzerland and London to Glasgow to confront me and my editor because it was thought that I had stolen documents from the company. All that I had done was root about in the public record and assemble a credible estimate of how much it cost—I think that the figure was about £110,000 per job. Was

that a good investment? The company is still there, producing vitamins. It has continuously supplied employment in that part of Ayrshire for more than 20 years. Arguably, it was a good investment; however, we do not know because nobody ever conducts post hoc analyses of such things. When Hyundai established its plant in Fife recently, I did the same thing, helped this time by some leaked material about how much it cost—and we know the end of that saga.

Against the big bets that were being made by politicians and their officials, a huge opportunity existed for us to build viable knock-on industries from North sea oil production, but we did not really seize it.

Mr Brocklebank: The one thing that our Government had control over was the infrastructure, which could have been recognised as a massive economic opportunity. The road works, the railways and all the rest of it could have been set up as a matter of urgency; however, that was not done at the time. It was 10 years later, in 1980, that the road between Dundee and Aberdeen was dualled. The blame for that could be laid at the door of the politicians.

Alf Young: I once spoke at an away school for the former Scottish Office transport department. I asked who planned the roads strategy in Scotland and why we did not have proper road links with our biggest market, England, and with the North sea oil industry. The apocryphal story is often told of a Japanese inward investor being taken round the M9 to lunch in one of those nice restaurants out in West Lothian and saying, "How nice it is of your Government to close the road for my visit." That says something about roads strategy in Scotland over the past 25 years.

George Kerevan: Just on historical accuracy, we always forget that the Scottish financial sector was saved by North sea oil. Without it, we would not have the Royal Bank of Scotland and we would not have had economic development, whereas Norwegian banks just collapsed disastrously during the 1970s. There are swings and roundabouts.

11:00

Mr Brocklebank: The fact is that, in the year of grace 2004, we still do not have a dual carriageway between Peterhead and Aberdeen, which was the main landfall for North sea oil.

The Convener: Economic growth is not a major criterion on which we base decisions on transport projects.

Ms Wendy Alexander (Paisley North) (Lab): The panel will be relieved to know that I will not ask them whether FEDS is really shaping our

priorities because I thought that that would waste all our time.

I want to ask a slightly more thoughtful question about the debate on economic development. I am about to flatter the panel. I think that John Downie probably comments on the economy in the public prints more than anyone from any other business organisation does; Donald MacRae is probably the most quoted economist in Scotland; and George Kerevan and Alf Young are probably the most respected economic commentators in Scotland. You are a significant group of people in terms of shaping public opinion about the economy.

My question is how we make the debate about the Scottish economy more sophisticated. Let me touch on three examples from the past week. I do not want to hear an answer that refers to political leadership, because leadership reflects, in part, the issues that are on the agenda. There is a real problem about how economic issues are reported, regarded and placed in Scottish life.

The first of my three examples from the past week is the fact that we are about to have a discussion on public finance in Scotland in which the Executive has used a methodology that is not used in any other document—treble counting has not been used for years. However, in terms of coverage, that merited one very nice paragraph at the end of an editorial in *The Herald*. We are about to demonstrate efficiency savings of £745 million. However, when we take out of the equation Scottish Water, which should not be there because it is not covered in the departmental expenditure limits, the real savings figure is, in fact, £645 million, so the total savings from 2005-06 to 2007-08 will not be £1.7 billion, as the Executive claims. However, every political correspondent in Scotland reported the £1.7 billion figure, which was believed to be correct. We will not get that story updated, although it is about the spending of a fifth of the Scottish budget.

Secondly, the chief planner in the Development Department sat in front of us two weeks ago and said that of course the Executive published data about major planning applications in Scotland and delays to them. He was wrong. We received a letter from him yesterday in which he admitted that he had never published such data. In fact, the data show that, although the Executive's target figure is 80 per cent, we process only 49 per cent of major planning applications in Scotland on time and that the trend has gone 10 per cent in the wrong direction in the past year. Our two growth spots are Edinburgh and Aberdeen, but only 26 per cent of major planning applications in Edinburgh are processed in time and the figure is similar for Aberdeen. God help us! The chief planner does not know that we do not even publish the data, but nobody cares.

Thirdly, there will be a statement on non-domestic rates tomorrow. We have finally got to the fact that there has been a cumulative windfall based on a cumulative underestimate of almost £400 million in the past four years. The interesting debate is what we do about that.

You guys write and comment on the economy more than anybody else in Scotland does. I do not doubt your commitment to the issues, but we have a problem with the sophistication of the economic debate in Scotland. The issues are not up there in the way that they need to be. It is not solely about the work of the Finance Committee and its advisers. My question to the panel comes back to the Irish example, in which politicians did not put the economy on the agenda. How do we get not just you guys but your newsrooms and your organisations thinking that this stuff matters?

The examples that I gave were just from the past week. I accept there have been only three such examples in the past week, but that is true for many weeks in the year. I do not know how we fix that.

The Convener: That was quite a long question. I hope that we get shorter answers.

George Kerevan: I have two possible answers to that. The first is one that you will not like. I cannot see that economic development will become the central political issue until the Barnett formula runs its course and you guys have to raise the money. At that point, all bets are off, you have to take the issue seriously and it becomes a major issue for the general public.

I will throw brickbats in our direction by saying that I do not think that the media handle economic development discussions well. The problem is partly structural as the print market is extremely competitive. The London newspapers do not particularly care about economic development issues in Scotland and those of us who are left here have to fight our corner for news space. The Sundays probably do it better than the dailies, but journalists have to play to local markets. Television is a linear medium that does not deal with issues in any great depth. I often feel that the lack in Scotland of a weekly news magazine, which the Irish have, is a problem. Having said that, however, although the Irish press environment is slightly different to ours, people are still subject to competitive pressures—like Scotland, it is one of the most competitive newspaper markets in Europe—and I am not sure that the Irish press necessarily deals with the question of economic development any better than we do.

Although there is a problem with the way in which the media deal with the issue, we will handle the issue better when it becomes a much

more primary political issue. However, given the fact that the Barnett formula is still in existence and there are still a good number of jobs around, the issue has not become a central one.

John Downie: We have to communicate more clearly the benefits of economic growth, which are more jobs, higher wages and increased standards of living. We do not relate the issue to people's everyday lives. We have been examining the issue of having a Scottish index of success or well-being and taking into account other considerations. We are talking about standards of living, economic activity, length of life and Scotland's future potential but we have to approach those matters in relation to people's everyday lives. To the man in the street, talk of Scotland's GDP or economic growth figures is meaningless. However, attracting inward investment or creating indigenous businesses comes down to jobs, people's standard of living and the amount of disposable income that they have.

One of the reasons why people do not engage in the economic development argument is that we do not do enough to relate the bigger picture to people's everyday lives. Our members are concerned about how their businesses are doing and what is happening in their local business environment, which, as George Kerevan said, is influenced more by the local authority in terms of planning and so on. Most people do not enter the big, strategic debate. We find it hard to get people to concentrate on and consider the big issue and it would take a strong effort to engage people in the debate. That would be a lot of work and I feel that, until the *Daily Record*, which is the best read paper in Scotland, has a weekly business section—

Alf Young: It has a daily business page—page 57.

John Downie: Yes, but until it has the four or five pages of business news that *The Scotsman* and *The Herald* have, there will be no impact. We need to get the debate going at that level and engage a wider audience. There are ways of doing that, but it would take time.

Alf Young: I do not have an easy answer to the question. Wendy Alexander gave three examples. When the Treasury started to become engaged in double and triple accounting to try to prove that it was spending £40 billion on health and education in the early years of the first Blair Government, I was one of the journalists who pointed out what it was doing. I should point out that what we are talking about is not triple accounting; it is counting three years together and saying that, over those three years, the saving is £1.7 billion. I have made that point several times in the past few weeks.

The issue is difficult. When I have been writing about efficient government stuff recently, some people in my office have said, "You are the only person who understands this." There is an issue of understanding in the nature of the debate that we have with one another. John Downie is right to say that the man in the street knows nothing of GDP.

As I was sitting at nine o'clock last night trying to cobble something together on the back of some production figures—because I had been here all day and was trying to get a column away before the deadline—I was thinking to myself, "Who reads this?"

Ms Alexander: We do.

Alf Young: Maybe my answer is that what we all need to do is to think about the nature of the contribution that we are making to the debate and about whether that contribution will encourage other people into the debate in a meaningful way or whether it will simply exclude and alienate them. Part of that is about the tenor of the debate. This is the last point on history that I shall make but, given where we have been, a debate that relentlessly focuses on the negatives in our current economic condition is a debate that raises in people's minds fears of mass unemployment, both in the private sector and in the public sector. That is something that scarred us for decades.

