FINANCE COMMITTEE

Tuesday 1 February 2005

Session 2

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FINANCE COMMITTEE
4th Meeting 2005, 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 Andrew Arbuckle (Mid Scotland and Fife) (LD)
*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)
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:

Richard Dennis (Scottish Executive Finance and Central Services Department)
Iain Dewar (Scottish Executive Finance and Central Services Department)
Tavish Scott (Deputy Minister for Finance and Public Service Reform)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Judith Evans

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 1 February 2005

[THE CONVENER *opened the meeting at 10:01*]

Interests

The Convener (Des McNulty): I welcome members to the fourth meeting of the Finance Committee in 2005. I also welcome the press and the public to today's meeting and I remind members to switch off their mobile phones and pagers. We have received apologies from John Swinburne.

I welcome three other people to the committee. Andrew Arbuckle is our new member. He replaces Jeremy Purvis, as was agreed by Parliament last week. Judith Evans, who is seated to the left of Susan Duffy, is now our senior assistant clerk and Edna Stirrat, who is seated in the corner of the room, is the new committee assistant. We still await a replacement for Emma Berry—who is of course irreplaceable—but somebody will emerge in due course.

Agenda item 1 is to ask Andrew Arbuckle to declare any relevant interests.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): My interests are registered in the "Register of Interests of Members of the Scottish Parliament".

The Convener: You have no interests that are specific to the committee.

Mr Arbuckle: That is right—there is nothing specific to the committee.

The Convener: Thank you very much.

Budget Process 2005-06

The Convener: Agenda item 2 is consideration of the Executive's response to our report on stage 2 of the budget process. I am pleased that the Deputy Minister for Finance and Public Service Reform, Tavish Scott, is here to answer members' questions on the response. He will also remain for our stage 2 consideration of the Budget (Scotland) (No 2) Bill. With the deputy minister are Richard Dennis, the finance co-ordination team leader and Iain Dewar, from the efficient government team, in the Finance and Central Services Department of the Scottish Executive. I wish that the Executive could find shorter names for its divisions and sub-divisions.

We have the minister's response in front of us, so the sensible way to proceed is to invite members to pose any questions that they have.

Alasdair Morgan (South of Scotland) (SNP): I will go first, rather than let the minister go away empty-handed.

With reference to the Executive's response to point 4 on the target for economic growth, the committee accepts that many factors that influence economic growth are not within the gift of the Executive, but it strikes me that those factors also affect other countries—in particular the rest of the United Kingdom. Therefore, although those factors might preclude the Executive from setting a target for economic growth per se, surely it would be possible to set a target relative to our closest comparators.

The Deputy Minister for Finance and Public Service Reform (Tavish Scott): We have been down this particular avenue a number of times. I would be happy to consider any suggestion that the committee might make if it were possible to define the comparators and what comparisons were being made. The committee is all too familiar with the fact that we have held to the view—I suspect that it is a commonly-held view—that when we are not directly responsible for all the external pressures that apply, a target might be a blunt instrument that would not necessarily achieve anything in terms of economic growth and the strength of our domestic economy. However, if the committee—in particular Mr Morgan—has specific comparative suggestions, we will be more than happy to consider them.

Alasdair Morgan: There is not necessarily an easy solution, but the problem is that if there is no solution we are left with a situation in which there is no measure by which we can judge whether expenditure on the Executive's main political target—economic growth—is successful, which would be the case even if we were to cross the other hurdle that we will face later in the meeting, when we try to work out which expenditure is targeted at economic growth. Even if we can do that, we would not have a clue whether that expenditure is successful.

Tavish Scott: I am sure that Mr Morgan will agree that on the devolved areas for which we have responsibility—education, transport or any other particular expenditure programme—we have set targets and objectives and that he, the committee and other portfolio committees rightly hold the Government accountable on those. I argue that in that sense there are checks and balances and that there is appropriate scrutiny of the Government's expenditure levels in order to create the conditions within which the Scottish economy can prosper. Parliament rightly holds Government to account for such expenditure. That is how we have dealt with portfolio expenditure. I accept Mr Morgan's point about the lack of a central big number at the top of that, but because of external factors we are not convinced that that is achievable or possible. We have discussed these matters before, so I will not repeat all the slightly academic arguments again. I say again that we will be more than happy to consider any suggestions that are made.

