

FINANCE COMMITTEE

Tuesday 14 December 2004

Session 2

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FINANCE COMMITTEE

33rd 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:

Peter Wood (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Malcolm Chisholm MSP (Minister for Communities)

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

Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Jonathan Pryce (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Nicol Stephen MSP (Minister for Transport)

Jim Wallace MSP (Deputy First Minister and Minister for Enterprise and Lifelong Learning)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 14 December 2004

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

Cross-cutting Expenditure Review on Economic Development

The Convener (Des McNulty): Good morning, colleagues. I open the 33rd meeting in 2004 of the Finance Committee and welcome our witnesses and members of the press and public. I remind everyone to turn off all pagers and mobile phones.

We have received no apologies, so we move straight to agenda item 1, which is the final evidence session for our cross-cutting review on economic development. I welcome to the committee the Deputy First Minister and Minister for Enterprise and Lifelong Learning, Jim Wallace, who is accompanied by Jane Morgan, head of the enterprise networks division of the Enterprise, Transport and Lifelong Learning Department. I also welcome the Minister for Finance and Public Service Reform, Tom McCabe, who is accompanied by David Stewart, head of the finance expenditure policy division, and the Minister for Communities, Malcolm Chisholm. Unfortunately, the Minister for Transport, Nicol Stephen, has another commitment, but I believe that he will be joining us around 11 am. He will be accompanied by Jonathan Pryce, head of the transport strategy and legislation division.

I should repeat the declaration that I made a couple of weeks ago—Jane Morgan is my wife.

I understand that this is the first time that a committee has taken evidence from so many ministers at the same time, so I extend a particularly warm welcome to what might be seen as a mini-Cabinet meeting. I understand that Jim Wallace is going to make an opening statement on behalf of the ministers, so I invite him to speak and we shall ask questions after that.

The Deputy First Minister and Minister for Enterprise and Lifelong Learning (Mr Jim Wallace): It is indeed an interesting precedent to have so many ministers at a committee meeting. I think that I am right in saying that Nicol Stephen is appearing before another committee at the moment and will join us later. I thank the committee for inviting us to give evidence today and for giving us the opportunity to contribute to the review of cross-cutting expenditure on economic development. I know that you have

already heard from Executive officials and from others with an interest in economic development.

I want to make a few remarks about how economic development considerations are reflected in ministerial decisions and funding allocations. As the committee well knows, we have recently completed our latest spending review, which set the Scottish budget through to 2007-08. That enabled us to make an overall assessment of our total budget and to realign our resources to our priorities. It is a collective and corporate process within the Executive and it involves engagement between the Executive and its stakeholders.

The starting point was the partnership agreement and the commitments that we made in it. Growing the economy is set out in the partnership agreement as being our top priority and all portfolios had to show how they could contribute to that. As “The Framework for Economic Development in Scotland”—FEDS—makes clear, economic development is about more than simply support to business, although that is extremely important. We could have considerable debate—no doubt the committee has done so—about the definition of economic development spending, but we need to think about it in the widest sense to ensure that all areas can join up and contribute to create the conditions to increase productivity and hence economic growth.

FEDS set out the key drivers to increasing productivity: basic education and skills; investment in infrastructure; efficient management of public resources; research and development and innovation; and entrepreneurial dynamism. That is why we have committed funding to provide 53,000 teachers by 2007 to reduce class sizes. We shall increase funding for higher and further education by 30 per cent by 2007-08 as we invest in our colleges and universities and seek to retain, attract and reward the best staff and to invest in research excellence. Over the spending review period, we shall increase capital expenditure from £2.3 billion to £3.2 billion—an increase of almost 40 per cent. Of course, that is not the complete story, as there is also further investment in infrastructure through public-private partnerships, which is creating jobs and opportunities for our construction companies and enhancing communications and travel for the rest of business.

One issue that I find business constantly talks to us about when it tells us about the most important challenge to encouraging economic growth is improvement in our transport infrastructure. In the spending review, we increased transport spending by 47 per cent for that purpose, with the budget rising to almost £1.4 billion by 2007-08. That will help us to make the commitments that are set out in our 10-year transport plan.

We are also working to improve the management of public resources. I know that Tom McCabe was here last week to discuss the efficient government plan with the committee, so I will not go into the details of that. Suffice it to say that we have increased our target from £500 million to £745 million of annual savings by 2007-08, releasing resources for use in front-line services.

We shall continue to promote economic growth through the enterprise networks under the framework of "A Smart, Successful Scotland", providing business support and skills development and increasing competitiveness and entrepreneurial activity. We have announced a new green jobs budget to support opportunities for Scottish businesses in renewable energy, recycling, resource efficiency and other industries and we are promoting sustainable economic growth in line with the objectives set out in FEDS.

We need to consider infrastructure in its widest sense if we are to set the right climate for sustained economic growth. Broadband and other electronic infrastructure is needed for modern business processes. Housing is needed to allow sufficient labour mobility, so we need the water and other infrastructure that housing depends on. We have increased our affordable housing target to provide 21,500 new and improved homes for social rent and low-cost home ownership, thereby benefiting local communities and creating opportunities for the construction industry. The new community regeneration fund will improve education, health and job prospects in some of our most deprived communities. That is worth while in itself, but it also enhances the capacity of our workforce.

Growing the economy has been the main theme in the consideration of spending decisions in the spending review and it is right that the committee should want to ensure that our expenditure is appropriate to that. However, the level of expenditure as an input measure and the amount spent, whether primary or support spend, is not the most important issue. Our real interest is in the outcome—sustainable economic growth—and, through that, in raising the quality of life for all.

Those are long-term aims. We have made progress since devolution. Despite difficult economic conditions, the latest annual figure of 1.8 per cent shows that our growth rate is improving. Employment has reached its highest level since 1992, according to the quarterly figures, and more people than ever before are active in the labour market. However, my colleagues and I accept that there is more to do. I believe that we have the policies and strategies in place to achieve those aims.

The Convener: Thank you for that, minister. It is important that we focus on the issues before us,

so I will not let us go down the route of talking about efficient government yet again. I think that we have dealt with that.

You highlighted a number of areas in the different portfolios where money has been identified for priorities that serve or can be connected with economic growth. We take that point. The issue that we are particularly interested in is the level of co-ordination between ministers in making choices about which are the best projects or about how to prioritise different things that could contribute towards what you expect to be delivered in economic growth. From your point of view, as the minister with responsibility for enterprise, do you look at transport or education projects and have an input into the process of deciding which of them will help to deliver your outcomes as well as the relevant ministers' outcomes?

Mr Wallace: The nature of collective Cabinet government encourages that, specifically when it comes to a spending review. Tom McCabe was not the finance minister during the spending review, but his predecessor, Andy Kerr, had an important co-ordinating role and the decisions that were ultimately reached were made collectively by the Cabinet. Colleagues were expected to indicate, in line with cross-cutting themes, their contribution to growing the economy. Contributions to sustainability and to closing the opportunity gap were also considerations that were weighed up when setting the budget.

On my enterprise interest in transport, I am certainly very conscious of the importance of transport. I cannot meet business representatives from organisations or individual businesses without some comment almost invariably being made about transport. The transport plan was published two or three years ago now and the Cabinet looked at that time at the proposals that were being made. Although that predated our present partnership agreement, my clear memory is that, when we looked at the items on the transport plan, they very much reflected important economic considerations. No doubt Ms Alexander can confirm that, as she was the responsible minister at the time.

Another initiative that has specifically been driven by economic considerations is the air route development fund. It is important to get direct air connections from Scotland, not only to European destinations but to transatlantic destinations. There is also the Glasgow to Dubai service. Establishing such services involves close co-operation between my interests and those of the Minister for Transport. I think that I am right in saying that that is administered by Scottish Enterprise, although the Minister for Transport has the lead ministerial responsibility for it. There is

close co-ordination in that initiative, which is directed towards the stimulation and promotion of economic growth.

The Convener: I recently had a letter from Tavish Scott about the Scottish transport appraisal guidance, which sets out the criteria against which projects are assessed. It certainly appeared from that letter that projects are assessed on a project-by-project basis. In the case of Edinburgh, for example, there is not necessarily an overview of the links between the tram project, the air project, the Borders rail project and other developments, so there is not really a conurbation plan in place. The other issue that interested me was that economic growth was not a criterion in the STAG process—the contribution to economic growth is not part of the process of deciding between one transport project and another.

Mr Wallace: Nicol Stephen may want to elaborate on that when he arrives. The overall transport delivery plan dates from before the election, when the specific measures that are now being individually appraised were outlined. However, the appraisal looks at the options compared with a do-nothing or do-the-minimum scenario. I cannot accept the suggestion that economic objectives do not come into the process, because the appraisal process schemes are assessed against the impact that they will have on our five key objectives for transport—economy, environment, safety, integration and accessibility, and social inclusion. Those are the five main objectives against which the STAG process seeks to evaluate and appraise specific proposals.

Mr Ted Brocklebank (Mid Scotland and Fife)
(Con): It was interesting to read in the press over the weekend that the minister claims credit for all the Executive's big ideas, so perhaps he can concentrate on how those ideas are integrated. What we have learned from the various bodies to which we have spoken is that there does not seem to be enough integrated thinking across portfolios.

It seems that you have too many targets, minister, but you do not like a specific growth target. Is not your biggest failure the fact that you have not yet worked out a long-term strategy across the portfolios? Does there come a time when you have to stop blaming your predecessors and accept that, after five and a half years, such a strategy should be in place and we should know where we are going?

Mr Wallace: I do not think that I have said anything today that blamed any predecessor. What I read in yesterday's newspapers as news certainly seemed familiar given what was said during two election campaigns. Nevertheless, I do not accept that there is no co-ordination. Indeed, I indicated that the spending review was an obvious example of collective involvement. The FEDS

document, which we have recently refreshed, is an overarching framework to which ministers with different portfolio interests contribute. That framework recognises the importance of integration and of the contribution that can be made from different portfolios—I mentioned some of those in my opening remarks.