My only brief period of activity in politics was in the 1970s, when Scottish unemployment relative to the UK as a whole was somewhere around two and a half times as bad. Politicians turned cartwheels to try to address that challenge, which is why a lot of those crazy chunks of money were flung at things that we were never going to sustain. Maybe we need not a national plan but an inclusive national debate about our strengths and weaknesses and about how we can make the strengths stronger and address the weaknesses.

The Parliament building cost a lot of money. It is a great venue for having more than just MSPs debating the issues of the day in it. Maybe there is a place for holding a national debate every six months to which not just the great and the good can come along to make their contribution, but to which people who want to discuss the economy can come. When we look back and ask whether the building cost too much, we might actually conclude that it fulfilled more functions than we thought it would at the start.

The Convener: It is worth pointing out that some of the issues in the examples that Wendy Alexander gave may have come into the public domain because the Parliament in general and the Finance Committee in particular have been focusing more clearly on such issues, so the debate has been different from what was possible six or seven years ago under the old system.

Alf Young: Absolutely.

John Swinburne (Central Scotland) (SSCUP): I am not sure whether I found Alf Young's stimulating comments pessimistically optimistic or optimistically pessimistic.

Alf Young: I am an optimist, John.

John Swinburne: That is good.

You referred to the East Kilbride Development Corporation, which was a tremendous dynamic in the East Kilbride area and whose results are still there to be seen. People such as George Young did tremendous work there. When we consider the state of the indigenous industries in Scotland, it is quite remarkable that we are still managing to survive as an economy despite the tragic consequences of the disappearance of the steel, coal and other engineering industries.

I have read the papers that have passed across my desk in the past week. Donald MacRae, I think, referred to the fact that we are not doing a scientific study and that it might take five years for policies to come to fruition and to find out whether they were right or wrong. In a sense, it is a case of financial navel-gazing and keeping one's fingers crossed, because any project—

The Convener: Ask a question, please, John.

John Swinburne: The time it takes to find out whether a project is successful gives quite a bit of leeway.

FEDS and the other targets have been mentioned. All that is happening is that the Executive is hedging its bets. That does not con the people out there, because they can pick up on fundamental things like that. What do we need to do to put the thing on its feet and drive it in the right direction?

Donald MacRae: I will answer the question in a general way but, before I do so, I must say that, when a politician begins a question by flattering people, their question is usually serious.

I have two recommendations to make, which address both John Swinburne's question and Wendy Alexander's request for a big idea with which we can engage. The first recommendation reinforces what has been said about the need for the Scottish Parliament to raise more than it does at the moment, which is one of the only ways in which the governance gap can be closed and people can be engaged more fully in expenditure choices. People need to realise that the economy and its growth are of paramount importance. The population figures are an expression of people's view of the overall situation: people are voting with their feet and the Scottish population is either static or declining.

My second recommendation comprises two smaller ones. The first is that more use could be made of the Parliament's existing powers. The second is perhaps more controversial, and is that the Executive's overall finance function could do with being strengthened—it could do with being beefed up a bit.

11:15

The Convener: We will pursue the minister on some of the points that you have raised.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): It is good to know that Alf Young's thought processes are the same as mine. When I write a speech, I do not know whether anyone is going to listen to what I will say the following day.

Donald MacRae's last comment highlights the difficulty that we face in getting a long-term view. Although he said that the figures show that people are voting with their feet, the figures that Alf Young mentioned also show that more people from other parts of the United Kingdom moved to Scotland than left it over the past year. I appreciate that we are talking about miniscule numbers, but they could indicate the start of a trend.

Alf Young: The member is absolutely right and I was going to take Donald MacRae up on the point. People are quick to talk about people voting with their feet, but the demographic problem in Scotland is one not of out-migration but of the balance between births and deaths.

The last major period of out-migration was in the 1960s. If we look at the picture thereafter, we see that the 1990s was a period of net in-migration—at least it was in seven out of 11 years in that period. I admit that there is a small out-migration at the moment, but it is in penny numbers: the net balance is a few thousand. The days when the net figure for the number of people leaving Scotland on a £10 ticket to Australia or wherever was 40,000, 50,000 or 60,000 were in the 1950s and 1960s. The trouble is that people keep reiterating that people are voting with their feet and leaving Scotland—even political leaders say so—when the fact is that that is not the case.

Jeremy Purvis: That adds to Wendy Alexander's question about how we get a mature debate.

I represent a Borders community. We are seeing people move literally a few miles across the border to benefit—I assume that that is how they see it—from the Executive's social policies that have added to the quality of life in Scotland. I am not sure whether we do ourselves any favours by not having comparators to the quality-of-life indicators south of the border. We do not know whether we

have made any capture since devolution on the basis of our quality of life.

I want to return to issues of leadership and structures—the boring things, especially the latter. I benefit from the existence of the new ways group in the Borders, which brings together the local health board, the enterprise company, the council, the police and housing associations. The Borders is lucky because of the coterminosity of our boundaries. When Heriot-Watt University's proposal to take away the Scottish College of Textiles arose, I was able to chair a meeting of the new ways group at which the issue was discussed. All the agencies that had an interest in the college staying in Galashiels—from the local health board to the housing agencies—contributed to the solution, under which the university's residence is being outsourced to the local housing agency.

When we heard evidence from Jack Perry last week, he seemed to say that an enterprise company being interested in doing work for others was anathema to him—I accept that I am paraphrasing him. However, I can see the absolute benefit of having such an approach, instead of having three national documents, including the planning one, and multimillion-pound central agencies that do not provide support for local areas.

In my area, coterminosity is crucial in building relationships among agency leaders. Is that situation unique in Scotland and western Europe or are there similarities with other systems? We are trying to get answers from the RDAs in England, which appear to be similar. Do you know of similar models elsewhere that would let us know whether the long-term benefit of such an approach is economic development?

John Downie: We are getting better in that respect. For example, Alf Young mentioned local economic forums. After this meeting, I will speak at a local economic forum conference. I have always been fairly cynical about them, but our members on the ground have taken a positive approach that has allowed them to get together with the local authority and the LEC and debate the real issues that affect business. As a result, there has been positive partnership working. Some of them have done a good job of reducing duplication of economic development support, whereas others have not done that so well.

Mr Purvis's question relates to the whole community planning agenda. We are trying to ensure that our members give the economic perspective and reflect the local business environment. That should lead to more joined-up government at a local level, and I would love that approach to be replicated nationally. I have sat on a number of executive advisory groups and

committees. Indeed, I remember the meetings of the first manufacturing strategy steering group, and you could tell which of the 32 people sitting round the table were not going to give up their vested interest.

If we want to reach a consensus on the way forward, people will have to think differently. The same responses are being made now. People all focus on their organisation, their particular area or their policies. We have not done enough to break down many of the barriers in people's thinking and to show them that the issue is not simply about their organisation—it is about the Borders, for example, or Scotland. The situation is getting slightly better at a local level, but we are not quite there at a national level.

Alf Young: I was struck by the extent to which vested interests coloured the content in Peter Wood's analysis of the written submissions. Until we have a mechanism that rewards organisations that work porously and with common purpose and penalises in a material way those who stay aloof, organisations will stick with the silo view. If the committee seeks fresh thinking on the matter, it might begin to consider rewards for government agencies that work with common purpose and penalties for those that decide to stand aloof and not work in such a porous and effective way. I am sure that the committee could come up with all sorts of carrots and sticks.

The Convener: We should finish up the discussion by focusing on higher education, which everyone claims is crucial to economic development. Having worked for a long time in that environment, I agree with that. Picking up on Jeremy Purvis's question, I wonder whether higher education institutions collaborate adequately with each other or with other economic development organisations. Could reshaping the system give us better results? Has the Scottish Executive ducked that issue so far?

Donald MacRae: I was interested to note that Scotland compares quite well with other countries with regard to the percentage of graduates in the workforce. However, I am concerned about the number of people who come to Scottish universities, are educated at our expense and then leave the country. That was what I was trying to get at when I referred to the migration of people.

Perhaps we ask too much of our academics. After all, because of the research assessment exercise, they have to publish many papers every year and we are also asking them to commercialise their research, which is extraordinarily difficult. We have to examine that method and look into how academics are assessed. I appreciate that that does not really come within the scope of the committee's inquiry, but I really think that our academics have been

asked to do too much. If we have to improve commercialisation, academics must be given a change of incentives with respect to how their work is measured.

Many people are going into further and higher education—the proportion has fallen slightly, but it is certainly in excess of 50 per cent. Personally, I believe that we should put more effort into nursery and pre-school education, as opposed to the tertiary sector.

John Downie: I agree with that. The number of graduates has fallen by 2 per cent, but I do not think that that is an issue. However, the skills gaps and shortages in the Scottish economy—where businesses are crying out for people—probably lie below the graduate level. That is more an issue for the further education sector.