The Convener: When we took evidence from Dr Goudie in our economic growth inquiry, I took it from his comments and from some of the documentation that we had seen previously that the Executive was in the process of considering some comparative measures of performance in economic development. That is little more than a step and a jump from where the committee wants to go. There is not necessarily a huge distance between us on the matter. If you are saying that you are happy to engage in a dialogue with the committee to see how we could provide an appropriate mechanism for considering comparative performance as a benchmark, the committee might be content with that suggestion. We would certainly welcome an opportunity to have that discussion with you.

Tavish Scott: I am happy to do that. I do not see any point in having a sterile or negative political argument; I would rather have a positive one in which we looked for an agreed basis for such comparators. We might not reach agreement, but there is certainly some merit in pursuing the matter.

The committee is also familiar with the fact—because ministers have mentioned it and spoken about it in finance debates over the years—that the Executive has an overall objective in relation to the top quartile of gross domestic product performance. We will continue to pursue that objective. We are happy to consider comparators that would be meaningful to all of us.

The Convener: What is important from my point of view is how we close the gap between an aspirational objective, which as you say is to move to the first GDP quartile, and the mechanism for moving in that direction. That might be a useful subject for debate.

I will add one other issue to the discussion before I bring in Wendy Alexander. You said that you do not have control over many of the issues that are involved, which is obviously true in the context of the role of the UK Government and of external factors that are not affected by Government. Is there dialogue between the Scottish Executive and your Westminster counterparts about setting forecasts and expectations in relation to economic growth, and about how such expectations might be met? Is there a process of informal or formal dialogue about how you can work together to deliver stronger economic growth for Scotland?

Tavish Scott: There is normal contact at official and ministerial levels on economic development and growth in general, which is an on-going and very live process—we would not expect it to be otherwise. Obviously, in the context of the spending review in the summer, for example, we take decisions about strategic long-term investments, such as the significant increases in higher education spending, in transport spending and in tackling health. Those decisions are taken by us. Although there needs to be dialogue and engagement at official and ministerial levels, the portfolio choices that we make are ultimately matters for us, so we must make judgments as best we can.

The Convener: I was trying to make the point that dialogue between the Executive and the UK Government geared towards economic growth might be beneficial in promoting awareness of the choices that ministers might make and the consequences of choices that the UK Government might make.

Tavish Scott: Indeed. That process is on-going.

Ms Wendy Alexander (Paisley North) (Lab): I approach the issue from a slightly different viewpoint. It is known that I am less interested in targets than I am in forecasting. The minister invited the committee to suggest a constructive way forward.

The Executive recently committed itself to drawing up a long-term financial model, which will be hugely valuable, given that we are currently in a difficult position because we look only three years ahead, although we make policy commitments for 10 or 20 years ahead. The long-term financial model will try to forecast spending. It strikes me as being a little odd that the Executive, which probably employs more economists than does any other institution in Scotland, does not try to forecast what will happen on the macroeconomic scale. There have been three private forecasts, which I think were joined by a fourth in December.

I presume that we want our spending patterns to be to some extent countercyclical. We therefore need a deep understanding of what is happening in the Scottish economy. Although the Scottish economy is highly integrated into the UK economy, we know that the different composition of the Scottish economy, which was demonstrated in the period 2000-2002 in relation to electronics, has led to a different growth profile in Scotland. The Executive might want its spending patterns to reflect blips that affect Scotland differently from the rest of the UK. The Executive has committed itself to producing a long-term spending model and it is certainly the pattern for Governments in other jurisdictions—small nations or regions—to forecast expected growth in their economies. Such an approach might have allowed a focus on, for example, the downturn in electronics, which was well known to microeconomists in the Executive but could have been considered throughout the Executive in the context of the implications for the forthcoming spending review. Currently, any dialogue that is based on the differential composition of the Scottish economy is entirely dependent on the three private organisations—I think that they have been joined by a fourth—that forecast the Scottish economy.