We could also add to that list tourism, culture and sport. It is obvious that the contribution that is made in those departmental areas feeds in not just to the economic value that we get from growth in tourism but to the jobs that are associated with culture. Culture and a thriving cultural scene are important in promoting Scotland as a destination to which people will come to live and work and they help to promote economic activity and economic growth.

Similarly, I would argue that, in relation to health, the proposal for a smoking ban that we are taking forward in legislation is important not only for public health but for productivity, as fewer working days will be lost because of ill health. That will undoubtedly have an economic benefit. Such elements are brought together in FEDS, for example, and when we allocate priorities in our spending.

10:15

Mr Brocklebank: However, if growing the economy is your primary objective, would you accept that you have failed? In the past four quarters, the economy has been growing in Scotland more slowly than it has in the rest of the United Kingdom, manufacturing output is down compared to the rest of the UK and business research and development is 30 per cent lower than it is in the rest of the UK. By any standard, you appear to have failed to meet your primary objective.

Mr Wallace: I will start by blaming my predecessors, not least those who were around when your party was in government, Mr Brocklebank. Many of the elements that we are putting in place are designed for the medium-to-long term. I believe that the "Determined to Succeed: Enterprise in Education" report will have a profound effect in changing the culture in Scotland to ensure that it is more embracing of enterprise. However, that will be a generational change. We will not see a great increase in business start-ups only two years after that programme has been rolled out. The business start-up fund will help in that regard, of course.

Infrastructure developments are also important. The road-building programme and the rail links that we are promoting have had to be appraised and are only now being built. They will therefore not yet have started to produce benefits. We are

taking important decisions for the long term—decisions that were not taken during the 18 years of the previous Conservative Government, a failure for which we are now reaping some of the cost.

I should point out that the figure for growth for the last full year is 1.8 per cent, which is above long-term growth trends in Scotland. The forecasts are that that growth above trend will continue in 2004 and that, in 2005, growth will continue to be above the long-term average. Manufacturing has shown three consecutive quarterly increases after a difficult period of restructuring, particularly in electronics. Output in the construction industry is up 9.3 per cent on the year. Expenditure on business research and development—which is a key area and one in which we have historically lagged behind the rest of the UK—has increased by 20 per cent in real terms in the period between 1999 and 2003. The increase in the UK over that same period has been only 10 per cent. We are a long way behind, of course, but on that particularly important indicator there are clear signs that we are starting to catch up.

Jim Mather (Highlands and Islands) (SNP): Measurement is an interesting issue. Are you satisfied with the relevance, accuracy and comparability of the measurements of economic growth that we are using? How reflective of real-world living standards are those measurements?

Mr Wallace: Those measurements should be continually evaluated to ensure that we are properly reflecting what is being done. Of course, there was a major change in the past 12 months when we moved to chain linking to ensure that our measurements were consistent with those that the European Union and the UK had adopted two quarters before we did. We are prepared to make significant changes in order to try to ensure that what we are measuring is as accurate as statistics can be, given the scale of what we are measuring. The change was important because, hitherto, the baseline reflected a situation that pertained a considerable time ago in the past and did not reflect many of the structural changes that had taken place in the Scottish economy in the intervening years. Chain linking has ensured that the baseline is much more recent and relevant.

I accept that it is important that, when we go about gathering such important statistics, we should be advised by the objective approach of those who have expertise in those areas. When it comes to statistics, politicians should be wary of sticking their oar in too much. If people thought that the statistics were being politically manipulated—even in good faith—that might devalue those statistics. Our advice should come from the independent analysts. Of course, the

Office for National Statistics has set out clear guidelines in that regard.

Jim Mather: The emphasis is currently on gross domestic product and a decision has been taken not to produce gross national product data, which would give a more accurate representation of what is happening in Scotland. The GDP data that we have at the moment are being indexed to the very recent date of 2001. Do you think that the proximity of 2001 to 2004 tends to obscure the comparability of that data when examining what is happening in the rest of the UK?

Mr Wallace: We have that 2001 baseline because of the move to chain linking, which was done on independent advice. It is my understanding—if I am wrong, I will bring a correction to the committee—that, in doing that, we were following what had already been done in the UK as a whole.

Alasdair Morgan (South of Scotland) (SNP): I am not sure who my question should be directed to, but what we have heard so far worries me a bit. The Deputy First Minister talked about health and culture—clearly, that means that almost anything could be linked to economic growth. For example, it is obvious that if the entire population was ill all the time, economic growth would be a problem. The question is, however, whether incremental expenditure and increases in particular budgets contribute to economic growth or whether the economic growth angle is a sort of post hoc exercise in justifying decisions that were made for reasons that might be quite compelling but that are not to do with the economy.

Could we explore the mechanism by which such competing decisions are made? What is the mechanism that ensures that economic growth determines some decisions relating to spending priorities? Are there any examples of suggestions for significant amounts of expenditure from departments that have been turned down because the contribution to economic growth has not been judged to be high enough?

The Minister for Finance and Public Service Reform (Mr Tom McCabe): During the spending review process, ministers were required to submit a pre-expenditure assessment of any new policies or expenditure decisions that they wanted to include in that spending review. Thereafter, there was a process involving the Minister for Finance and Public Services and, I think, the First Minister. Decisions involving the assessments that you mention were taken at that point.

On your main point, you will remember that the report that the committee commissioned Peter Wood to produce accepted that there is no universally accepted definition of what constitutes expenditure on economic development. I note the

point that you have made on health expenditure and expenditure in other portfolios. However, as the Deputy First Minister said, those areas make a contribution to economic development. Expenditure on health that reduces the rates of death from some of the major killers, for example, produces a healthier workforce that is more likely to be economically active and make a positive contribution to our economic growth.

Alasdair Morgan: Are we not getting close to saying that there is no real link between expenditure decisions and the priority of economic growth because, basically, everything that we spend money on makes a contribution to economic growth?

Mr McCabe: No. We have a number of targets and we have outlined those priorities in the spending review targets. Obviously, as we have said many times, growing the economy is the number 1 priority. Providing excellent public services, delivering safer and stronger communities and creating a confident and democratic Scotland were the priorities in the spending review, but, as the Deputy First Minister said, the FEDS document sets out a number of priority areas.

I reiterate that the report that was commissioned by the committee indicated that there is no definitive definition of economic development expenditure. Many items of expenditure across a range of portfolios make a contribution in that regard, but that is not to say that we do not have specific targets and areas on which we concentrate expenditure.

Mr Wallace: The two largest percentage increases over the previous spending review period were in transport and higher and further education. Without a shadow of a doubt, I can say that those are two crucial expenditure areas in making a contribution to economic growth. Against the background of an extremely tight spending review—certainly the tightest that we have had since devolution—a conscious decision was made collectively by ministers that those two areas, which are important in the contribution that they can make to long-term economic growth, would get a significant boost in their funding.

The Convener: As I understand it, there is no overt macroeconomic test in the assessment of transport projects or a process of prioritisation linked to growth. I agree that transport economics is one of the criteria, but it is not the same as the broader issue of contribution to economic growth. On higher education, one could argue that, in general, it is a good thing for economic growth that we spend money on that area. However, the issue might be to do with how we spend money on that area and the mechanisms that we use to determine what will deliver the best outcome in

terms of economic growth. How does the Executive decide how to get the best return from economic growth, based on the configuration of the way in which we are going to spend the money?

Mr Wallace: With regard to my portfolio responsibility for higher and further education, I accept that, in making a pitch to get more resources, I was not able to point to any work—commissioned or otherwise—that said that if we increase funding in a certain area by, say, 10 per cent, growth in 2010 will be 2 per cent higher. I accept that there is no work that makes that arithmetical connection. However, I would strongly argue that the plethora of reports, analyses, work that has been done by people such as Professor Florida and work that we have done in relation to the phase 3 review of higher education make a compelling case that investment in higher and further education is more than just an incidental contributor to economic growth.

We are in a global economy and the advice that we are getting on all sides from economists is that, if we are to compete as a nation in the years ahead, we must invest in our intellectual capital. The way in which one invests in intellectual capital is by supporting one's universities and colleges. That involves investing directly in research and maintaining and recruiting staff of the highest quality.

One of the features of the current spending plan is that a significant element of the money that is going to higher and further education is capital spend. That is because the representations that we received during the higher education review showed that the estates of our universities and colleges had fallen behind. We were therefore able to earmark money for investment in the estates—that had been done in relation to further education, but it had never been done before in relation to higher education. I acknowledge that we do not have a mathematical model to show what that will mean for long-term growth, but we have sufficient analysis from academics and others to show that it will make an important contribution to ensuring Scotland's competitiveness in the years ahead.

The Convener: It is a universal truism that the only thing that academics will agree on is the need to spend more money on academic research.

10:30

Dr Elaine Murray (Dumfries) (Lab): First, I apologise to the ministers for rushing in after they were seated, but Virgin Trains had some problems this morning, which is why I came in slightly late.

Mr Frank McAveety (Glasgow Shettleston) (Lab): You can take it up with the Minister for Transport.

Dr Murray: He is not even here yet.

Given that the Executive's model of supporting economic development was inherited from the Conservative Government, what reflection has there been on whether it is the right model? For example, Highlands and Islands Enterprise uses a different model of economic development from Scottish Enterprise, because HIE has an inclusion remit and is involved in community development and support of fragile areas. When we took evidence from Jack Perry he told us, interestingly, that Scottish Enterprise's principal role should be not training but business support. Has the Executive examined the model that we inherited? Five years into devolution, are Scottish Enterprise and Highlands and Islands Enterprise still the best means of delivering economic growth in Scotland? Indeed, were they ever the best?

Mr Wallace: Shortly after devolution, a significant review of the enterprise networks was initiated by my predecessor Henry McLeish, who was then Minister for Enterprise and Lifelong Learning. That work was picked up by his successors, including Wendy Alexander, who produced "A Smart, Successful Scotland: Ambitions for the Enterprise Networks". The smart, successful Scotland strategy owed its origin in part to the review that was initiated by Henry McLeish. However, the review's conclusion was that the current enterprise network should not be changed.