We have been producing ever-higher numbers of graduates, but are they contributing to economic growth? There is a bigger issue about where we are spending with the aim of benefiting the economy in the long term. We have been saying for a long time—and Jim Heckman has been saying this as part of the Fraser of Allander lecture series—that investment in pre-school and primary education is the most effective strategy in the long term, as that sets people's learning patterns and ensures that they are literate, numerate and can communicate. Those are the basic skills that we need to get on in life, never mind in work. It is about the bigger picture and deciding where the Executive should spend its money. At the moment, we should be spending it in the pre-school and primary school sectors.

George Kerevan: The debate around nursery education relates to where we get the biggest return from marginal increases in expenditure. We should not make a wrong suggestion here. I heard a hint there that we should not be spending money on universities.

John Downie: No; I was saying that there is a balance.

George Kerevan: The debate is about where marginal money is going. I spent 25 years teaching at a university, and I used to despair about the abilities of universities, and even departments, to co-operate with one another. That has dramatically changed. Over the past decade, university principals and senior management have become much more committed to working with each other, particularly on a city basis, and to collaborating with business. If anything, the problem is demanding of universities more than they can achieve in the short term.

There are places where marginal improvements could be made in universities for economic development reasons. Among universities throughout the world that are supported by

Governments for economic development purposes, the trend has been to give them money to import major academics and whole research departments from other countries. Singapore is doing that wholesale. That is where you should be looking.

As I have written, I am slightly dubious about the intermediary technology institutes—the ITIs. If you are considering how to put marginal money into the universities, it could be used to attract academics from elsewhere.

The Convener: I think that we will have to stop at that point, as we are running short of time. We have one or two other items on our agenda. I apologise to Jim Mather, who I think was wanting in again. I thank the witnesses for coming along. As Alf Young said in his opening remarks, this is a difficult and complex inquiry, and I do not think that we expect to get definitive answers out of it. However, I hope that we will be able to probe some interesting areas and that we will raise some questions in our scrutiny of the Executive. I thank the witnesses for contributing to that.

11:28

Meeting suspended.

11:39

On resuming—

Efficient Government

The Convener: The second item on our agenda is to take evidence on the Executive's efficient government plan, which was published last Monday and debated in the Parliament on Thursday.

I welcome Tom McCabe, the Minister for Finance and Public Service Reform, to the committee. With him are Colin McKay, who is head of the efficient government team, and Richard Dennis, who is the finance co-ordination team leader. I ask the minister to make an opening statement, if he wants to, and we will then move on to questions from committee members.

The Minister for Finance and Public Service Reform (Mr Tom McCabe): Thank you for the invitation to come to the committee and to go into more detail about our efficient government plan. I apologise for the need to reschedule the meeting in light of the slight hold-up in the plan's publication, but I expect this to be the first of many discussions that we will have on the subject in the months and years to come, as I am sure that the committee will take an increasing interest in the plan's progress.

The efficient government initiative is a long-term change programme. It is designed to achieve continuous improvement not only through targets for savings but through the culture change that is necessary throughout the public sector in Scotland. The programme is a challenge for Scotland's public sector in its entirety—Executive departments, non-departmental public bodies, national health service boards and local government. It excludes no one. As we seek the culture of continuous improvement, we need to make it clear to all aspects of the public sector in Scotland that they are included in the aim of establishing a different culture in how we go about our business.

That is all designed to achieve a system that delivers more efficient services to our customers. We want to do that by taking action that pays attention to the changing needs of society, the need to regenerate some of our more challenged communities in Scotland and the need to ensure that those who depend on public services have confidence in them. It is right that we ask hard questions about what we can do better and that, in doing so, we look outside individual organisations. People must be prepared to think across the public sector, not only in their own silos, and we need to examine the opportunities for joining up where we can. We need to ensure that individual organisations in Scotland do not continually

reinvent the wheel, but show a willingness to learn from others and pick up the best practice that is established.

The efficient government initiative is about ensuring that we gain the maximum possible return from the substantially increased public resources that have been made available over the past five years and the continuing increases in some of the priority areas that were identified during the 2004 spending review. It has developed from a growing awareness that we need to become more sophisticated in how we do business. We have said on many occasions that we have new constitutional arrangements in Scotland. Those arrangements are maturing and it is important that the public be confident that they are generating a different, more productive approach. We should ask questions about how our society has performed in the past and seek to improve that performance in the future.

We debated the efficient government programme in the Parliament last Thursday and I was encouraged by the number of members who wanted to engage in analysing how we could have done better in the past and how we can do better in future. Of course, there were also members who tried to indicate that it is implicit in the improvement of efficiency now that we must have been wasting millions of pounds in the past but ignoring it. However, that takes no account at all of the changing situation, the development of technologies, the fact that structures that might have been appropriate 10 years ago are inappropriate now, the fact that structures have been imposed on some areas of the public sector, particularly local government, or the opportunities that now exist to right some of the wrongs of the past.

Within the plan, we have set out clearly what we intend to save. We have identified, by 2007-08, £745 million of recurring cash savings and £300 million of recurring time-releasing savings. We have indicated that our initial work suggests that we might be able to go further on both those figures, and it is important that we stretch our ambitions. We have also indicated that we will confirm how far we think we can go in the new year.

11:45

Those are the top-line figures, but the projects that will deliver the savings and combine to make up the totals are equally important. We have tried to build up the totals case by case.

The plan sets out a range of savings across the public sector. We have indicated that there will be central co-ordination in five specific areas: asset management; absence management;

procurement; shared services; and the streamlining of bureaucracy. Of course, what is crucial is how we go about the programme. We intend to use a strong project-management approach to ensure that we are robust on analysis, milestones to monitor progress, governance, risk management and realising and tracking the benefits of the initiative so that we can demonstrate to people in Scotland what the outcomes have been and how those have benefited the services that they depend on.

We have also indicated that, in the new year, we will publish technical notes that will give more detail on some of the areas to which I have referred and will explain how we will measure and track progress across those areas.

We have established a team to drive forward the initiative within the Executive. We intend to second individuals from both the public and the private sectors and we will continue to work with the advisory panel of experts to develop longer-term plans to ensure that this is not a three-year or a five-year programme but a much longer programme of cultural change within the public service in Scotland.

Within the next two weeks, we will hold the first meeting of the reference group, which will try to ensure that we have strong communication to and between different parts of the public sector. I will also meet the public service forum, which will enable me to engage with trade unions to get their thoughts on how they can best contribute to the process of having more efficient government in Scotland. We will continue our discussions with John McClelland, who has kindly agreed to come on board and make available his expertise in procurement.

As we have done our best to make clear in the document, we are determined that the savings should be transparent and independently auditable. As the Minister for Finance and Public Service Reform, I will regularly monitor progress and will ensure that Audit Scotland also has a strong role.

As I said, I see this as being the first of many visits to the committee. I am keen to engage with the committee on how we can monitor progress in a robust way. I am keen for the committee to put forward any suggestions that it has for making the overall programme more effective in its impact.

We have done our best to demonstrate that we have high aspirations. We are determined to achieve them through robust analysis, careful planning and a focus on the long term and not only on short-term hits. As I said, the entire programme is predicated on a desire to improve public services and to ensure that they continue to have the confidence of the public. Our desire is to

create a situation that maintains the high regard that people in Scotland have for the public services that they receive and which demonstrates to the public that we have an aspiration to ensure that, as our demographics and society change, we continue to provide services that are relevant to people's lives on a daily basis.

I am willing to answer any questions.

The Convener: Thank you very much. I am sure that members have a series of detailed questions. I will kick off by asking a broad question about how the organisation will work. A number of comments in the press suggested that the route that you are going down would be akin to fulfilling the role that the Treasury plays in managing expenditure within departments—perhaps in this context the equivalent is the expenditure directorate within the Treasury. If that is an accurate analysis, how would that role pan out? Is there any intention to deal with the separate arrangements that operate for financial management in health as opposed to the rest of the Scottish Executive?

Mr McCabe: I see my role as the Minister for Finance and Public Service Reform as being crucial in monitoring the process. I certainly intend to hold a series of bilaterals with my colleagues with other portfolios, which will assist us in monitoring progress towards the targets. In the longer term, I certainly see a place for a more co-ordinating role for the Finance and Central Services Department. I will resist drawing the direct analogy with the Treasury, but five years into devolution we need to develop the mechanisms for taking a more comprehensive approach to the monitoring of our overall expenditure. It is important that there is a discrete responsibility for driving the programme forward, which is what I will do by engaging with colleagues with other portfolios.

Mr Brocklebank: I note your claim that you have set out clearly in your document the proposed efficiency savings. I have a short question for you. There has been debate about whether savings proposed under the Gershon formula for England will be more or less than you are proposing to save here in Scotland. Will we be saving more or less?