Has the Executive—in close concert with the Treasury and no doubt making use of the Treasury's model—considered complementing its long-term financial model with a long-term economic model of the Scottish economy that would have some short-term forecasting capacity? Such an approach is very different from using targets, which I do not regard as being particularly wise. I cannot understand why we moved to targets without first attempting to forecast accurately.

10:15

Tavish Scott: I have a lot of sympathy for that argument. Perhaps all that I can say now is that there are discussions on the issue and that I can come back to Wendy Alexander with more detail.

Ms Alexander: Sure—that would be excellent.

Tavish Scott: Wendy Alexander is also right to pick up on the convener's point, which is that we can draw on the Treasury's experience. The discussions that are taking place in that context are more at official level than at ministerial level—I have not yet found many economists at ministerial level, which is probably a good thing. There is considerable room for examining the matter. We need to see both sides of the equation; it seems eminently sensible that we should do so. I am sorry that I cannot give a more precise answer.

The Convener: The matter will be included in the dialogue. The committee would welcome a written response.

Ms Alexander: It would be very helpful if the minister could write to us about the matter in due course.

The Convener: I will bring in Elaine Murray.

Dr Elaine Murray (Dumfries) (Lab): I wanted to raise a different issue.

The Convener: In that case I will bring in Alasdair Morgan first.

Alasdair Morgan: Even if we had forecasts about the growth of the Scottish economy, what flexibility in Government expenditure would there be? Our total expenditure is very much constrained by the Barnett formula. Even though we might want to spend in a cycle that was different from that of the UK economy, the totality of our spend is pretty well determined for us—unless the central unallocated provision will take a much larger proportion of the budget than I am aware of.

Tavish Scott: Of course that is true, but I am sure that Mr Morgan is not arguing that we should cut expenditure. We need to consider carefully where the argument goes; it is about considering the disciplines that are on us in financial terms. For example, we will soon publish the capital investment plan using the model and providing the practical document that the committee has been asking for for some time. The plan will illustrate the balance between capital and revenue over 10 years across portfolios such as transport. It is important to have that consideration vis-à-vis capital and revenue and it is important that we do that transparently and in a way that illustrates that we are investing for the long term, particularly in capital terms. I suspect that we all share that objective.

Dr Murray: Up and down Scotland, people are awaiting the decisions of their local authorities on next year's council tax. In its response to the committee's report on stage 2 of the 2005-06 budget process, the Executive says that it

"sees no reason for any council tax levels to rise above 2.5% for 2006-07 and 2007-08."

The submission continues:

"For the coming year, we expect councils to keep rises as low as possible".

Does that mean that you think that it would be acceptable for this year's council taxes to increase by above the inflation rate?

Tavish Scott: No. Again, I do not want to repeat the formulations that Tom McCabe and other ministers have used in previous weeks, but we hope and trust that local government, given the considerable resources that are available to it—in excess of £10 billion by 2006-07—can keep council tax increases to a minimum. Obviously, those are matters for the judgment and consideration of local authorities, but we very much hope that authorities will take an extremely responsible and prudent approach on the matter.

Dr Murray: Local authorities are putting the counter-argument that although they have received a lot of additional money, much of it has been accounted for by the duties that have been imposed on them by legislation that Parliament has passed. I have the definite impression from councillors and officials in local authorities that they do not think that they will be able to hold council tax rises down to the rate of inflation this year. That causes concern, particularly for people who are just above the council-tax benefit level, who will probably be the hardest hit. Is the Executive considering the consequences of above-inflation increases in council tax for people at that income level and taking them into account in its wider review of local government finance?