In the context of the refreshed strategy, which was published in "A Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland", I had some discussions on the reasons for the differences between the statutory remits of Highlands and Islands Enterprise and Scottish Enterprise. Certainly, the board of Highlands and Islands Enterprise was anxious that we not only retain its community remit but that we assert and affirm it, as we have done in the refreshed strategy.

As I said when the refreshed strategy document was published, Scottish Enterprise does not have the same statutory remit as HIE because everything that Scottish Enterprise does should have a "primary economic rationale". However, the refreshed strategy also said that Scottish Enterprise's programmes and projects should be designed to contribute to closing the opportunity gap where appropriate. For example, although promoting business research and development has no obvious immediate relevance to closing the opportunity gap, skilling the workforce and providing support to those who want to start a business can have such a dimension, which I would expect to be there.

However, one theme that comes through in the refreshed strategy document is that the strategy is not solely for the enterprise networks. One thing that struck me during our consultation of stakeholders is that many partners need to be engaged in taking the strategy forward. As Malcolm Chisholm will confirm, the new futures fund deals with issues in which Communities Scotland undoubtedly has an important role to play. The health service also has a role to play in dealing with drug rehabilitation measures. The refreshed strategy has a strong theme of partnership, which means that everything does not fall on the shoulders of Scottish Enterprise.

As I said, although Scottish Enterprise projects should have a primary economic rationale, they can also provide an important contribution to closing the opportunity gap.

The Minister for Communities (Malcolm Chisholm): On joint working and working across portfolios, it is relevant to mention that Communities Scotland and Scottish Enterprise are working at present on a memorandum of understanding so that they will be able to work more effectively together than they have in the past.

As Jim Wallace did, I will quote from the strategy document. Page 21 of "A Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland" states:

"The Enterprise Networks must work in partnership with other agencies to ensure that all clients, from those with multiple barriers and furthest from the job market to those requiring advice and training to get them into work, can access an integrated portfolio of services that helps them progress from their current situation to employment."

Currently, an employability framework is being developed across the Executive.

During the earlier discussions, it struck me that achievement of economic growth often coincides with other desirable objectives. For me, the social inclusion agenda and closing the opportunity gap are closely connected to economic growth. For example, I attended a meeting on Friday on Edinburgh's joined up for jobs strategy. For the sake of economic growth, it is vital that people in Edinburgh who are excluded from the labour market be brought into it. Obviously, closing the opportunity gap is one of my specific objectives.

More work is being done by Scottish Enterprise and Communities Scotland to join up opportunity and need. I do not believe that those two things are in contradiction, as the example that I have given shows. Beyond that, the way in which Scottish Enterprise and Communities Scotland are beginning to work together more generally in

regeneration projects makes for far more effective government than was the case in the past.

Ministers are also beginning to work together, which has not been mentioned so far. For example, I chair the Cabinet subgroup on closing the opportunity gap. All three of us—myself, Jim Wallace and Tom McCabe—were present at the ministerial subgroup on regeneration, which met last week. Much similar activity is taking place; ministers are coming together and agencies are working together much more effectively than they did in the past.

The Convener: John Swinburne has a question.

Dr Murray: Hang on—I have asked only one question, but everyone else has asked more than one.

We have heard a variety of different views in the evidence that we have taken on economic development. John Downie of the Federation of Small Businesses Scotland favours a national economic development plan. Other evidence suggested that too many agencies are involved in the promotion of economic development in Scotland. We heard about the Welsh model, which involves a team Wales approach that provides all the different agencies that serve Wales with an overarching view of how they fit together. Some of our witnesses last week pointed to what happened in Ireland, where the consensus that developed on the best way forward was born out of extreme economic necessity—a position that we hope Scotland will not be in.

Given those many different views on how the Scottish economy should best be progressed, what is the minister's view of suggestions such as the need for an economic development plan to bring everybody together? At the moment, the system seems to be fragmented to an extent because Scottish Enterprise and HIE do different things. Will you comment on the evidence that we have heard from others?

Mr Wallace: We have a framework for economic development in Scotland; I am not sure what John Downie and others would want in a national economic development plan that is not in it. When I hear of national economic development plans, I immediately think of Stalin's five-year plans—or those of George Brown—although I am sure that such a plan was not proposed last week. However, the history of detailed central Government planning does not have a particularly good pedigree, so I would not rush to embrace a national economic development plan.

FEDS is a framework in which different strands contribute to economic development. Likewise, pages 11 to 13 of "A Smart Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland" detail how our

enterprise strategy can be achieved only in partnership with the variety of partners that the SSS document sets out. That is not clutter, nor is it an ad hoc approach. Different sectors have different things to contribute. The roles that can be played by Communities Scotland, the trade union movement, business organisations, the private sector and local authorities are recognised in the enterprise strategy document.

An important co-ordinating role remains with Scottish Enterprise and Highlands and Islands Enterprise both nationally and locally. At local level, the local economic forums help to co-ordinate the many partners and stakeholders and can also provide an economic and enterprise input to community planning partnerships. In the strategy and in the framework, we have identified that there are many players in economic development, which is not solely the function of my department, of the Executive or of the two enterprise agencies. A number of bodies have a role to play in economic development. We have set out the blueprint and the direction of travel and we look forward to those bodies co-operating with us and contributing.

The Convener: I suppose that one problem of the partnership approach is that it sometimes means that we must march at the speed of the slowest.

John Swinburne (Central Scotland) (SSCUP): Do the ministers agree that, if they are to realise their series of laudable aspirations, the finance portfolio will bear the greatest burden as it will need to bring in sufficient efficiencies? Does Tom McCabe agree that he will be able to achieve such efficiencies only if some people become less politically correct and allow him to get on with the job of fulfilling the efficiency drive that he is attempting to introduce?

Mr McCabe: I will not incur the convener's wrath by straying into another debate on efficient government. As I said at the start, we have had that debate—for the time being at least.

Given the size of the public sector in Scotland, it is extremely important that we pursue proper measures of productivity within the public sector to ensure that we achieve outcomes with the most appropriate levels of resource. We need to ensure that we do not, even with good intentions, crowd out private sector activity.

Mr McAveety: If I can achieve this sensibly, I want all three ministers to respond to this question. Many of our questions have been aimed at Jim Wallace, but I think that some of the biggest and best ideas come from his colleagues as much as from him.

Mr McCabe: We will take that as a compliment.

Mr Wallace: The compliment was to us jointly, I think.

Mr McAveety: Prioritising resources where economic disadvantage is greatest—which Malcolm Chisholm touched on earlier—has been a key issue in the submissions that we have received. In constituencies such as mine, many of the big problems involve the Department for Work and Pensions in one way or another. There is an issue in respect of incapacity and with the benefits culture and so on. What I am trying to get at is this: given that we in Scotland have responsibility for a whole host of agencies that deal with some aspects of that issue, how do we drive and energise that change?

On the ground, partnership working is not necessarily bad. Last night in the Gorbals, I heard evidence to the effect that, of the 12 pilot areas in the UK, the two in my constituency were the only ones to have spent all the money that was allocated by the DWP. The other 10 projects in other disadvantaged parts of the UK did not manage to do that. Therefore, how do we drive that kind of relationship?

We can invest in further and higher education, but such investment will have an impact only if we can get people into that pathway to benefit from it. In my constituency, the reality is that a substantial proportion of people do not even get through the starting gate. How do we deal with that critical issue? Will any of the stuff that the Executive is doing change that situation dramatically, or in any real sense? How is that reflected in our strategy of putting cities at the heart of economic growth? Our cities are where the largest numbers of Scotland's population live and where many of the energies and entrepreneurialism in our companies exist.

Malcolm Chisholm: It is no coincidence that, of the 10 closing the opportunity gap targets that we published last week, two were in the area to which Frank McAveety referred. The first target is to reduce the levels of worklessness—for some reason, the word seemed to cause some mirth for the *Daily Mail*—among those who are dependent on DWP benefits in the constituencies with the highest levels of unemployment. We also produced a target for reducing the proportion of 16 to 19-year-olds who are not in education, training or employment.

On the point that I made earlier, I believe that those targets are absolutely central to my portfolio, but they are also relevant to the work that is being done across the Executive and, crucially, to the work of the DWP. I have not talked to people in every part of Scotland but, for those whom I met in Edinburgh last Friday, the DWP—which, on the ground, means the jobcentres—is crucial to the joined-up working that is taking place. In the places that I have visited, such joined-up working

is happening effectively and is obviously required.

As I said, the employability framework is a key piece of work that we are doing. Getting people who are in disadvantaged communities into jobs is fundamental to closing the opportunity gap. We are focused on that. As I announced last week, the £104 million for the community regeneration fund will be better targeted on the most disadvantaged areas. Under the new formula, it will be targeted on the 15 per cent of communities that are the most deprived in Scotland. We are targeting resources more effectively at communities that are in need.

The wider regeneration agenda, in which Scottish Enterprise's involvement is crucial, is focusing on the right kind of areas, such as the Clyde waterfront and the Clyde gateway. The Cabinet sub-committee on regeneration realises that we have more work to do to make progress on that. We are more focused on the most disadvantaged areas in many different ways. I am glad that "A Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland" acknowledges that we must close the opportunity gap at the same time as we achieve economic growth.

10:45

Mr Wallace: Malcolm Chisholm mentioned his targets, but I will show the joined-upness of our approach by referring to "Building a Better Scotland: Spending Proposals 2005-2008: Enterprise, Opportunity, Fairness", in which the outcome of the 2004 spending review is published. The targets for my department under objective 4 relate to

"Closing the opportunity gap in employment and learning."

They are to

"Close the gap in unemployment rates between the worst 10% of areas and the Scottish average by 2008"

and to

"Reduce the proportion of 16-19 year olds not in education, training and employment by 2008."

Malcolm Chisholm spoke about that; it is one of the measures in "A Smart, Successful Scotland" that Scottish Enterprise is expected to track and report on.

I take Frank McAveety's point. "A Smart, Successful Scotland" states:

"Over 600,000 people of working age are currently inactive in Scotland, over 100,000 of them in Glasgow alone. This level of inactivity contributes to social exclusion and acts as a barrier to growth."