Mr McCabe: I have said this on many occasions and I will say it again: I am determined to do what is right in the circumstances in which we find ourselves in Scotland. I do not believe that there is a direct comparison between the circumstances here and the circumstances that exist south of the border. For instance, a large proportion of the savings that are generated through the Gershon review come from departments such as the Ministry of Defence, the Inland Revenue and the Department for Work and Pensions. We do not have comparable departments here.

We were all elected to a new Scottish Parliament that would enable us to have a different focus on the situations in which we find ourselves and to come up with innovative solutions that improve those situations. That is what we are trying to do. Some people are determined to draw comparisons with other parts of the United Kingdom. I have said before that that is their business, but I do not necessarily think that it is my business.

Mr Brocklebank: But it was the First Minister—not anyone else—who made the comparison in the first place, at the Fraser of Allander institute, and it has been repeated more than once since then.

Mr McCabe: The First Minister indicated that his ambitions were as wide, or wider, than those of anyone else in the United Kingdom and that he was determined to create a set of circumstances that would ensure that we deliver in the most efficient way possible public services that are relevant to people's lives. The First Minister holds to that ambition and I agree with him entirely. In order to live up to that ambition, we have to react to the circumstances that we have here in Scotland. I do not think that we necessarily do that to best effect by continually comparing ourselves with others in different parts of the United Kingdom who deal with a completely different set of circumstances.

Mr Brocklebank: That is perhaps not so, because we believe that the appropriate figure for comparison with Whitehall is something like £650 million in cash-releasing savings plus £300 million in time-releasing savings, which gives a total of £950 million or 3.7 per cent of Scottish DEL to 2008. The comparable percentage target for savings throughout Whitehall was 7.3 per cent. If we compare like with like, our savings are approximately half the Whitehall savings.

Mr McCabe: I do not agree with that. The figures can be cut in a number of ways. I do not think that this kind of discussion is particularly helpful to people in Scotland. What they want to know is whether we intend to provide public services more efficiently and whether the resources that are released as a result of the process will be applied to deliver more comprehensive services. The answer is yes in both cases. People want to know what we are going to save year on year. We have been explicit about that in the document and have illustrated what the cumulative savings over the three-year period will be, which it was entirely right to do.

Alasdair Morgan: I know that this might not make good television, so I am sorry to come back to the table on page 4 of "Building a Better Scotland: Efficient Government—Securing Efficiency, Effectiveness and Productivity". You

have added up the total aggregate cash savings to get a figure of £1,732 million and there is a percentage below that figure of 8 per cent. What does the 8 per cent refer to?

Mr McCabe: It is 8 per cent of the 2004-05 baseline.

Alasdair Morgan: However, the £1,732 million is accumulated over three years: it is the sum of what you will save in 2005-06, what you will save in 2006-07 and what you will save in 2007-08. How can it be valid to express three years of savings as a percentage of the figure for one year?

Mr McCabe: Are you saying that the figure is wrong?

Alasdair Morgan: I am saying that arithmetically it is absolutely meaningless.

Mr McCabe: That might be your view, but—

Alasdair Morgan: How can you take budgets for three years and express savings as a percentage of the figure for one year?

Mr McCabe: That might be your view, Mr Morgan, but we think that explaining to people in Scotland how much has been saved over a three-year period, which is what the figure does, is entirely meaningful.

Alasdair Morgan: I am sorry, but you are saying that you will save 8 per cent of one year's budget in three years, or in years 1, 2 and 3.

Mr McCabe: Yes—by 2007-08. I am encouraged that you have found that the table gives as much clarity as you have tried to indicate. The table is extremely clear. We are not trying to hide anything from people in Scotland. We have clearly said what we would save in each year and what the totality of the saving would be at the end of the three-year period and we have expressed that as a percentage of the budget that existed at the start of the process. That is a perfectly legitimate thing to do.

Alasdair Morgan: When working out percentages, is it not normal to use a numerator and a denominator that cover the same thing? Apples cannot be taken as a percentage of pears, which is what is done in the document.

Mr McCabe: I do not see any reference to apples or pears in the document.

Alasdair Morgan: I will ask another question. You have taken the savings as a percentage of the 2004-05 budget, which is rather strange, given that the Treasury document clearly talks about percentages of each year's budget. If you are taking savings as percentages of the budget, would it not be more sensible to include only savings that were in the budget and not the

Scottish Water savings, which are not part of the budget? How can Scottish Water savings be taken as part of the budget?

Mr McCabe: The main topic of debate for people on Scotland's street corners this afternoon will not be that, although they will be saving £95 million, that figure is not contained in the departmental expenditure limits in Scotland. People will want to know that a saving has been identified in Scottish Water that adds to the total saving that will be generated in Scotland's public services. People will see that as a good thing, particularly if such savings are reinvested in services that are delivered to them.

Alasdair Morgan: But the Scottish Water figure is not part of the draft budget and the DEL of which we are calculating percentages. Therefore, why was it included in the percentage calculations?

Mr McCabe: Scottish Water does not operate in a parallel universe—it is an important public service. People in Scotland pay for it; it does not pay for itself. If it generates substantial savings, it is appropriate for me to illustrate that to the people of Scotland.

Alasdair Morgan: Perhaps one of your officials can explain how the percentage is reached and how it is arithmetically valid. I am sure that the First Minister would be interested, as he used to be a maths teacher.

Richard Dennis (Scottish Executive Finance and Central Services Department): You will notice that the table clearly refers to percentages of 2004-05 expenditure and not to the budget. We made an allowance for Scottish Water's turnover in addition to the 2004-05 DEL. Scottish Water's estimated turnover for this year is between £800 million and £1 billion. At the level of decimal points in the table, the percentages will stay exactly the same if that is included or excluded.

Alasdair Morgan: So are you saying that it should have been excluded.

Richard Dennis: It makes no difference. We included it simply because we wanted to compare apples with apples.

Alasdair Morgan: Does the same apply to the money going to Scottish local authorities in 2006-07 and 2007-08, which is shown as deducted at source? I think that it is correct to say that the money that is deducted at source does not appear in the document and that it was taken out before the figures for those years in the document were calculated. Is that correct?

Colin McKay (Scottish Executive Finance and Central Services Department): An assumption of a percentage efficiency saving that

local government would make was made in the spending review.

Alasdair Morgan: It is therefore not a saving on the figures that are included in the document, yet it is calculated as a percentage of the figures that are shown in the document, as it is included in the percentages at the bottom of the table.

Mr McCabe: Yes. It still illustrates the level of savings that will be achieved in Scotland.

Alasdair Morgan: But that is invalid if we want to calculate a correct percentage. A comparison is meaningless if you are using percentages to compare with percentages elsewhere.

Richard Dennis: I am not sure that I follow that entirely. In relation to 2004-05, the savings are on the expenditure that is published in the draft budget document that you are looking at. We have assumed that those savings will be made in the forward years. The forward years' budgets that are published in the draft budget do not contain a local authority budget from which one must take off savings to get the amount that the Executive will pass to local government.

12:00

Colin McKay: As I understand it, the English approach is also to take off the savings and show that amount as a percentage of the money that has been spent.

The Convener: The matter might have been easier to understand if the approach had been more consistent, but we will leave that issue.

John Swinburne: The minister would probably agree that it is wrong to argue about who has the highest target for savings, because there should be no limit to the savings to which we should aspire in the long run.

We have a lot of computers in this country and various organisations that do not seem to talk to one another. Tremendous savings could be made in debt collection—of council tax debts, for example. I see no reason why, when someone is liable for council tax and does not make the payment, the money should not be taken off through another computing system, such as pay as you earn. Does the minister agree that the present level of council tax debt is unacceptable?

Senior citizens may have their council tax raised because councils do not collect money properly or because they have not reached efficiency targets and so do not receive as much money from the Executive. Is there any way in which to ensure, through ring fencing, that senior citizens are not disadvantaged by increases? If council tax increases by 5 per cent while the pension goes up

by only 2.5 per cent, that means an awful lot to senior citizens.

Mr McCabe: Your first point is absolutely valid. I have said from day one that the constant comparisons with Westminster are not greatly relevant. The First Minister made it clear that his ambition is without limit, which has certainly generated comments in the months since he made those remarks. He said that Scotland can be a beacon for the rest of the United Kingdom and for other parts of the world and that we should not limit our ambition. I agree with that.

I agree with your comments on council tax. I have said to local authorities that I see no reason why the rates of collection in Scotland should be lower than those in Wales. The collection methods in Wales are different—for instance, the method of collecting water charges is different. I have said that our minds should be open and that we should at least consider how robust the evidence is that such methods have a negative impact. Clearly, we need to improve our rate of collection of tax and possibilities exist to do so. I spoke earlier about structures being imposed on people in the past decade. We have 32 different council tax collection systems in Scottish local government, which seems strange in a country of 5 million people. Opportunities exist for local authorities to join up their collection services and to consider how to pursue more robustly those who can afford to pay but who do not do so.