Tavish Scott: The Executive is not doing that; that is why we set up an independent inquiry. However, Elaine Murray's point is fair in the sense that the inquiry will give the committee an opportunity to take evidence on that. Obviously, there will always be a cut-off point in whatever level Government policy pitches benefits, and therefore there will be some people who do not benefit from them. The independent inquiry was established last year and has just called for evidence, which will include those points.

I cannot add much to what I said on Elaine Murray's other point, because these are matters for local government. I honestly do not think that it is any finance minister's job to second-guess what local authorities will want to do. I accept the point about legislation that has been passed by Parliament—we all take responsibility for that. In the two years during which I have done my current job, we have discussed the relationship between central and local government a number of times. I guess that it is a live and on-going relationship, given the point that has been made.

The Convener: The minister, Tom McCabe, acknowledged that the settlement is tight, particularly in the later years of the spending review, and he said that there would be discussions with local government about it. Can you give any indication of what discussions have taken place so far, what discussions are intended and when the process might reach a conclusion?

Tavish Scott: I cannot give any detail on that today but, as the committee knows, we regularly meet the Convention of Scottish Local Authorities, which is the umbrella body for local government throughout the country. We have formal meetings throughout the calendar year; that matter will undoubtedly be a standing item on those meetings' agendas. I suspect that COSLA will choose to make sure that its view is made known publicly and that we will all hear it regularly. The committee can be assured that those discussions will take place. It is appropriate that local government make known its views, both as individual councils and collectively. Like you, convener, I was a councillor and I do not remember any year in which we did not make representations on the overall settlement.

The Convener: The difference this year is that the Executive appears to acknowledge that there is a particular problem. We are interested in monitoring how it proposes to resolve the issue.

Alasdair Morgan: The minister says in his response that

"The Spending Review 2004 settlement for local government is robust".

I have been reading Mr Humphry's book on the use of language, so I wonder whether the minister can tell us what "robust" means?

Tavish Scott: Which Mr Humphrys is that, Mr Morgan?

Alasdair Morgan: Just tell us what Mr McCabe means by "robust".

Tavish Scott: I agree with Mr McCabe that the settlement is robust. Maybe I can—

Alasdair Morgan: What does "robust" mean?

Tavish Scott: May I put the matter in context? We made conscious spending review decisions in relation to substantial increases in higher education spending, in long-term transport spending and in tackling some particular challenges in health. Mr Morgan may correct me if I am wrong, but I did not notice any great dissent from that long-term investment and the strategic overview of where we want to take expenditure patterns during the period of the spending review. That inevitably meant that, after a considerable period of substantial growth in local government spending since 1999, local government got a tighter settlement in the current spending review than in previous ones. I simply suggest that, in the context of overall spending, the Government made a conscious decision to invest strongly in the longer term, particularly in those three areas. I accept that it is a tight settlement in terms of local government.

Alasdair Morgan: Right. So that is what "robust" means.

The Convener: I do not think that Scotland is short of people who can testify to Tom McCabe's robustness.

Jim Mather (Highlands and Islands) (SNP): I make no apologies for going back to targets and forecasts. The discussions with the Westminster Government to which you referred in an earlier answer did not sound too protracted. Have you discussed the absence of targets and forecasts with the UK Government, given the implication that it is easy for competitor nations to construe the matter and to decide that we are not serious about economic growth? Equally, that thought could start to percolate through to the minds of inward investors, young Scots and potential immigrants, who might think that we are not serious, given that we do not have a forecast for economic growth.

Tavish Scott: I am not convinced that the groups that Mr Mather mentions are hugely influenced by what we might say about a particular number at a particular point in time during a particular parliamentary year. Based on the evidence that I have seen and the feedback from ministerial colleagues who have just come back from China, where they were promoting Scottish business interests, I argue that our overall approach and the environment that we seek to create, within the powers of the Government in Scotland, are moving in the right direction.

Mr Mather will have to forgive me, but I cannot set out exactly what is discussed vis-à-vis the issues between Edinburgh and London, but he can be assured that they are discussed.