The case that we should try to address that issue by helping people to fulfil their individual potential and use their abilities stands on its own merits: to

have 100,000 more people contributing would be positive for economic growth. As well as its being the right thing to do, there is a strong economic rationale for working to achieve that. As Malcolm Chisholm said, a number of measures and bodies are involved in that. As I said when I launched "A Smart, Successful Scotland", there is to be a memorandum of understanding between Communities Scotland and Scottish Enterprise on making progress on such issues, including those that relate to employability.

Mr McAveety: The evidence that we have received has been characterised by a degree of uncertainty. We did not get a strong sense of co-operation when the various partners appeared before us. The situation is similar to our social dancing lessons at school—we knew that we had to go through it, but were reluctant to pair up with whoever was directly opposite us. That might have been the case for others, but I was quite lucky. The different submissions that we have received reveal a tone of uncertainty.

We face a challenge in getting the Executive to send a strong message that goes right through the system. A significant missing element is the relationship that we need to have with the DWP to drive that forward. I am not criticising people, because I know that the challenge is not easy and we need to do something about it. It might be useful if we were to send more consistent messages to the organisations concerned and if there was rigorous monitoring of that by the Cabinet sub-committee on regeneration.

Malcolm Chisholm: That is true, but the documents acknowledge that. That is why I quoted "A Smart, Successful Scotland". Everything is there. We considered the documents in a joined-up way—for example, we all made comments on the drafts. The statements are there, but I accept that we might have to make them more frequently and more loudly.

Ms Wendy Alexander (Paisley North) (Lab): I want to ask Malcolm Chisholm about planning. As you know, we pursued that with the chief planner a few weeks ago. We asked him about what progress we are making on the targets for the processing of major planning applications.

The Treasury's work on productivity and the Department of Trade and Industry's work to explain the difference between our performance and that of our major competitors suggest that planning is significant in respect of the productivity gap between Europe and the United States, for example. It is helpful that the chief planner has written to the committee and revealed to us that 49 per cent of major applications are decided within the four-month target, but that figure is rather depressing because it represents a drop of 9 per cent in the past few years. I realise that you are

relatively new to the portfolio, but why are we moving so strongly in the wrong direction and what can we do about that?

Malcolm Chisholm: We are moving in the wrong direction on the major applications, although the figures have been collected for only three years, so the trends are not strong; however, they are certainly cause for concern. The figures that relate to the more general target of deciding applications within two months are still unsatisfactory, but they have been improving. The major applications are a subset of a far larger number of applications. A key feature of our planning modernisation agenda is to speed up decisions; another key feature is to strengthen the involvement of communities. We are working up detailed proposals on those two issues.

I am not seeking to defend the situation as regards major planning applications. The point has been made to me that it is sometimes better to spend longer on such applications to negotiate a positive outcome rather than to refuse planning permission. I accept that, at the moment, Wendy Alexander knows a lot more about planning than I do—I have only 10 weeks' knowledge of the subject—but there is another set of figures that might be relevant. In England, for example, 30 per cent of applications for major housing developments were refused, whereas in Scotland only 10 per cent of such applications were refused. I imagine that that state of affairs is good for house building in Scotland. It might be possible to examine those two sets of figures side by side. The general necessity to speed up decision making notwithstanding, it might be better if differences can be negotiated away, because that produces more approvals at the end of the process. I throw that in as a thought.

Ms Alexander: We will keep a watchful eye on that. In my view, it is a mistake for the Executive to set a target to deal with 80 per cent of major planning applications within four months and then to say that it is quite happy with 49 or 50 per cent. I know that you are not saying that. We set a target four years ago, but we are moving in the wrong direction. Operational capability should be at the centre of our discussions on planning reform. I will not press you on how we are to speed up the process, but it would be helpful to import consideration of that issue into the debate in the months ahead, because of its relationship to the economic growth dimension.

Can I ask one more question?

The Convener: Yes.

Ms Alexander: My other question is for Jim Wallace. It is also to do with figures, as it is my assigned role these days to ask about figures.

We have found ourselves with a significant forecasting error on non-domestic rates income, which has meant windfall gains of £376 million over the past four years. If we find ourselves with an unforecast windfall of significant proportions for last year or this year, do you—as Minister for Enterprise and Lifelong Learning—think that there might be a case for repaying some of the unplanned surplus in the tax take to the business community?

Mr Wallace: Although your question was addressed to me, the responsibility for non-domestic rates rests with Tom McCabe.

Ms Alexander: Even Tom McCabe is not responsible for the forecasting error. Mercifully, today's meeting is not a ministerial outing for him.

Mr Wallace: I am not saying for a moment that Mr McCabe is responsible for the error. For as long as I can remember, one of the most unpredictable parts of the budget of the minister who is responsible for finance has been how such money comes in. The phasing of the revaluation cycle and the appeals cycle has an impact on that. It would be proper for Tom McCabe to elaborate on that, because last week he gave some indications on the future of non-domestic rates.

Mr McCabe: Wendy Alexander's question was a good one. Forecasting errors are a concern at the moment, but we need to take a longer-term look at the whole question. We have indicated to the business community that we are open to having a dialogue. We would have to consider the opportunity costs of directing resources towards a poundage equalisation. In recent meetings with the business community, I have said that I would like to change the debate from being about claims of competitive disadvantage to being about making a positive drive for competitive advantage for business in Scotland. It is against that background that I would like to conduct the debate. We have indicated strongly to the business community that the door is open and I look forward to examining those issues in some detail with it in the months to come.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I want to return to the Cabinet sub-committee on regeneration. I invite the ministers to say what they contribute to that group, how its agenda is set and what issues it discusses. What work does the Scottish Executive Enterprise, Transport and Lifelong Learning Department do in advance of a meeting?

Mr Wallace: I am the only minister who has had continuous presence on the committee. Much of the work is done prior to meetings through exchanges between officials, who then provide papers. As Jane Morgan, who services that committee, knows about much of what goes on

behind the scenes before matters even get to ministers, it might be helpful to hear from her, with the convener's permission.

Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department): I will try to remember what has happened.

We examined a series of issues, the first of which was what we mean by regeneration. It is difficult to have a debate about making progress on regeneration without there being common understanding of what that means. Within that, we went on to consider geographical priorities for regeneration. The starting point was the national planning framework. We are about to do some much more detailed work on the opportunities that direction of existing spend provides and on the index of multiple deprivation, which we will use to identify where it might be sensible to concentrate regeneration effort. Those are two areas that ministers have considered and on which more detailed work is under way.

There has also been some examination of the organisational landscape, to which Elaine Murray referred, especially in the context of area regeneration activity. Those are the three big areas that have been examined.

Alongside that, work is being done to take forward individual regeneration projects. Malcolm Chisholm's department has considered the use of urban regeneration companies and the Deputy First Minister has a particular interest in the Clyde waterfront. As well as taking an overarching view of regeneration, how we should make progress on it and what that means for the Executive, the group has shown an interest in some of the larger projects.

Jeremy Purvis: I have a question about the organisational element and the funding streams that emerge from such considerations. Political decisions about budgets are made during the spending review period and it is for the relevant departments or agencies to distribute the funding. At a previous meeting, I cited the case of a development trust in Lauderdale that wants support. Organisations and companies in many different areas can be affected by the same problem. They have difficulty in getting a consistent approach at local level from Communities Scotland, which might give more emphasis to the deprivation index, to the local enterprise company, which has its own agenda and autonomy with regard to how it spends, and to the local authority, which of course has locally set priorities. Other agencies might be involved, too.

That can give rise to a situation such as the one in Lauderdale, where the enterprise company is supporting feasibility work through hard cash, only for Communities Scotland to say that it cannot

support the project because it does not tick the box on the deprivation index. The local community does not care from which arm of Government support comes, but there needs to be a consistency of approach. Has the Cabinet sub-committee considered that? What are the ministers' views?

11:00

Mr McCabe: The need to take a wider view certainly formed part of the discussion at the last committee meeting, and there is a need for the Executive to determine how it gets involved in regeneration and at what level. Is it simply about providing the infrastructure and allowing other developments in the private sector to build on that in certain areas? Is it about a geographical identification? Those questions are being asked in the discussions that are taking place.

Whatever is finally decided may well have an impact on some of the spending priorities in different areas of Government, and Wendy Alexander's question about how planning impacts on our overall growth and on regeneration is important. A review of planning is being undertaken within the Executive, and we intend to announce a 10-year infrastructure plan. All such things are linked to regeneration, and to do one of those things in isolation would be to miss a golden opportunity.

Jeremy Purvis: What is the relationship with agencies that are at arm's length from central Government or that have a degree of local accountability, and how can there be a consistency of approach, especially among local authorities? For example, 90 per cent of all roads in Scotland are the responsibility of local authorities, yet there is no ring-fencing of the funding for them and, at a national level, it is difficult to get a consistent approach to investment in local roads. The same is true of local spend in education and schools. What are the mechanisms for ensuring that a consistent approach is taken at the local level and for enabling local authorities to know whether they are complying absolutely with the recommendations in the FEDS document and in "A Smart, Successful Scotland"?

Mr McCabe: It is important to get individual geographical areas signed up to the concept that is developed, to ensure that they follow it. If a purely top-down approach was taken, it would fail. We must ensure that the aspirations that we set are set in conjunction with the important players at the local level, such as local authorities and local economic forums, to ensure that the right people are involved in the process and are signed up to it. Thereafter, we must do our best to monitor how each different component is playing its part in

achieving the overall aspirations that have been set.

Malcolm Chisholm: The community regeneration fund that I mentioned earlier is now being distributed through community planning partnerships. We see that as important at the local level, not just in terms of spending the money that I announced last week but in supplementing that. If we cannot bend the spend at the local level, to target in the same way, the community regeneration funding will not, in itself, make the difference that we want to see. Progress has been made on that.

Urban regeneration companies have been mentioned. We are piloting new ways of joining them up at the local level—a model that Clydebank, Craigmillar and Raploch are pioneering. Aside from the money that we are giving, a lot of the work is based on new forms of partnership working at the local level.