I have reservations about your suggestion on senior citizens because an extensive list of people might want their contributions to be ring fenced, too. The best measure that we can take on council tax is to get the collection rate as high as possible and reassure people that we will pursue with vigour those who can pay but who do their best to avoid paying. We will thereby demonstrate to decent citizens who meet their obligations that we are doing our best to recognise their efforts.

Dr Murray: I am sorry to be a bit of an anorak, but I want to touch on the issues that Alasdair Morgan raised. I have no problem at all with the argument that the aggregate cumulative cash-releasing savings of £1,732 million over the three years from 2005-06 to 2007-08 is not double or treble counting. It is clear that you are saying that that is what will be saved in the three years. I do not agree with the arguments about double and treble counting.

However, the percentages are a bit naughty. Not only are you comparing with a baseline that is further back than I would normally expect it to be—normally, I would expect percentages for one year to be based on the year before—but, with the cumulative cash saving, if we say that A is the expenditure limit in 2004-05, you are saying that the percentages for each year are X over A, Y

over A and Z over A respectively and then you put $X + Y + Z$ all over A for the total percentages. Mathematically, that is not correct: it should be $X + Y + Z$ all over $3A$. I know what you are trying to do, but it is not mathematically correct and it is a bit naughty.

However, I agree that nobody cares about that other than anoraks who are interested in maths; it is not the substance of the argument. My real question is: how confident are you about the robustness of some of the figures? For example, the Health Department is expected to make a £166 million saving in year 1. Other departments are building up to their maximum savings over time, but the Health Department is expected to make that saving from April next year. You say that that will be achieved through savings such as “£25m through preventing inappropriate hospital admissions”

and reducing emergency admissions. What sort of analysis has been done to produce those figures? A measure such as reducing emergency admissions depends an awful lot on whether there is an epidemic or a spell of bad weather during which a lot of elderly people slip on the ice and come in with orthopaedic complaints, as you know from your previous experience in the Health Department.

How robust are the figures and how will they be reported back to us? You said that a group will be meeting early next year. Will we be able to see details of how the savings have been achieved at the end of the three years?

Mr McCabe: The figures are robust. They come from an engagement between officials in the Finance and Central Services Department and officials in the various portfolio departments and from an engagement with the various portfolio ministers. As I said earlier, the reporting mechanisms will include regular bilateral meetings between me and other portfolio ministers.

The savings are achievable. In fact, I will go further and say that we expect some of the savings that have been identified in the health service to be improved on as a result of the investment that has been made in it. As I said, we want to ensure that the programme is auditable. I am willing to engage with the committee on that. Obviously, we have our own plans to ensure auditability, but if the committee thinks that there are useful ways in which we could better track some of the progress, I am willing to hear about them.

I agree with your initial comments about the anorak nature of some of the debates. It makes good knockabout stuff, but it matters not one jot to people in Scotland, who are interested in whether their services will improve and whether we are

doing our best to get the proper return for investment in public services, not in the abstract debates about percentages, whether we are doing better than Westminster or whether we are double or triple counting.

Dr Murray: Page 24 of the efficient government document identifies local government efficiency savings of £325 million in year 3, but the table on page 4 identifies a saving of only £246 million for finance and public services. It looks as though local government is being expected to save more than you are expecting to save in finance and public services.

Colin McKay: That is because, in the table, the savings in procurement throughout the public sector are aggregated. Part of that line is a local government procurement saving, so the £325 million includes procurement savings.

Dr Murray: So the balance is in the line “Other—non NHS procurement”.

Colin McKay: Yes.

The Convener: The relatively poor contributions from the environment and rural affairs portfolio and the enterprise and lifelong learning portfolio leap out from the profile of the savings. As far as the environment and rural affairs portfolio is concerned, it seems that people from Scottish Natural Heritage are expected to drive around less.

Mr McCabe: That is no bad thing.

The Convener: Perhaps not, but I therefore wonder why you are sending them to Inverness.

I presume that the arguments about multiple finance departments, multiple registries and multiple back-room functions apply to the university sector and further education sectors, too. Is there any intention to suggest that there could be collaboration in those areas? Do you expect to follow that up? Is that the kind of issue that you want to pursue in the environment and rural affairs and enterprise and lifelong learning portfolios?

Mr McCabe: I recognise that there will be differences, particularly in the first years, in the level of contributions from different portfolios. Clearly, we expect to generate significant additional savings in further and higher education, which could make an important contribution to closing the gap between the absolute figure of £745 million to which we have committed and the aspirational figure of £900 million.

You are right to identify the environment and rural affairs and enterprise and lifelong learning portfolios. We expect to drive out further savings in both those portfolios, particularly in further and higher education, which has had substantial

investments. We are at the start of a process, but we intend to seek considerable additional savings.

The Convener: I have one further anoraky question—I do not think that there is any harm in asking such questions. One of the big issues on which you are focusing is procurement, which is expected to deliver significant savings. However, in general, costs are associated with setting up procurement systems. Are any additional costs expected for NDPBs and agencies because of sharing services and getting into the procurement process? If so, have you quantified such sums as initial start-up cost or as recurring cost?

Mr McCabe: We have established a £60 million efficient government fund and we have invited bids into that fund. Some bids might call on the fund in order to create procurement platforms that will produce savings. We await bids and we will see what kind of call they make on the fund. However, there are existing platforms and expenditure streams that can be redirected. You referred to expenditure plans for NDPBs, but there are also expenditure plans for information technology and procurement within local government. Redirecting those funds could make a significant contribution to creating a new platform that would allow savings to be generated in the future.

The Convener: Is there an issue about the size of NDPBs in that context? You said that you are fusing key back-room functions, but I am not sure where the boundary of that might be. In a sense, that calls into question whether it is viable to have as many NDPBs as we have, particularly the smaller ones.

Mr McCabe: I make no apology for saying that I am surprised by the number of NDPBs that we have in a country of 5 million people. There is a great case for considering how we can rationalise those bodies. Since the creation of the Scottish Parliament, there has perhaps been a fear within local government that we have a centralising agenda and that, in some ways, we are taking powers away from local government. However, other than the Parliament, local government is the only direct line of accountability that we have in Scotland. There may be opportunities for considering what current NDPB functions we could incorporate into local government, which might allow the amalgamation of back-office functions and help us to see where we can save in the operation of NDPBs, of which we have far too many.

We legislate in the Parliament and people complain about regulation, but they also demand a check-and-balance mechanism in Scotland. We create a considerable number of new NDPBs, but we must start paying attention to the other end of the spectrum and see which ones we can eliminate, if that is possible.

Jim Mather: I am interested in the concept of beacon status. If we are to have that, we must have measurements in the first place and long-term credibility. I do not think that the document “Building a Better Scotland: Efficient Government—Securing Efficiency, Effectiveness and Productivity” gives us the credibility that external observers want to see. It would be good if John McClelland moved across from procurement and looked at what happens out in the real world. When people make savings, they book and bank them and move forward on a new cost basis; otherwise, they create not the mechanism to generate more savings, but a climate of complacency.

Beyond that, I am concerned about the accuracy of the data in the document. For example, there is a statement that health savings will be achieved by 2007-08 and yet the figures are reported from 2005-06. Then there is the issue of the finance and public sector background data not tying in with what is in the foreground summary statement, and likewise for justice. There is no detail about other non-NHS procurement and no detail on the Scottish Water non-DEL—in fact, there is a question mark about why Scottish Water should be included in the first place.

It is a weak document that would not stand up to audit and which would give comfort to Scotland's competitors.

12:15

Mr McCabe: The document details how we will save £1.7 billion, over a three-year period, for reinvestment in public services, yet you state that it will encourage complacency. Your statement is extremely strange. If we achieve those figures over those three years, as we are determined to do, it is a mystery to me how that translates into complacency. I can understand why you might make that statement, because of your political standpoint, but there is no evidence in the document to support it. People in Scotland who depend on public services, and who want public services that are more comprehensive and delivered more speedily, would not recognise that statement either.

There is recognition in the document that we have experienced advantageous financial allocations in the five years of the Parliament. There is also recognition that we will encounter substantial changes in the demographic make-up of Scotland and that we will have to be ready to deliver services that respond to those changes. One of the reasons why we are determined to ensure that any savings that are generated are reinvested into the delivery of front-line services is that we will need to take a hard look at the kind of services that we deliver at the front line as we

move through the next 15 to 25 years. We need to ensure that we are best placed to deal with any economic shocks that might occur and that they will have minimal impact on the comprehensive delivery of public services. None of that indicates complacency; it indicates a degree of forward thinking, which people will be pleased about.