Jim Mather: The point that I am keen to register is that, given the nature of the powers that are dispensed across the two legislatures, the Executive and Westminster have a joint and several responsibility to step up to the plate on the matter. Inward investors, young Scots and potential immigrants all work on the basis of enlightened self-interest and seek the best return for themselves, but we have an Achilles' heel: our economic management is a bit of an own goal because we do not have a forecast. We are sitting here with no powers on tax, no powers to save and no powers to borrow. We are talking up a deficit, and on top of that we have no forecast. That situation will rot in people's minds unless we do something about it. Will you seriously consider talking to your colleagues at Westminster with the objective of coming up with a joint target and a joint forecast for economic growth in Scotland?

Tavish Scott: I have said what I have said on the issue. I will not go back over it, and I will not add to it and then be picked off in terms of wordings. We have on-going discussions and we will continue to participate in those in the appropriate way. I can only respect and reflect on the devolution settlement. We have the powers that we have, and they are laid out in the Scotland Act 1998. From one political perspective we could want more and from another political perspective we could want less, but we are where we are and we will take matters forward as effectively as we can within that context.

Jim Mather: On effectiveness, and to look at the matter from a different angle, in what way is that compatible with the demographic challenges that we face and the need to reverse population decline? How can we create a feedback loop to allow forward planning to meet the changing economic climate if we do not have a forecast to give us some indication of what we anticipate will happen in Scotland in the future?

Tavish Scott: I said in response to Wendy Alexander's question that we will look at the particular long-term point in relation to forecasting, but we make the best judgments that we can, in policy terms, on attracting new people to Scotland and encouraging expatriate Scots back to Scotland. Mr Mather will be familiar with the programmes that we run in relation to those matters across various portfolios—I will not run through them again this morning. If it would be helpful, we can put together a list or a briefing note on them, but they are on the public record and together they add up to a concrete platform of initiatives, programmes and policies to deal with the issues.

Jim Mather: My final question is, can you name one other country or organisation that sets and trumpets a top priority yet does not have a forecast or a target for it?

Tavish Scott: These are political games and I am not going to get into them.

Jim Mather: It is a managerial game.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): Given the fears that have been expressed by a number of members of the committee about the problems that are likely to be caused by the proposed grant support levels, has the Executive done any work to examine the impact of council tax on households that have low fixed incomes but are above the rebate threshold?

10:30

Tavish Scott: I am not aware of any. We have set up an independent inquiry to allow such work to be done in an independent and extra-Government fashion, which has considerable merit. I am sure that Sir Peter Burt's committee will be interested in the area to which the member refers, among others.

Mr Brocklebank: Do you accept that, given the reservations that you have heard and the things that COSLA and various local authorities have said, there could be real problems?

Tavish Scott: If Mr Brocklebank is asking me to accept a hypothetical situation in relation to council tax increases, I will not go there. Council tax changes and increases are a matter for local government. We will deal with the matter once councils have set their taxation rates, which they will do in the coming weeks.

Mr Brocklebank: The Equal Opportunities Committee recommended that the Executive develop national performance targets in relation to equality. In its response, the Executive said that it would consider what more it might be able to do to draw together information on what public bodies are doing to promote equality. What else do you think might be done to promote equality?

Tavish Scott: Richard Dennis may be able to respond to Mr Brocklebank's question in greater detail. However, as our response to the committee's report says, we would be happy to work with this committee and the Equal Opportunities Committee on the issue. I argue that we have made considerable progress in the area.

Richard Dennis (Scottish Executive Finance and Central Services Department): The Executive tried to point out that many of the organisations in which the Equal Opportunities Committee would like targets to be set and further measures to be taken are not strictly within the Executive's control. However, we can write to those organisations and collate information. We can ask bodies such as local authorities what steps they are taking to meet their best-value duties in the area. Once we have collated that information, we can give it to the committee. That is rather different from the Executive specifically setting a target for bodies such as local authorities to promote equality. That is the distinction that we tried to draw.