Mr Wallace: It is important that we do not lose sight of the local dimension. I agree entirely with Tom McCabe that a top-down approach would not work for every community in Scotland. The direction of travel is clearly set out in "A Smart, Successful Scotland". One of the features of the refreshed document is that it embraces a range of stakeholders; it is not just a direction to the enterprise networks. Before the refresh, the local enterprise forums were set the task of finding out how the recommendations in "A Smart Successful Scotland" could best be implemented and what relevance they had to the communities in the areas that are covered by their LECs.

Community planning partnerships are also very important in bringing together the agencies that are not solely creatures of Government but are at arm's length from it. I do not think that we can emphasise strongly enough the importance of working at local level with the local economic forums and community planning partnerships. At that level, a degree of knowledge can be gained of local circumstances and priorities that, with the best will in the world, could not be obtained by officials in Edinburgh or at Meridian Court in Glasgow.

Jeremy Purvis: Do you have a comment to make specifically on the mechanisms for distribution of the budgets to the agencies at the local level? Also, have you had any discussions with your Welsh colleagues or the First Minister in Wales with regard to the decision to bring the Welsh Development Agency into the Welsh Assembly Government? Have discussions on that taken place between the Scottish Executive and the Welsh Assembly Government?

Mr Wallace: I have not had such discussions, and I do not know whether officials or the First Minister and the First Minister for Wales have ever discussed the matter. It is not something on which Scottish ministers have been consulted.

Jeremy Purvis: Have there been discussions at official level, or did you read about it in the newspapers?

Jane Morgan: We had some discussion about the approach to development agencies, but it was not explicitly about the intention to bring the Welsh Development Agency into the Welsh Assembly Government.

Mr McCabe: The relevant Welsh minister has made reference to the matter at some of the quadrilateral meetings that have been held; however, he has done so on an information basis, not to take our view on it.

The Convener: We have been joined by Nicol Stephen, the Minister for Transport, and Jonathan Pryce, the head of the Executive's transport strategy and legislation division. The minister has been at another committee meeting.

Dr Murray: I have a supplementary question that follows on from what Jeremy Purvis was asking about. The Minister for Enterprise and Lifelong Learning has been talking about the importance of local planning, the local economic forums and so on. How does that interrelate with the city region focus of economic development? In parts of the country that do not have a city and do not identify with any Scottish city, people are confused as to how their local development agencies fit in with that focus. In places such as Dumfries and Galloway and the Borders, area boundaries are coterminous and it is quite easy for agencies to work together successfully. However, the only city to which people in Dumfries look is Carlisle, and Dumfries is not going to be part of the Carlisle city region.

The Convener: I am not sure whether that is a question or a statement.

Dr Murray: It is a question.

Mr Wallace: You use the word coterminous. I represent a constituency in which, for the most part, the various organisations enjoy substantial coterminosity, which is helpful.

We have talked about the development of Scottish cities as the main drivers of the economy as part of the national planning framework, on which Malcolm Chisholm might want to comment. The objectives that are set out in the FEDS document make it clear that economic growth is a prerequisite if all regions are to enjoy the same economic opportunities and if regional development is to contribute to national economic prosperity. It is the objective and policy ambition of the Executive that the benefits of economic development and growth should not be concentrated in the cities. There is an amount of evidence, to which Frank McAveety alluded in his questions, to suggest that the city regions can be

major drivers of growth; however, that should not be to the exclusion of areas such as Dumfries and Galloway, which, as I know well, has no natural affinity with any Scottish city.

Mr Brocklebank: I have a couple of questions for Nicol Stephen, who has just joined us. Throughout the discussions that we have had and the evidence that we have taken from witnesses, the importance of transport has been manifest. That has come through in session after session.

At the away-day that we had in Cupar in Fife, it was stressed that integrated transport systems are vital not only to the big cities such as Edinburgh, but to areas such as that which I represent, in allowing them to link into Edinburgh. Specific questions were levelled about the difficulties in developing the Levenmouth area as a potential technological park for building blades for offshore turbines. That development is being held up, to some extent, by the fact that there are no reasonable roads into Levenmouth. Are we yet starting to think in an integrated way about how we can develop Scotland's transport network to allow areas that have specific industrial advantages to come into the equation?

The Minister for Transport (Nicol Stephen): Yes, we are. For a long time, we have been criticised for not having an integrated transport strategy for the whole of Scotland. We have now agreed that we will develop such a strategy as part of the establishment of the new transport agency. Over the next year to two years, we will work with the agency to develop a strategy. We will not wait until the agency is in place towards the end of 2005 but will start to make progress on that transport strategy over the next 12 months.

We will encourage regional strategies to tie in with the national strategy through the formation of the new regional transport partnerships. The RTPs will be encouraged to do a great deal to improve integrated transport at the strategic or regional level, although their core responsibility will be to have a regional strategy that supports the national strategy. All of that is a big change. We have not had such an approach in Scotland before. This may seem amazing but, previously, we had 32 local transport strategies with no absolute requirement that they should complement a national strategy. We are making an important move in the right direction.

However, none of that is important unless there are resources to back it up. It is important for us to be able to do something to improve local roads, to build local park-and-ride projects and to support local bus priority schemes. That is why one of the most powerful signals that we could give in announcing the recent Scottish budget was to increase the investment in transport so significantly. There will be extra funding, both at

the national level for the major rail and tram schemes—I have just been discussing trams at the Edinburgh Tram (Line Two) Bill Committee—

Alasdair Morgan: It was the Edinburgh Tram (Line One) Bill Committee; the Edinburgh Tram (Line Two) Bill Committee meets tomorrow.

Nicol Stephen: My apologies, convener.

We are undertaking some major projects at the Scotland-wide level, but encouraging more to happen at the regional level and the local level is an important part of our strategy. That requires the allocation of funding to the new RTPs. It also means that more funding is needed for councils to spend on local roads, and we are providing that through grant-aided expenditure.

Mr Brocklebank: Does the minister accept the fact that it is important, in carrying out that work, to ensure that all regions are treated fairly? Can he explain why the Enterprise, Transport and Lifelong Learning Department has turned down Tay Road Bridge Joint Board's plea to replace the bearings that support the bridge at the same time as we are—

The Convener: Ted, I think that you are—

Mr Brocklebank: No—hang on. This is important. At the same time that the Executive is proposing to remove the toll from the Skye road bridge, it looks as though it is going to increase the toll for the Tay road bridge by 30 per cent. Surely that is important in respect of the integration of transport systems throughout Scotland.

The Convener: If we all start to discuss our local roads, we are—

Mr Brocklebank: But that is a major point about a difference in treatment regarding tolls.

Nicol Stephen: On the point of detail about the ball-bearings on the Tay bridge—

Mr Brocklebank: Not ball-bearings but the main road bearings.

Nicol Stephen: My apologies. I misunderstood. I was unaware that we had turned down any investment proposal in relation to the bridge. I will look into that and will write to Ted Brocklebank on the issue.

Ms Alexander: Let us turn from the local to the strategic. As you know, we are examining the contribution that transport can make to economic growth. Should we conclude in our report that fixed links to Glasgow and Edinburgh airports are of greater strategic significance to economic growth than the expansion of capacity at Waverley station? Does that explain why the Executive is financing the construction of the fixed links to the airports while—albeit because of the initial disinterest of the Strategic Rail Authority—the

expansion of Waverley station has slipped down the agenda? I am interested to know which critical piece of rail infrastructure needs to be fixed to assist economic growth.

11:15

Nicol Stephen: You should not read that into our decisions. Our decisions on Waverley station rested strongly on our belief that improvements at Waverley were of such importance at the UK level that they should have been funded by Network Rail and the SRA. It was encouraging that Network Rail showed leadership on that project and brought together a partnership of organisations in the working group, but there has been no offer of UK funding for the project to date. To kick-start the project, we have offered to take it through the first phase of funding, as we realise that maintaining progress on Waverley is vital. That is why the current development work is being funded. The Executive has stepped in and agreed to do that.

A case for UK funding could have been made for the Edinburgh airport rail link because of the positive economic benefits that would arise, but airport rail links are a more difficult case to make. However, such matters will be discussed a great deal over the next few weeks in relation to the new rail review proposals and the reallocation and devolution of significantly more rail powers to Scotland. We believe that accepting those new rail powers is important, as we will be able to offer a new approach to rail in Scotland that is much more integrated, involves fewer organisations, is less complex and has a greater ability to deliver. However, it is also important that we get a fair financial settlement that will allow us to deliver improvements to the rail network in Scotland, such as the improvements to Edinburgh Waverley.

Ms Alexander: I understand the difficulties that are involved in the UK not delivering what was once hoped for at Waverley. We are in an interesting position. We are acquiring more powers and are about to spend approaching £500 million over the next five years on airport fixed links. Desirable as such developments are, they are not the piece of rail infrastructure that creates a central Scotland labour market. We may throw £50 million at making things happen, but the acquisition of new powers means that we can say that we had £500 million of discretionary spend that will now go to airport fixed links rather than to ensuring that people from Fife, Lanarkshire and Glasgow can come to work in the overheated Edinburgh labour market. I wonder whether we need to keep that in mind over the months ahead.

Nicol Stephen: I am determined to ensure that Waverley has the capacity to cope with the improvements that will be made. The development

of the Stirling-Alloa-Kinross line will allow us to improve services through to Fife and will obviously bring benefits to Clackmannanshire and Stirling. The Airdrie to Bathgate line will bring services into Glasgow and Edinburgh Waverley, and the Borders rail link will put more pressure on Waverley. Those developments mean that we must invest in Waverley, and I am determined to ensure that that happens in a planned and phased way that does not mean that at any point we will be constrained in any of the developments that I have spoken about.

The first phase is to move from 24 trains per hour up to 28 trains per hour by reconfiguring the track and the signalling. We can do that, which will allow us to take in the first wave of improvements and the first expansion of services at Waverley. Taking things beyond that is more complex and, in effect, requires us to create a new level and raise many services or facilities, including retail facilities at the track level, up a level to allow us to drive new sections of line through roughly where the main concourse is at the moment. Obviously, that is a more complex and expensive matter. We are talking about a major project that involves total investment in the order of £0.5 billion to £1 billion. However, I am determined that it should proceed in due course. We must be ambitious for Scotland's transport future and we must think about what we will do beyond the current group of projects, which will take us through until around 2011 to 2012. The Edinburgh Waverley project will take us through to the middle part of the next decade, as will other projects, such as work on the link between Edinburgh and Glasgow. I am sure that there will be much more discussion about that issue in the Parliament and its committees over the coming years.