Richard Dennis: I do not know whether members have had a chance to look at the Whitehall efficiency technical notes—there are 400 or 500 pages that we poor officials have had to plough through. That level of technical detail is not appropriate for the type of document that we are discussing. You will hear much more auditable detail when our own technical notes are available. There is a clear commitment in the document that those notes will come out early in the new year.

Jim Mather: If you were to try giving a 400 to 500-page document to the board of any plc, you would get very short shrift. One needs to be able to depend on the data in the summary document and one needs to see the audit trail if the proposals are to have credibility. The efficient government document lacks credibility because it does not contain that.

The key issue is benchmarking Scotland against other countries. Where else are people who make savings in year 1 allowed to hang on to that achievement as a putty medal and to add to it year 2 and year 3 savings?

Richard Dennis: The UK Government for a start.

Jim Mather: In what context?

Richard Dennis: In the context of the Gershon report. The UK Government has adopted exactly the same methodology in the presentation of its figures.

Jim Mather: I worry for the UK, as you probably well know.

Mr McCabe: Selectively, of course. We worry for the UK when it suits us and we hold it up as a shining example when it suits us. That is selective worrying.

Ms Alexander: I realise the discomfort that arises from holding any minister accountable for what other members of the Administration have said. Instead, I will focus on what Tom McCabe has said.

You were helpful enough to confirm to me at the end of September that

“The Scottish Executive is undertaking an efficiency initiative that is as ambitious as the Gershon review in its scope and will seek to secure comparable or greater gains in efficiency.”—[*Official Report, Written Answers*, 24 September 2004; S2W-10531.]

That answer was music to my ears. The efficient government document specifies savings of 4 per cent of the Scottish DEL in year 3, compared with a UK saving of more than 7 per cent in year 3. I accept that further aspirations are laid out in the document, but even the most ambitious aspiration amounts to 6 per cent of the Scottish DEL in year 3. How can you reconcile that with the desire for comparable or greater efficiency gains?

Mr McCabe: I can explain the ambition by restating our aim of achieving a culture of continuous improvement and a culture change throughout Scotland’s public sector. We aim to do that over the long term—not three or five years, but a longer period. Experience tells me that when any organisation engages in a change management programme, that cannot be a tick-box process; the programme must be held to and driven over a long time. Cultures are changed not over three or five years, but over a longer period. In that context, we are at least as ambitious as is anyone else in the United Kingdom.

Our constitutional arrangements are set. We are required to deliver services efficiently. We are fairly firm in the view that doing that will require substantial organisational change and that is exactly what the document tries to achieve. It represents the start of a process; it is by no means the end. If the programme applied for only three or five years, my firm view is that it would not achieve the degree of change that we require to make a success of our new constitutional arrangements.

Ms Alexander: You did not touch on any figures. You may say that the committee is not the place to do that. The written commitment is to secure comparable or greater efficiency gains. You said that you were not trying to hide anything and your officials said that it was important to compare apples with apples. Two weeks ago, Andrew Goudie told us that he wanted like-for-like comparisons. Given all that, are you willing to publish a table that uses the conventions that have been used not in England, as Colin McKay said, but in the UK? Will you publish a like-for-like, apples-with-apples table to show that we are not trying to hide anything?

Mr McCabe: We are not trying to hide anything. I will not make commitments in this forum about which tables I will or will not publish. I may have got through to some people but not to others when I have tried, several times, to explain the scope of our ambition. We are in this for the longer term.

Direct comparisons do not always exist between our situation and the situation down south. Some people are fond of comparing what we do in Scotland with what happens down south. People who are elected to the House of Commons and who are members of its Public Accounts Committee scrutinise and pass a view on the

plans there. That is their job. Our job is to consider the ambitions that we set out for Scotland. If the Finance Committee wishes to assist the Executive, a major part of its work will be to help us to monitor and track how the savings are achieved and how the resulting benefits are applied.

Richard Dennis: We have undertaken much modelling to ensure that we miss no tricks in the savings that are being delivered down south. Before I try to give an answer about a directly comparable saving, I will explain why the question is not meaningful. If Colin McKay and I both deliver programmes to 100 people and he does it for £10 million but I do it for £5 million, and I make no efficiency saving but he makes a 10 per cent efficiency saving, I am still far more efficient than he is. Until we have the proper measurement for which the committee has pressed on public sector productivity, we do not have the same starting point, so who is being more ambitious? The question is whether we are being as efficient as we can be and not whether we are doing relatively better.

As for playing games with the figures, I am sure that Arthur Midwinter has done much of what I have done. The £21.45 billion saving that is set out in the spending review document down south is about 7.4 per cent of 2007-08 DEL and is time releasing and cash releasing. Ploughing through all the efficiency technical notes shows that about 53 per cent is cash releasing. We may say, "Gosh—a department such as the Ministry of Defence is doing more than £2 billion of cash releasing. What do we do about that?" We can take the basis of a straight population share, which makes our target about £900 million; we can take the basis that Scottish programmes are on average about 70 per cent comparable with UK programmes, which gives us a target of just over £800 million in cash-releasing terms only; or we can put every efficiency saving down south through the Barnett formula, which produces a figure of about £850 million. Why might that not be comparing apples with apples? Many of the savings are being delivered from departments with huge electronic processing operations, such as the DWP and the Inland Revenue. All the job cuts are coming from effective mechanisation and the use of IT. We have no services that are remotely like that.

Ms Alexander: This is an issue of trust. The Minister for Finance and Public Service Reform said that the Executive would

"seek to secure comparable or greater gains in efficiency."—[*Official Report, Written Answers*, 24 September 2004; S2W-10531.]

I am saying that you should publish a like-for-like table and let people reach a judgment. I leave that on the table.

My final questions also relate to transparency. You have indicated that there will be an efficiency technical note. Will there be one note for each portfolio? When will the notes be published? To ensure confidence and credibility in the process—the reason that has been offered elsewhere—will Audit Scotland be invited independently to scrutinise the documents before publication, as has happened in the rest of the UK? If not, why will it not carry out that scrutiny?

Mr McCabe: Colin McKay will answer those questions, but I would like to comment first. I disagree fundamentally that this is an issue of trust. We have tried our best to illustrate that there are very distinct differences and that it is extremely difficult to make direct comparisons. We have said clearly, many times, that we intend to do what we think is right in the circumstances that exist in Scotland. It is entirely wrong to say that this is an issue of trust. I make clear on the record that I disagree fundamentally with that suggestion.

Colin McKay: It is helpful to consider how we have gone about making comparisons. We have built up information project by project. We have examined all the identified projects down south, what is being done at UK level and what comparable activity we are undertaking. We are confident that, where there is comparable activity, we are doing at least the same things, if not more.

Technical notes will be published for each portfolio. A series of technical notes on cash-releasing efficiencies will be published by March next year. Further technical notes on the identified priorities for time-releasing efficiencies will be published by May. Those will set out the detail of how the savings will be realised.

We have had discussions with Audit Scotland about its role in monitoring the efficiency programmes. We would be happy to speak to Audit Scotland about whether it sees itself as playing a role in monitoring the technical notes. We cannot commit to Audit Scotland's doing that before we have discussed the matter with it.

Ms Alexander: With respect, there is a difference between monitoring post hoc an efficiency technical note that has already been published and scrutinising it before publication. Critically, that is why the UK Government says that in the rest of the UK confidence and credibility will be assured by having the plan scrutinised before publication, to determine whether it has credibility. Monitoring is another issue. Perhaps you can write to us on that point. Why did you not adopt the approach of having an independent body scrutinise the plans in advance of publication?

Why did you reject that approach, which has been in the public domain for six months, since the Gershon review south of the border?

Colin McKay: We have not rejected that approach.

Ms Alexander: By March, will Audit Scotland have been invited to scrutinise the plans, for the sake of credibility?

Colin McKay: We will speak to Audit Scotland about what it regards its role in monitoring the documents to be and whether that includes checking them before publication.

The Convener: Perhaps we can exchange correspondence on that in due course, after that discussion has taken place.

12:30

Jeremy Purvis: "Government Expenditure and Revenue in Scotland"—the GERS document—is a good example of trying to put out information using estimates of comparisons, and it will probably never receive political consensus. My calculations from the UK SR show that, if we take Barnett into account, the devolved spending areas will have almost identical aggregate savings during that period. Frankly, my constituents regard efficient government as ringing up the council and not being told that they cannot be helped and that they should ring back next week. For them, efficient government is when they are told, "I can't help you but somebody else can, and I will put you through to them now." It is about the delivery of public services and about changing the culture of government, and I am pleased that there is now a single document that focuses on that.

During our inquiry we will, no doubt, get more and more into the figures, but where are the incentives for departments or, particularly, councils to do the work? The area is top-sliced for councils and we can identify individual projects that are doing things differently—that is to be welcomed, especially in relation to things such as prescribing and unnecessary admission to hospitals, which is a colossal waste to the public purse—but apart from that, where is the incentive for councils to change their culture? I talked earlier about the new ways project group in the Borders, which pulls together public sector working by different agencies. If the aim is to change the culture, rather than to focus on job losses—in my view, that is a perverse way of saying that more job losses from the public sector will necessarily bring about efficiencies—where are the incentives for the data to be captured and rewarded?