The Convener: In our report, we made the point that there was an apparent loss of momentum with the pilot studies on equality proofing. Will that issue be addressed? Will you ensure that the pilot studies are taken forward and that other studies are considered?

Richard Dennis: We are in discussion with the Equal Opportunities Committee about how best to pick up the momentum.

Mr Frank McAveety (Glasgow Shettleston) (Lab): There is clearly an issue of how council tax impacts on households with low, fixed incomes. If we are engaging in relative comparisons, it would be helpful for us to know when the review of council tax concludes and whether everything depends on its observations. Are there actions that could be taken at the moment to assess impacts of the sort that I have described?

It would also be useful for colleagues around the table to engage in a political debate about the issue. It would be interesting to see the scale of increases in council tax in the last two or three years of the previous Government. A number of us experienced those increases, which took place at the same time as reductions in services and staff. It would be interesting to see what changes have taken place in staff numbers in local government since 1997 and the way in which council tax figures are arrived at. We could then have an honest debate about whether the level of expenditure is right, without intruding on the rights of councils to determine the level of council tax and to take the consequences of their decisions at the ballot box, one way or the other.

What work has been done on such issues, especially in relation to fixed-income households? I refer to people who have a basic state pension and a works pension and are above the threshold for council tax benefit. A substantial section of the community falls into that category. Is the review team considering that issue specifically? Is it just an add-on or will it be analysed in detail?

Tavish Scott: The issue that Mr McAveety raises is not a detailed part of the independent inquiry's remit, for the simple reason that we did not include such detail within the remit. As the then Minister for Finance and Public Services, Andy Kerr, explained when we announced the establishment of the independent inquiry, the terms of the remit were broad in order to provide an opportunity for such issues to be raised. We do not expect the independent inquiry to report until the summer of 2006. I take Mr McAveety's point that that is a long time for those who are in the financial position that he describes. There is nothing to prevent individual MSPs or the Scottish Executive from taking up the issue, through the benefits system or in other ways.

I also take the point that we need to have a reflective debate about the previous situation. Those of us who were formerly in local government will be familiar with the points that Mr McAveety makes. I am sure that we will have that debate on Thursday, when we consider the Local Government Finance (Scotland) Order 2005. It will be important for us to set out some comparative statistics, so that people do not think that this is a dreadful day, compared with past settlements.

Mr Arbuckle: I am sorry that the electronics have not yet caught up with the physical reality that I am here.

I was surprised to see in paragraph 11 of the Executive's response a criticism of local authorities, which suggests that they should improve their council tax collection rates. Council tax is notoriously difficult to collect. People inconveniently move house; other people inconveniently die. As a councillor, I know that considerable efforts go into collecting council tax.

Why did the Executive take that pop at local authorities?

Tavish Scott: I accept that there are difficulties with council tax collection. However, it cannot be in the interests of any of us, whether we are in local government or in central Government, to have collection rates that are not maximised. It is important that Government sets out the objectives that all politicians should share of maximising collection. That applies to council tax as well as to national taxation. Local government leaders recognise that it is in local government's interests to maximise collection rates. We have not had a pop at local government, but we always seek to point out that it is in the interests of both central Government and local government to ensure that council tax collection is maximised.

Ms Alexander: It will not surprise the deputy minister that I want to return to the issue of efficiency, which is dealt with in paragraphs 15 and 16 of the Executive's response. Paragraph 15 is somewhat encouraging, but paragraph 16 is somewhat discouraging.

Paragraph 15 commits the Executive to have discussions with the Finance Committee about how best to report progress. That is an encouraging response. Given that some of the efficiency savings are meant to commence in eight weeks' time, it would be helpful if the Executive could have an early discussion with the committee's budget adviser and then write to us.

Paragraph 16 is less encouraging. We asked

"that, in order to provide transparency in the Draft Budget 2005-06, the Executive should provide a complete list of the savings items per portfolio",

so that we could have a full picture over the spending review period. The Executive's response refers to the technical efficiency notes.