The Convener: I want to follow up on what you have said. The rail projects that you have described probably amount to around £1,200 million. Adding money for the trams means another £500 million. We are therefore talking about substantial investment. The uplift in 2006-07 is around £270 million, with a further £50 million in 2007-08. It seems to me that there is a real issue relating to the deliverability of the range of projects that have been discussed within the available timescale. Of course, it is possible—in fact, it is likely—that there will be slippage in some projects, but we are talking about major commitments of future spend that go beyond the spending review. Step changes that are associated with making those commitments are necessary in the alignment of the budget. My first question is therefore about deliverability. How do you prioritise and how does growth fit in?

The second issue is the method of assessing projects. Assessment seems to be done on a project-by-project basis within which there is no

set of macroeconomic criteria for the desirability of different projects. Of course, the danger is that a decision can potentially be made on, for example, the Edinburgh air link that does not relate to other decisions that you make in relation to that conurbation, which may lead to results that do not stand together as a financial package. The issue is how individual projects relate to a transport strategy at a conurbation level and how they are examined to determine how they deliver into a growth strategy at conurbation level for Scotland. The natural economic unit is probably the conurbation rather than the nation as a whole.

Nicol Stephen: On the first issue, deliverability is the biggest challenge for transport in Scotland, and it is my biggest responsibility as the Minister for Transport. To be frank, we do not currently have the capability or the resource to ensure delivery, which is why we are establishing an agency and why we accept that we must recruit new people with engineering and project management skills. All the projects are major Scottish capital projects. As you have pointed out, several projects will take place at the same time, which we are planning for. Therefore, we must do more on the deliverability side, particularly in relation to public transport. In the past, we have been relatively strong in delivering roads projects on time and on budget in Scotland, but we do not yet have similar strength or experience in relation to public transport projects. We have not delivered major new public transport projects in Scotland for a number of decades, so deliverability is a high priority.

I agree that we need to do more on macroeconomic criteria and indicators. The STAG appraisal is a step in the right direction and it has made a big difference to our assessments of roads and public transport projects. However, as I said in reply to Ted Brocklebank, we are developing a new transport strategy for Scotland. As part of that, we will trigger the start of the strategic projects review, which will consider the next wave of investment that we must make in roads and public transport projects in Scotland. We must open up the discussion on indicators and on our assessment approach to transport in Scotland.

Perhaps we need to learn from other countries. However, there is no clean, clear and agreed model. Political judgment and the need to make final decisions will still be involved, but all projects should go through a similar assessment. Rather than what currently happens with the STAG appraisal, whereby there is an end net present value and a cost-benefit ratio for an individual project, we should be able to do much more to understand the interaction of projects. That is a key part of the strategic projects review and the new national strategy.

The Convener: That would be welcome.

Jim Mather: I am keen to return to the core issue of economic growth and competitiveness as a key component of that growth. What is happening to increase the overall competitive footprint of Scottish governance and individual portfolios? What is being done to demonstrate a passion for competitiveness that will transmit and translate to all the 5 million stakeholders in Scotland plc and to potential investors on the periphery?

Mr Wallace: I may be misinterpreting the question—if so, I am sure that I will be put right. We want to secure competitiveness in a range of areas. If Jim Mather is asking what the Government is doing to become more efficient, we are almost back to the efficient government debate. FEDS recognises that efficiency in the public sector is an important part, or one of the key drivers, of the strategy. I do not know whether Tom McCabe wants to elaborate on that.

Jim Mather: Perhaps it would be fair to augment the question a little. What is there for indigenous businessmen and potential foreign investors in the Scottish Executive's proposition when it says, "Look, this is what we are doing to make Scotland more competitive and more compelling for you to come here, invest and develop your business"?

Mr Wallace: I am sorry. I thought that you were talking about the Government's own agenda on how we present ourselves. Tom McCabe might want to add something about that.

There are a number of strands. The whole thrust of the smart, successful Scotland strategy is to improve our competitiveness. There are policies and there is a range of support for growing businesses—I am not talking only about starting up businesses, although that is important, but about trying to ensure that Scotland has more businesses of scale. There is the international competitiveness agenda, which I have already elaborated on in some respects. There is the importance of innovation, research and development and investment in higher and further education. There is also the issue of skills, the importance of addressing the skills agenda and the fact that we have achieved ahead of time our target for modern apprenticeships. I think that we set a target of 30,000 by 2006; there were 31,000 earlier this year.

What we are trying to do in respect of investing in transport and electronic infrastructure should be considered. Now that we have a commitment that every community in Scotland will have access to broadband by the end of next year, it is important to move on from that commitment to ensure that there is take-up and to look beyond that to ensure

that businesses can identify the advantages of take-up.

A range of competitiveness criteria was considered by "fDi" magazine, which is a publication in the *Financial Times* stable. That magazine judged Scotland to be the European region of the future in respect of how we present ourselves to potential inward investors. That was encouraging, as a number of the issues that the committee has discussed were considered, together with how they can be brought together collectively. Perhaps Jim Mather was driving at the totality of things, which I mentioned earlier. Culture and recreation have a contribution to make. I was delighted that we won that accolade.

Scottish Development International has an important role to play in ensuring that Scotland's competitiveness is seen in a positive light, and I have instructed it to consider how it can use the plaudits that we have received in looking to the future and making Scotland an attractive place to which people can come to work, live and do business. I hope that such a message can be spread abroad.

Mr McAveety: I want to ask Nicol Stephen about progress on the M74, which is a critical project, and economic growth. My question touches on an earlier discussion that we had about the challenges that face places such as west central Scotland. As a minister, what kind of relationship do you have with other ministers in progressing that initiative? How do you tie in the initiative with getting people from areas that will be affected by the M74 development back to work? I am thinking in particular of areas with substantial levels of unemployment. It is clear that that is one of the key challenges in that part of Scotland.

11:30

Nicol Stephen: At this stage, the discussions have focused on the assessed benefits of the project including the potential for economic gain. A lot of economic analysis has been undertaken into what can be achieved once the road is built. Discussions have also focused on the impact that the scheme will have on existing businesses. The aim of those discussions is to ensure that issues such as relocation and land acquisition are handled as sensitively and quickly as possible. The businesses that are affected by the current scheme need clarity.

Mr McAveety rightly raised the point that the biggest prize of all would be to turn all of that into real jobs and real economic growth and dynamism. Frankly, not a lot of cross-cutting engagement is going on yet in that respect. I would be happy to do more on the issues that the question raises—indeed, the question should be

put in relation to other projects too. A further question arises as to whether the promotion of such schemes can create a sense of momentum in an area.

For example, any modern European city that gets investment in new trams feels that its tram network acts as a powerful symbol of the success of the city; the investment serves to motivate people. All of us know from Glasgow's relatively recent past that marketing campaigns can make a difference. We have seen how they can lead to a sense of momentum and progress.

As Mr McAveety rightly said, if the Executive is to invest hundreds of millions of pounds in a new road or rail project or decides to make an investment in a railway station, we should do more to ensure that we turn the investment into real economic success for the area involved.

The Convener: I have a general question, as do Elaine Murray and Jeremy Purvis. However, I think that we are out of time. I understand that Jim Wallace has to leave in order to meet another commitment.

Mr Wallace: No.

The Convener: Thank you. I ask members to keep their questions brief.

Dr Murray: I want to invite comment about the process by which you decide whether to promote an area of economic decline or one of the areas that makes Scotland more successful. The Executive does not have unlimited resources. For example, in Nicol Stephen's portfolio, a decision might have to be taken whether to make an investment in the A75 or the A9, which would be of advantage to people living in more remote areas of the country, or an investment that would relieve pressures in Edinburgh which, in turn, would make Edinburgh even more successful and attractive as a location for business. An argument could be made in favour of both types of investment. What is the decision-making process by which you reach a balance between those different types of investment?

The Convener: The question is almost impossible to answer.

Jeremy Purvis: Nicol Stephen is the minister for impossible answers.

Nicol Stephen: As I said in response to a question from the convener, we could do better in this area. Through the national strategy and the strategic projects review, we will start to look across the whole of Scotland in the next phase of transport projects.

The fact that we now have a Scottish transport appraisal guidance process, which all roads and public transport projects have to go through, is a

significant step forward. At the moment, it tends to show that roads projects have a higher benefit than do public transport projects, so one has to wonder whether we are carrying out the appraisal in the right way, if we believe in public transport, or whether we should be investing all the money in roads.

Our clear political view is that although we are growing the expenditure overall and we should not forget that roads as well as public transport are benefiting from that, we are trying to shift the investment towards public transport projects. When the Parliament was established, public transport accounted for around 25 per cent of transport investment, but it is now going to account for 70 per cent. That shift has been driven by a view that increasing investment in roads will not address Scotland's transport needs and that we need to improve our public transport. The quality of our public transport had fallen behind dramatically. When we compare ourselves with other European or global centres of similar population we see that we need better rail facilities, investment in trams and better bus services. Public transport has been neglected. We will consider carefully getting the balance right in the new national transport strategy and we will have to consider the regional transport partnerships in relation to the new regional strategies.

Getting a means of fair assessment will be a challenge for us. There will always be the political issue of whether we should be investing more money in an overheated east central-belt economy, in the deprived areas of Clydeside that need regeneration or in Orkney, Shetland, the Western Isles and other remote and rural locations. I notice that Jeremy Purvis is twitching in his seat because I have not mentioned the Borders yet. We will also be considering Dumfries and Galloway and I should not finish without mentioning the north-east of Scotland and my home city of Aberdeen. There are competing pressures. The way in which we have addressed those issues historically has been based not on any great science but on supporting worthwhile schemes and, as at present, trying to ensure that they cover a wide part of Scotland. Such schemes include the Aberdeen western peripheral route and the rail links to the Borders, between Airdrie and Bathgate, to Glasgow and Edinburgh airports and between Stirling, Alloa and Kincardine. I hope that there is a sense of balance there, but it will always be an area of hot political discussion.