Mr McCabe: The incentive is in the savings that will be generated, which are assumed to be just over 1 per cent. Councils will be able to retain

those savings and invest them in their priorities for their area. That is the main incentive for local government. We know that as a result of changes in demographics there will be substantial changes in the nature of community care services. Every local authority is keen to ensure that it can deliver those services as comprehensively as possible. That is just one service area, but if the savings that the local authorities generate are available for them to reinvest to improve the width of those services, that is a real incentive. They might regard other areas as priorities for investing the resources that have been released—again, that is at their local discretion.

Jeremy Purvis: One of the things that you said, which is not in the document—correct me if I heard you wrongly—is that there are far too many NDPBs. Do you have a hit list? Do you have any particular NDPBs in mind?

Mr McCabe: It would be wrong for me to mention specific NDPBs at the moment, but an examination of how we have subdivided many aspects of public life in Scotland is an important part of the process. In a sophisticated society, we should turn our minds to how we can re-rationalise a lot of those NDPBs. I do not have a specific list, but as part of the bilateral process there will be an examination with ministers of the various NDPBs that relate to their portfolios and of the possibility that their work could be done in a different way.

Jeremy Purvis: It is a bit of a nonsense that there are 32 local authorities, is it not?

Mr McCabe: I thought that in 1995, but we had a nonsense of a Government at Westminster at the time and we had to put up with it. My personal view is that is farcical that there are 32 directors of education. I have heard the former director of education in the former Strathclyde Regional Council say a number of times that something like 10 people do his old job now. He is right up to a point: there are more than 10, because a few structures are far from flat. Why do we have 32 separate IT departments and, as I said, why do we have 32 collection systems for council tax in a country of 5 million people? There is great scope for rationalisation. I could not agree with you more.

Jeremy Purvis: Do you also agree that delivery of services to communities is not necessarily about having central collection or a central payroll, but about coterminosity of agencies—even if they are rationalised—so that we get proper co-operation of public services as well as efficiency? It is not necessarily a case of there being one payroll or one processing system, which would not necessarily bring about better government.

Mr McCabe: You are right; it is about what fits best. There is no presumption that to have in Scotland one system of collecting council tax

would be most appropriate. By the same token, it would be wrong to assume that to have one director of education would be appropriate for Scotland. However, everyone in local government in the mid-1990s recognised that a system that was far from ideal was being imposed on them. I have said many times that no one had a fondness for the structure that was created at that time, but a human reaction that kicks in is that when people get used to something they start to defend the structures. When we engage in dialogue with local government and with different parts of the public sector, people will start to see the possibilities for, at the very least, rationalisation.

Jeremy Purvis: Do you agree that the collection of revenue from a local income tax would be far more efficient than the current system?

Mr McCabe: You may say that; I could not possibly comment.

Jeremy Purvis: Such a system would be technically more efficient. It would not require a £50 million charge per annum. There would be a charge to the Inland Revenue, but administering the tax would not amount to more than £50 million per annum and there would be benefits associated with it.

Mr McCabe: I am not acquainted with the details of the revenue collection costs to the Inland Revenue—that is a reserved matter. If you would like to supply us with information on that, I am sure that people would be interested to read it.

Jeremy Purvis: I have information about the current cost of the collection of council tax, which you obviously see as a problem for every individual authority.

Mr McCabe: I am sorry. I picked you up wrong. I thought that you were talking about something different.

Jeremy Purvis: I presume that the independent review will consider the costs.

The Convener: That will be a matter for the independent review.

I will pick up on the thrust of Jeremy Purvis's question. The minister said to us that £745 million is the amount of savings that he currently identifies as being deliverable over three years. He mentioned—perhaps in response to the initial question that I asked—some departments in which he feels more savings could be forthcoming. It seems, from the burden of our recent questioning, that significantly more savings could result from a general restructuring of non-departmental public bodies, local authorities and so on in Scotland following devolution. There are 32 local authorities, 12 health boards, 12 local enterprise agencies and so on. Perhaps Scotland is in a sense over-governed. Coupled with efficiencies

being made within the structures, efficiencies could be achieved by changing the structures. Do we need to have that debate?

Mr McCabe: Here in Scotland people need to see the added value of the new constitutional arrangements. It seems to me that the great advantage of our arrangements is that we can focus on the type of issues that you have mentioned, consider further how we may do things more effectively and release more resources for delivery of important services.

One consequence of our new constitutional arrangements is that we can consider how things have been done in the past and examine the opportunities for doing them differently in the future. Those are big issues, some of which will not be resolved in the short term, but it is absolutely right that we raise them and analyse what can be done.

The Convener: My concern is whether the issue should be raised in the context of a narrow debate about savings or of a broader debate about efficient government and the structures of government.

Mr Brocklebank: The minister said that he wants to build up trust with the committee—I am sure that we feel the same way. Does the minister accept that building trust involves giving straight answers to hard questions? Notwithstanding Richard Dennis's view that projected job losses in England cannot be compared with those in Scotland, the Chancellor of the Exchequer claimed that there would be 20,000 job losses in local government in the three devolved areas—Scotland, Northern Ireland and Wales. How many job losses are likely in Scotland as a result of the efficiency measures?

Mr McCabe: Shortly after the chancellor's statement, the Treasury confirmed that he was extrapolating when he suggested that jobs would be shed by the devolved Administrations. Members should know about what the chancellor said. A few days later, a Treasury spokesperson confirmed that

"It is for devolved administrations and local authorities to determine how they derive the efficiencies they have signed up to delivering".

Mr Brocklebank: Let me get this straight. You are saying that the chancellor's statement that there will be 20,000 job losses is not necessarily the case and that the figure was not included in the 80,000 jobs that the chancellor talked about.

Mr McCabe: The chancellor confirmed that he was extrapolating when he made the suggestion. A few days later, a Treasury spokesperson confirmed that it was for the devolved Administrations to determine how to achieve the efficiency savings.

Mr Brocklebank: You accept that there will be streamlining and a movement to front-line jobs and away from support jobs, as you said in last week's debate in Parliament on the issue. If the chancellor was prepared to give a figure of 70,000 to 80,000 job losses, surely you must have an idea of the likely number of job losses here.

Mr McCabe: I am answerable for what I am prepared to do, not for what other people are prepared to do. I have said time and again that we will do what we think is right for our circumstances. It would be entirely wrong to set an arbitrary figure for job cuts in Scotland. In the document on efficient government and in last week's debate, I said that we will see a move from back-office functions to front-line delivery and I acknowledged that we might as a consequence have a smaller public sector in Scotland. The right way to go about that is to engage with representatives of people who work in the public sector and to employ the best human resource practices to achieve the changes.

Alasdair Morgan: I have two questions, the first of which is about presentational issues. You have said in the efficient government document and today that the process is on-going and that it will continue into years 4 and 5 and beyond. The committee welcomes that, although members clearly have different views on the presentation. Will you produce more documents to update us as we go through the process? If so, will you use the same presentational method as is used on page 4 of the efficient government document? When will the clock be reset so that we stop accumulating savings from 2004-05 in the on-going process?

Mr McCabe: You are right that I said that the process will take longer than three or five years and that we will produce more documents for the committee and people in Scotland. We want to examine ways in which to demonstrate clearly and understandably to people that savings are being achieved, and how those savings are being applied in their interests. At present, I cannot say what the exact form of the documents will be, but it is a natural consequence of the process that we will prepare more work to illustrate our progress.

I have already made my point about the figures in the document. If over a three, five or 10-year period we demonstrate to people in Scotland that public resources have been realigned and applied to better effect in the delivery of services, that will be entirely appropriate.

Alasdair Morgan: The problem is that we will, if we do not reset the figures, eventually get to the stage at which the savings percentage comes to 100 per cent. Even the people out in the street who are not particularly interested in the figures might find that one a wee bit difficult to swallow.

Mr McCabe: Mr Morgan can worry about the point at which we reach 100 per cent. I will worry about more relevant things.

12:45

Alasdair Morgan: My second question relates to a difficult area for all of us. We would all welcome rationalisation of many services and of procurement, but that throws up two problems, and I wonder how much thought you have given to them. The first problem is how we ensure that people getting together to provide certain facilities does not just mean centralisation, which is at odds with the Government's job dispersal policy. How will you monitor what is happening in that respect? Secondly, to what extent will aggregating procurement take contracts over the tendering limit, so that they have to be published in the *Official Journal of the European Communities*? What thought have you given to the possibility that we may begin to lose work from Scotland that was hitherto kept here because the value of contracts was below the tendering limit?