I want to put on the table an issue for discussion between the Executive and the committee. At the moment, the Executive is committed to £582 million of cash-releasing savings over three years. It has indicated an intention to find another £300 million of non-cash-releasing savings and a potential further £600 million over the same three-year period. That produces a total of £900 million of potential savings, on which we have not a single line of detail.

I accept that it takes time for that detail to be worked out and that some of it will become apparent in the technical efficiency notes. However, given that £900 million is double the cost of the Parliament building, it would be a great shame if one had to scuttle through 20 different technical efficiency notes—one for each portfolio—to discover the composition of the guaranteed £300 million and potential further £600 million in savings.

The Executive has indicated an aspiration for a further £900 million to be found over three years starting eight weeks from now, and, given what I will call the confusion, rather than lack of transparency, surrounding the issue in the past, it is appropriate for the Executive to agree a process of reporting to the committee and the Parliament on the composition of that saving.

Tavish Scott: I do not dissent from the desire to agree a process. I was at an efficient government seminar in Inverness yesterday and one of the chief constables present was at pains to tell me that he wanted us to ensure that we built up the savings from the smallest detail upwards. I was at pains to make the point that this and other parliamentary committees, never mind Audit Scotland, would closely scrutinise all the figures. That requirement is understood in the public sector. I do not want to incur Wendy Alexander's wrath, but there will be an awful lot of detail in the technical notes. The chief constable was able to demonstrate to me what cash and non-cash savings he would be able to make. That is exactly what we want and I suspect that that is what the committee wants, albeit that it will come in a heck of a lot of detail.

Ms Alexander: I have had the opportunity to look at some of the technical efficiency notes from departments elsewhere. Those notes run to 150 pages and, given that the departments have different approaches, it is vital that the Finance and Central Services Department should clarify precisely where the £582 million saving to which we have committed and the £300 million and possible further £600 million savings will come from. I will leave that point on the table.

You might be aware that I had a helpful written answer from the Minister for Finance and Public Service Reform, in which he indicated that Audit Scotland would review the technical efficiency notes in advance of their publication. However, we have a slightly different formulation in the Executive's response. In all scrutiny, there are two dimensions. Will Audit Scotland sign off the process in advance and be involved as appropriate in scrutinising it? That is precisely the question that we asked the Minister for Finance and Public Service Reform and on which he wrote to us. As the technical efficiency notes will be complicated, validation by Audit Scotland at the outset would give many who are involved in the process a high level of comfort. It will be an enormous job for Audit Scotland, but that is the statutory responsibility that we give it.

Tavish Scott: I will let Iain Dewar respond to that, but I am sure that the Minister for Finance and Public Service Reform and I have not said two different things in two different places.

Iain Dewar (Scottish Executive Finance and Central Services Department): The efficient government plan identifies £745 million of cash-releasing savings and contains aspirations for £900 million of cash-releasing savings, which we believe that we can deliver. The plan goes on to say that we will not commit to making £900 million of cash-releasing savings until we are certain that that can be done. We are keen to ensure that the technical notes are robust. Therefore, we need time to get them right and to involve Audit Scotland, which will assist in ensuring that the technical notes are up to the task. It is better for us to take our time and to get things right.

The Convener: I presume that the question-and-answer session in Inverness that you were at yesterday was different from the one that the First Minister was at.

Iain Dewar: I beg your pardon?

Tavish Scott: That question is not for you, Iain.

Dr Murray: On the efficiency savings, the committee expressed some concern about the way in which local government was treated. You responded by saying that a blanket efficiency saving of 2 per cent was presumed because local government is autonomous and makes its own decisions about efficiency savings. Therefore, I was a little bit surprised that, at the end of your response to recommendation 14, you say:

> "we have identified other opportunities for savings where local government can retain the money realised."

The implication in that phrase is that the Executive is somehow determining some of the savings for local government. I do not expect any announcement before March, when the technical notes will be published, but will you confirm whether the notes will include some aspect of local government savings and whether you will advise local government on how to achieve some of those savings?