Jeremy Purvis: I am grateful for the opportunity to ask this question; I know that it has been a long session for the witnesses. I return to a point of discussion between Frank McAveety and Jim Wallace on areas of ill health and the reduced level of economic activity in parts of Scotland,

which has an impact on our productivity levels, in which all the Executive's documents show that we are way behind not only the rest of the UK but our main competitors. In a previous meeting we took evidence from HIE, which acknowledged the link between economic activity and health. The chief executive of HIE said that he met his equivalent in the Health Department regularly, but the chief executive of Scottish Enterprise did not see the need to meet the head of the Health Department and had no plans to do so. What dialogue is there between the Minister for Health and Community Care and the Minister for Enterprise and Lifelong Learning? Does the Minister for Enterprise and Lifelong Learning want to comment on the different approaches of the chief executives of our two main enterprise agencies?

Mr Wallace: There is regular dialogue around the Cabinet table about issues that come up and officials are also in dialogue. A good example is the decision that we took to ban smoking in public places. Tom McCabe, Malcolm Chisholm and I were all involved in the process of making that decision. Tom McCabe and Malcolm Chisholm were involved when they were health ministers; they were not in those posts when the final decision was taken, but they did a lot of the preparatory work.

The decision was based on consultation, but there was also input from the Enterprise, Transport and Lifelong Learning Department. We commissioned somebody at the University of Aberdeen to examine the potential economic impacts, not only the impact on the licensed trade but the broader impact on working days saved through less illness. Therefore, the decision was joined up. That is the essence of Cabinet government. Such decisions are not taken solely by the minister concerned; they are taken collectively.

Cabinet ministers are aware of what the priorities are. Growing the economy is the top priority, but it is not the sole priority. There are also priorities connected with closing the opportunity gap and with sustainability and the environmental agenda, which pervade our decision making.

Malcolm Chisholm: If I could just—

Jeremy Purvis: The—

The Convener: I think that we are at the end now, Jeremy. We really must halt at this point, even if that means choking off Malcolm Chisholm on this subject.

I thank the ministers very much for coming along to the meeting. This has been an interesting evidence session from the committee's point of view. We will be having a further session on 18 January to examine the issues that have been raised in evidence. Once again, I thank the

ministers and other witnesses for coming along.

11:41

Meeting suspended.

11:43

On resuming—

Transport (Scotland) Bill: Financial Memorandum

The Convener: The second item on our agenda is further evidence on the Transport (Scotland) Bill. As members will recall, we took evidence on the bill on 23 November from the Convention of Scottish Local Authorities and Strathclyde Passenger Transport. We also took limited evidence from the Executive. We asked the Executive also to write to us, and we agreed to invite officials to appear before us again.

Jonathan Pryce has remained with us from the previous agenda item. With him are Frazer Henderson, the bill team leader, and Claire Dunbar-Jubb, group accountant to the roads policy and group finance division of the Enterprise, Transport and Lifelong Learning Department. Members will have a copy of the letter that the Executive officials sent to us. We heard an opening statement on the bill previously, but does Jonathan Pryce have anything more to say?

Jonathan Pryce (Scottish Executive Enterprise, Transport and Lifelong Learning Department): No, I am quite happy, thank you. I am grateful for this opportunity to come back to the committee. I hope that our reply has been helpful, and I am happy to take members' questions.

John Swinburne: With wide differences across the country, surely you cannot expect a standard system to apply in the central belt, up north and in Jeremy Purvis's Borders area when it comes to transport difficulties and one thing and another. I cannot see how it could possibly be the case that the same input will be sufficient in every area. Surely variation is required across the country.

11:45

Jonathan Pryce: If you are referring to different levels of resourcing, including staff resourcing, for the partnerships in various parts of the country, you may well be right. Certainly, each region of Scotland is affected by different transport issues. Throughout the process, we have been clear that we are not pushing for a one-size-fits-all approach to be taken. A degree of flexibility is built into the consultation that we are undertaking at the moment, although we are trying to provide a consistent framework that can be applied across the country.

It is quite possible that different levels of resource will be required in different partnership areas. The financial memorandum does not contain a detailed partnership-by-partnership

analysis of the resource levels that may be required. At this point, it is difficult to do a finer analysis of which regions might require five staff and which regions might need three or six staff. You have a point, but at the moment we have a broad-brush assessment of what we think is reasonable based on our current level of knowledge. The averages that are included in the financial memorandum are based on those reasonable assessments.

John Swinburne: In order to get the levelling out of costs that the Executive seeks, council tax might have to rise more in some regions than in others.

Jonathan Pryce: I do not think that the staffing resource at the partnerships will have an impact on council tax levels. At the moment, we are looking at what we outline in model 1 in the consultation paper as a regional transport planning body, which would have a relatively small expenditure on staff. As we make clear in the financial memorandum, at present we provide core funding to the existing voluntary partnerships for that.

You may have been referring to the possible impact on council tax levels of different levels of spending on transport infrastructure and services in different parts of Scotland, but that is a matter on which I cannot speculate. That question is one for the partnerships to consider along with their local authorities. They will need to decide whether, in the first instance, to take on the kind of executive powers that will be needed in order to deliver transport services. It is the sort of question that the 32 local authorities have to take account of at the moment for their local area. Again, no significant impact should occur as a result of the bill.

The Convener: You seem to expect that additional staff will be required for the additional duty of preparing the regional transport strategies. However, you are making funding available only for the first year. Given that you say in paragraph 143 of the financial memorandum that

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

do you expect that the additional staff who are referred to in paragraph 135 will be employed for one year only? If so, will the additional accommodation costs that are referred to in paragraphs 136 and 139 also cease to be incurred at the end of the transitional year?

Jonathan Pryce: What we are saying in the financial memorandum is that we do not envisage that there will be significant additional costs in the long term over and above the level of resource that the existing voluntary partnerships have and

deploy, even in relation to the monitoring and updating of the regional transport strategies.

As you say, the numbers to which we refer in the financial memorandum are noted only for the first year. They address the additional costs that are involved in the production of the strategies. We are not necessarily saying that five additional staff will be required in each of the partnerships to produce those strategies. Indeed, it is perfectly possible that those strategies will be produced with the support of consultants. Five staff in each of the partnerships might be the long-term staffing for those partnerships. We think that it should be possible to meet the costs of doing that, taking account of the support that the Executive already provides in core costs to voluntary partnerships.

The Convener: I want to pursue that point further. If I have understood you correctly, you are saying that the cost of the five staff envisaged for each of the transport partnerships is not the only cost of the set-up process; there will be additional consultancy costs for that year. You are then saying that the cost of the five staff for each of the transport partnerships could be an on-going cost. That does not seem to be what the financial memorandum says. I thought that the five staff was a one-off cost. Am I wrong?

Jonathan Pryce: At this point, I do not know for certain what precise methodology and staff the partnerships will use for the production of their regional strategies. In the financial memorandum we are saying that we think that it is reasonable to expect five staff to produce the regional strategy in the first year. In the financial memorandum, we did not make an allowance for consultancy costs because we think that it is possible that the five staff could just do it. However, we recognise that the partnerships might choose to make do with fewer staff and spend some of that money on consultants. What is set out in the analysis in the financial memorandum is really a staff-equivalent cost.

The Convener: But section 7 of the bill contains a requirement to keep the strategy under review and to prepare revisions as required by the ministers. That will fall on the regional partnerships and if funds are not made available beyond the first year, it can be funded only by the local authorities, so that will be an additional burden for the local authorities. Has there been any feeding of that additional cost into, for example, the allocations to local authorities under grant-aided expenditure?

Jonathan Pryce: We have not made any additions to the recently announced local government finance settlement in relation to the bill. We have taken the view that the monitoring of the regional strategies and the work that goes with that is not necessarily any more onerous than the

work that councils are currently carrying out in their transport planning and joint transport planning. It does not necessarily require any additional funding, so we have not set out any additional funding for that in the financial memorandum.

However, we are not saying that there is no potential for additional funding to reflect an increase in activity on transport. I fully expect that during the next five years we will see quite an increase in activity on transport, arising from the good settlements in the last two spending reviews as much as anything else. Because of the additional overall spend on transport, there will also be additional running costs and the Executive has an open mind on that. We would be prepared to consider an approach from councils or regional partnerships if they were saying that they are doing such good things in the new framework that they can make a case for additional funding.

The Convener: In his evidence to the committee, the minister seemed to be acknowledging that there is an issue of capacity and deliverability. That seems to reflect what you have said.

Alasdair Morgan: I have a follow-up to what we asked last time on prudential borrowing and what you said in reply. Am I right in assuming that before it can qualify for the prudential borrowing facility, any public transport project—regardless of whether it has a capital grant—has to be able to generate enough revenue to pay all its operating costs and, in addition, pay all the loan charges arising from prudential borrowing?

Jonathan Pryce: It would be extremely good if a project were able to do that, but it is not a requirement, in that it is possible for the partnership to meet the loan charges from the borrowing through its requisition from its constituent councils. The partnership has an income stream that it can draw on from its constituent authorities that will allow it to meet those charges and to undertake prudential borrowing.

Alasdair Morgan: Hang on. If a council, for example, is to undertake a scheme with prudential borrowing, it will have to have a revenue stream to justify its prudential borrowing. I presume that that revenue stream is not the council tax; it must be a revenue stream from the project. Is that correct?

Jonathan Pryce: If a council were promoting a project, it would hope that there was sufficient income not only to meet the running costs but to contribute to the on-going debt costs, but that would not be essential. In the local government finance settlement there is an element of revenue support called supported borrowing, which local authorities can use to pay the debt charges of

borrowing under the prudential regime. Councils can draw on that element to meet the loan charges of a particular scheme, and it is that same support that regional partnerships could draw on through their councils in supporting a regional project.

Alasdair Morgan: There is a danger of two organisations biting the same cherry. How is that co-ordinated? A council might have already borrowed prudentially on the basis of its support from the Executive and then the transport partnership might decide to borrow prudentially and assume that various member councils will have enough spare cash to contribute. There is scope for the borrowing to be less prudential than it should be.