Mr McCabe: The last time I looked, we were in an open market. Many contracts in Scotland require to be published in the *Official Journal of the European Communities*. People are less concerned about who delivers a service than they are about whether the service is appropriate and makes a difference to them. They are less concerned about the uniform that someone wears than they are about the standard of the service that is offered. There is nothing new about the possibility that contracts will reach a size that opens them up to wider competition. That is the way our society works. That is an obvious statement of fact.

John Swinburne: How draconian do you intend to be in your pursuit of a more efficient Scotland? The media are full of redundancy figures. Would you be prepared to take a different step from redundancy and to say that there should be a moratorium on increases to—or even a reduction in—the salary of everyone who is paid from the public purse and earns more than £50,000 per annum?

Mr McCabe: The short answer to that question is no. A hefty sigh of relief will be breathed throughout Scotland because of that answer. We do not intend to be draconian. We intend to approach the issue properly, using the best human resource techniques available to us and through engaging with people who deliver important services, who in many respects do a good job and who are prepared to examine with us ways in which to deliver those services more comprehensively in the future.

Jim Mather: I return to the schedule. Has the full impact of IT costs and redundancy payments, especially the substantial Scottish Water spend-to-save programme, been taken into account in formulating and tabling the planned savings?

Mr McCabe: In some instances, there may be employee-related costs, but we will discuss those with each organisation as the situation develops.

Jim Mather: I worry that the savings may be gross rather than net. I also worry about our long-term position vis-à-vis competitiveness. IMD is monitoring Scottish micro-competitiveness in respect of the functions of the Scottish Executive, Scottish Enterprise and so on. We are currently 38th out of 60 countries and regions that were examined. Do you expect the moves to have a beneficial effect on that rating, and if not, why not?

Mr McCabe: We should not do anything in the public sector that is a drag on our overall economic growth. We do not expect that anything that we do will be detrimental to the overall drive to grow Scotland's economy and to become more competitive.

Dr Murray: I have two brief questions. In answer to an earlier question from me, you mentioned the series of bilateral discussions that you have had with other departments. What discussions have you had so far with the Convention of Scottish Local Authorities about local government efficiency savings? COSLA is absolutely crucial to determining whether such savings are delivered or are passed on as council tax increases.

You will remember as clearly as I do how in 1995, when local government was reformed, we faced the combined pressures of the expense of reforming local government and a strict and decreasing local government settlement. At that time, councils had to make difficult choices. You will be telling councils that they must do things differently and bring things together rather than cut services. How much discussion has there been with COSLA about how deliverable the level of savings will be?

Mr McCabe: COSLA has indicated to us that it agrees entirely with the principles behind efficient government. COSLA has also told us—I agree with it—that local government in Scotland has been pursuing efficiencies for a long time. However, local government recognises that there is additional scope within its systems for efficiencies, some of which are a consequence of the substantial increase in the resources that have been made available to local government in recent years.

To put the matter into perspective, we must remember that the financial situation in which local government operates today bears no comparison whatever with the situation in which it operated

during and after local government reorganisation in the mid-1990s.

Dr Murray: I want to ask you briefly about the supporting people programme. The efficient government document refers to

“savings from improvements in the management and delivery of the Supporting People programme, from the Communities Portfolio”.

My understanding is that Westminster finances the supporting people programme, which evolved from the former housing benefit scheme. The cuts in the programme transpired after the Office of the Deputy Prime Minister had a look at why the programme was much more expensive than expected. Savings from the cuts will accrue to the Treasury and not to the Scottish Executive, so what does the efficient government document mean when it says that there will be a saving to the Executive from the cuts?

Mr McCabe: With regard to the supporting people programme, that means that the programme started off in 2001 at £50 million, doubled to £100 million, doubled again to £200 million and then went up again to more than £400 million.

Dr Murray: But that money came from the Treasury, not from our budget.

Mr McCabe: Yes, but its levels of expenditure went up to over £400 million. There is now a strong feeling that, if people take the time to analyse patterns of expenditure and how expenditure is put to effect, they will see that there is undoubtedly scope for significant efficiency savings, which should be achievable without people experiencing loss of service.

Jeremy Purvis: A section in the efficient government document refers to managing absence and productivity within the public sector. I am pleased that you mentioned productivity within the public sector earlier. Paragraph 64 of the efficient government document states:

“With Audit Scotland, we are undertaking analysis of the pattern of sickness absence in public services.”

What is the timeframe for your discussions with Audit Scotland? What will be the comparable area for local government?

Colin McKay: The Audit Scotland analysis is almost complete. We understand that it should be with us within the next week or two. We will obviously need to discuss with Audit Scotland whether there are any gaps in the current information. If so, we would need to fill them.

Jeremy Purvis: Does that include work with local authorities, or is it purely about the Executive?

Colin McKay: The initial information from Audit Scotland will come in. We will then engage with local government to take that forward.

The Convener: Will Audit Scotland be asked to confirm that the savings have been delivered, rather than simply be asked to audit the system for delivering savings? Those are different tasks.

Mr McCabe: We will enter into discussions with Audit Scotland and it will tell us how it would like to approach the auditing. We will keep an open mind on that. If Audit Scotland feels that auditing savings would give it greater reassurance, we would strongly consider asking it to do that.

The Convener: I think that the committee would want to be informed about your approach.

Ms Alexander: If there are to be stand-alone savings of £1.7 billion, why do the cash savings that the efficient government document identifies on pages 26 to 27 amount to only £628 million?

Mr McCabe: We will have to come back to you on that. I do not recognise that comparison.

Ms Alexander: Can your officials answer the question? The Executive has stated publicly in the media that the stand-alone savings will amount to £1.7 billion, but the cash savings that the document identifies amount to only £628 million. I wonder whether the officials can explain that.

Colin McKay: The stand-alone savings over the three years are £1.7 billion. Like the minister, I do not recognise the figure that you are giving. We would need to do the sums and write to you with an explanation.

The Convener: The issue might be what "stand-alone" means in the circumstances.

Mr McCabe: It is not our phrase, so we would have to get clarification on that and come back to you.

The Convener: If I understand you correctly, you are referring to cumulative savings of £1.7 billion over three years. However, I think that the phrase "stand-alone" is—

Ms Alexander: The Executive's.

The Convener: It needs clarification, which we would certainly welcome.

Colin McKay: Where does the phrase come from?

Ms Alexander: The Executive, when asked what the £1.7 billion savings were, said that they are "stand-alone savings". The efficient government document identifies £628 million of savings, so I am simply trying to understand that.

Mr McCabe: When did the Executive use the phrase "stand-alone"?

The Convener: It was reported in the *Daily Record*.

Colin McKay: It was probably a comment by a press officer. We will make savings of £745 million by year 3 and the aggregate figure is £1.7 billion—those are the figures.

Ms Alexander: Perhaps you can clarify that the total cash savings that are identified in the document amount to £628 million. Irrespective of whether we have missed other savings, the document gives that total.

Richard Dennis: We just need to go back to the right section of the document and work out what is in it and what we possibly omitted.

Professor Arthur Midwinter (Adviser): Just to clarify, I think that Wendy Alexander's point relates to the document's narrative rather than to its tables. It is about the items that are listed between pages 20 and 27, I think, which show departments' contributions to the savings programme.

Richard Dennis: We will be pleased to come back to the committee in writing on the matter.

The Convener: Perhaps we can have a written response.

Mr McCabe: I assure you that we will do that quickly, lest there be any misinterpretation.

The Convener: I thank the minister and the officials for—

Ms Alexander: I want like-for-like, apples-with-apples comparisons, as the officials put it.

The Convener: I thank the minister and his officials for coming along. I think that the committee will look again at efficient government. We agreed at our away day that we would do more work on it. It is planned that an approach paper that will detail suggestions on how the work can be taken forward will be brought to our meeting on 25 January. Obviously, we will identify how we should proceed from there.

Our remaining agenda items, which are on draft reports, will be in private.

12:57

Meeting continued in private until 13:28.

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

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Wednesday 15 December 2004

PRICES AND SUBSCRIPTION RATES

OFFICIAL REPORT daily editions

Single copies: £5.00

Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at the Astron Print Room.

Published in Edinburgh by Astron and available from:

Blackwell's Bookshop
53 South Bridge
Edinburgh EH1 1YS
0131 622 8222

Blackwell's Bookshops:
243-244 High Holborn
London WC1 7DZ
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh

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

Telephone orders and inquiries
0131 622 8283 or
0131 622 8258

Fax orders
0131 557 8149

E-mail orders
business.edinburgh@blackwell.co.uk

Subscriptions & Standing Orders
business.edinburgh@blackwell.co.uk

RNID Typetalk calls welcome on
18001 0131 348 5412
Textphone 0845 270 0152

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers

Printed in Scotland by Astron