Jonathan Pryce: You are absolutely right. There should be no question of either side making assumptions. Regional partnerships should not assume that there will be spare capacity in local authorities. That will be part of the dialogue between the councils and the regional partnership in preparing the regional strategy and the capital investment plan that goes with it, so that councils do not find themselves overstretched.

Jim Mather: The committee was concerned about the potential for fraud in relation to concessionary travel. Can you expand on the steps that are being taken to combat that?

Jonathan Pryce: Ministers are aware of the issues and of the committee's concerns. There is a range of contractual issues to do with ensuring that there is no fraud, and that what is delivered for the public support is value for money and fairly reflects the amount of public support that has gone in. We are clear that claims for concessionary travel have to be properly scrutinised. We strengthened the guidance for the current financial year, and made it clear that authorities must carry out a rigorous audit before submitting their claims to us and that operators' claims to the councils or the concessionary fares operator must be validated. There is a range of things that councils can do to ensure that what seems to be happening on the buses reflects what the passengers are doing, such as using mystery travellers and collecting random samples.

12:00

Jim Mather: Have lessons been learned from elsewhere? Are there mechanisms in place, such as precalculated statistical parameters within which you expect councils to fall?

Jonathan Pryce: I confess that I do not know the precise details. However, I am confident that my colleagues who lead on concessionary fares have spoken to people who operate schemes in other parts of the country. I do not know whether

there are baseline data that would show when there is an exception when something unexpected happens. I will speak to my colleagues about that.

Ms Alexander: The scheme involves additional funding of £196 million. Since the Executive does not have the power to administer the scheme, how will that be done? What is the distribution mechanism? Has there ever been an example of an operator not getting the full amount it applied for as a result of a faulty claim or a fraud investigation?

Jonathan Pryce: I am sorry to say this but, on the question of distribution, the Minister for Transport will make an announcement on the development of concessionary fares. That will happen before Christmas, probably.

Ms Alexander: It is scheduled for tomorrow.

Jonathan Pryce: You will hear more at that point and it may be that the situation that you are describing is not really an issue.

On the second point, it is probably fairest if I check whether there has been an example of the situation you describe and write to you or get a colleague to write to you with that information. There have been examples in which, following discussion, the paid claim has not been as high as the original claim, but I do not know whether that was the result of fraud.

The Convener: In that £196 million, what is the breakdown between the continuation of the existing schemes and new provision or development of the scheme? That might be affected by the minister's statement tomorrow, but it would be helpful if the committee could get a clear breakdown. We have asked that question before but have not received a response. Do you think that that information could be made available to us?

Jonathan Pryce: I will need to think through exactly what you are asking for. It might not be possible to break down the national element of the scheme from the local elements. We know what is spent on the local scheme at the moment, so you will be able to get information to that extent. If you are asking about how the £196 million breaks down into the extension to the national scheme and additions over and above that, I can tell you that that will become more apparent when announcements on the national scheme are made.

The Convener: I am interested in how much each specific extension might cost and in how the costs are increasing or changing in the context of experience of the scheme and what the anticipated payments are. Those are the most pertinent issues that I am interested in. If we need to write to you for that information, we can do so,

and you would receive the letter after the minister's announcement.

Jonathan Pryce: That would be helpful.

The Convener: I will now move on to what might be seen as a lack of parity of treatment. You have identified a substantial projected increase in the Scottish Executive's transport budget to deal with some of the issues that were referred to earlier. What is not clear to me is what the cost will be of the additional staffing and other resources that will be required by the Scottish Executive, either directly or through the proposed agency, to administer that increased budget and to deliver the projects and programmes. Can you give us any information on that? How many civil servants will be involved? What sort of budgets are we talking about to deliver the transport agency and the various things that are put in place by the bill?

Jonathan Pryce: I do not think that I can give any detailed additional information today. I can refer you to what is set out in the draft budget, where there is a line for the transport agency development fund. That is a reflection of anticipated expenditure up to 2007-08, so there is a line there that shows £1.2 million this year, £2.8 million next year and £3.3 million in 2006-07 and 2007-08. That is, at the aggregate level, what we are expecting the additional activity to relate to. That is not necessarily just staff costs for civil servants, of course. It is also for recruiting in professional skills and for funding the resource infrastructure that needs to go with that.

The Convener: You have identified substantial amounts at the central level. Can you project what additional staffing and overhead resources local government will require to meet its share of the delivery objectives—not just for the five extra staff? How much of that resource will be provided directly through the proposed regional transport partnerships, or by councils, as a consequence of the statutory regional transport plans and of the obligations that you will place on them?

Jonathan Pryce: It is difficult for us to project that at the moment. Picking up on something that we discussed a little earlier, we are open to consideration of a case put to us by local government about increased expenditure on delivering for transport. The key is to demonstrate the benefits. We are not proposing, as a result of the legislation, simply to increase the resource just because we have put a framework in place. However, there may be opportunities to increase resource if there is demonstrable delivery going on as a result. If we take specific projects, it is quite common for the additional staffing resource that is required to deliver those projects to be met as part of the project costs. For example, a good proportion of the support that the Executive has provided to date and will provide in the future for

the Edinburgh tram proposals, certainly in the early days, will be to fund the staff to do the delivery.

There is significant increased activity in the south-east region, much of which is being carried out by Transport Initiatives Edinburgh Ltd. Where there is a project that has made its case and secured support, there is the resource to enable that project to be delivered. We will continue to take that approach. That said, I should point out that one source of such funding is the £35 million per annum that has been written into spending plans from 2006-07 onwards for regional transport partnership capital projects.

The Convener: I am struggling with the two opposing views that seem to be emerging, the first of which is that the process is relatively cost-neutral for local government. I find that hard to accept, because the proposed legislation will place on local authorities some very clear responsibilities and duties that will not be systematically funded.

The second aspect is the bill's content, which seeks to make quite significant changes to local authority structures. At one level, the changes do not appear to have been given a complete cost-benefit analysis in order to find out whether they are necessary to deliver the required outcomes. I suppose that I am testing the matter at both ends. Are you properly costing these changes? Are they indeed necessary to deliver significant outcomes?

Jonathan Pryce: The bill's proposals are driven by our belief that the existing structure of 32 local councils makes it very difficult to deliver significant regional projects and that the framework is necessary to deliver the significant outcomes that you mentioned.

The Convener: But you are prepared to put in only very limited, one-off resources to deliver the change.

Jonathan Pryce: We are prepared only to put in transitional resources upfront to get the framework up and running. The proof of the pudding will then be in the eating. If regional transport partnerships devise good regional transport strategies that make strong cases for projects, they should be able to access some of the increased Scottish Executive spend on transport that will be available through the spending review as well as any additional resource that they might need for staffing in order to deliver those good strategies. However, we are not going to spend considerable sums of money on staffing up a structure without any proof that it will deliver.

Alasdair Morgan: Given the Minister for Transport's earlier comments, are you saying that the partnerships' other on-going running costs will

be charged against specific projects that are successful via a STAG appraisal?

Jonathan Pryce: Yes, that is one of the options that is available to partnerships. Indeed, that reflects the current situation with projects in different parts of the country.

Alasdair Morgan: I know that it is one of the available options. Given that the other option is to fund things through council tax, are you saying that it is the most likely option?

Jonathan Pryce: It is the most likely option in the short term. As the partnerships start up and find their feet, they will be funded on a project basis. As their expertise builds, there might be a stronger case for increasing the level of core funding that we already provide to existing partnerships.

The Convener: You are committing to a major policy change in order to deliver a more ambitious transport programme. Indeed, that is what the minister said and what the bill is supposed to be about. Our difficulty is that although such a major non-statutory change will significantly increase central Government staffing and other resource costs, you seem to be in denial about the impact on local government beyond the transitional year.

Jonathan Pryce: We are not saying that there is no impact on local government. I emphasise that it is inevitable that an increase in transport activity and project delivery at local government level will lead to additional spending by local government. There will therefore be scope for local government to secure the necessary resources from the Executive. If the Executive is going to fund the projects, it will be prepared to provide those resources. There is no comparison with what the Executive is doing. We are not funding ourselves in relation to specific projects; we are having to skill up to monitor the delivery of the existing major projects and ensure that they run smoothly, even though, except in the case of trunk roads, we are not the primary delivery agent.

12:15

John Swinburne: The correspondence that we have from the Executive states:

"The Bill proposes that the net expenses of a regional transport partnership, that is any expenses which are not met from other sources ... will be met by its constituent councils."

However, it also says:

"The financial memorandum also provides a clear statement that the Scottish Executive will continue to provide existing funding in support of the core costs of the partnerships."

You cannot have your cake and eat it. You cannot have it both ways, so which way is it? Are the

councils or the Executive providing the on-going funding?

The Convener: We just asked that question. Do you have anything to add to the answer?

Jonathan Pryce: There is an element of both. The Executive is providing core running costs and it will continue to do so. The second statement to which you referred is about the running costs of the planning body—the new statutory regional partnerships. The first statement is about the overall global costs of a partnership that, for example, takes on the operation of transport services on behalf of the councils. If subsidised bus services were provided at regional level rather than at council level, the council would still get the support for subsidised buses through the local government finance settlement. The regional partnership would then access those resources through requisition from the constituent councils. The first statement that you quoted is very much about the overall running costs of the partnership, including service delivery. The second statement is about what we have just discussed, which is the core running costs of the partnerships to enable them to prepare a regional strategy and monitor and deliver it in future.

The Convener: We might need technical clarification of points, but we will seek it in writing. I thank Jonathan Pryce and his colleagues for coming along to give evidence.

Item in Private

12:18

The Convener: The third item on our agenda is to consider whether to take in private at our next meeting an approach paper on our forthcoming budget seminar, as we are likely to be talking about individuals whom we want to invite. I propose that we take the item in private. Is that agreed?

Members *indicated agreement.*

The Convener: We now move into private session to deal with item 4, which is our draft budget report.

12:19

Meeting continued in private until 13:10.

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