10:45

Tavish Scott: Many local authorities are already heavily involved in e-procurement and will be able to demonstrate significant savings because of it. We take the view that, if any such saving exceeds 2 per cent, local government should be able to plough that money back into front-line services. In addition, local government is now considering 22 separate areas, such as procurement and asset management—many more were mentioned yesterday when I was speaking at the efficient government seminar in Inverness. I suspect that there will be many ideas for measures that individual authorities can take and for collective, Scotland-wide or regional measures—which will be of interest to Elaine Murray, given her constituency—that will not only lead to savings and demonstrable improvements in back-office functions, but be ploughed back into front-line services. That is how we envisage the process, but we will not prescribe it. We will definitely play a role in supporting such local government initiatives—for example, through the improvement service, which Colin Mair heads up. I ask Iain Dewar to respond to the point about the technical notes.

Iain Dewar: There will be a technical note for each efficient government project, which will describe how each project will be measured and monitored and how the efficiency savings will be delivered. The local government saving of £325 million is made up of an efficiency assumption that has been factored into the spending plans for the next three years. However, the last sentence of the paragraph to which Elaine Murray referred illustrates the point that we have identified areas in which local authorities can make efficiency savings, retain the money and direct it as they see fit to front-line activities.

Dr Murray: How will local authorities be informed of those opportunities? Will the Minister for Finance and Public Service Reform write to their chief executives to advise them of the opportunities?

Tavish Scott: No, the approach is collaborative. We will certainly not tell local government that it must make its savings in those areas, as that would be entirely the wrong approach. We seek to ensure that the separate areas of efficiency can be built up individually and collectively, regionally and throughout Scotland, and we will support local government in building them up.

The Convener: I am anxious to wrap this agenda item up, but Jim Mather has a brief final question.

Jim Mather: It is a tidying-up question. When I asked the Minister for Finance and Public Service Reform whether the efficiency savings were net of redundancy, information technology and other capital equipment costs, I was not sure that I got a clear answer. Will you confirm that the efficiency savings are net of IT costs, possible redundancy costs and other capital equipment costs?

Tavish Scott: No, I do not think that they are net of such figures.

Jim Mather: Are they savings, then? If there is a cost to be set against them, can they properly be called savings?

Tavish Scott: Mr Mather, with his business background, will understand that we have to invest to pull some of the projects together and progress them so that they can achieve savings, which is why we have set up an efficient government fund. That is a good business practice about which business people tell me all the time.

Jim Mather: Absolutely. However, a business has to confront a bank and has to prove that the project is cash positive; we have to approach taxpayers and tell them that the project is cash positive. What is the net impact?

Tavish Scott: We will not know that until the efficient government fund—which I am sure the committee will properly scrutinise—is allocated to the authorities that have applied to it and until those authorities' plans over the period of the efficient government programme can be demonstrated in the terms that Mr Mather describes.

Jim Mather: Will we, at some point, see a statement that sets out the savings, the cost and the net savings?

Tavish Scott: Absolutely.

Jim Mather: Will the net savings be a lesser number?

Tavish Scott: Mr Mather is familiar with the overall numbers, which are what we will seek to deliver.

Budget (Scotland) (No 2) Bill: Stage 2

10:49

The Convener: Item 3 on the agenda is consideration of the Budget (Scotland) (No 2) Bill at stage 2. Members have a copy of the bill and a note from the clerk. I draw members' attention to two points in the clerk's note. First, only a member of the Scottish Executive can lodge amendments to the bill. Secondly, as paragraph 6 of the note states,

"it is not possible to leave out a section or schedule of the Bill by disagreeing to it",

because to do so an amendment would have to be lodged.

Before we start the formal proceedings, I will allow the deputy minister to make some explanatory remarks about the bill and then give members an opportunity to ask questions.

Tavish Scott: I have some detailed points that draw out the more important elements of the changes from the draft budget that are in the bill. The points are fairly technical, for which I apologise to colleagues. Overall, the figures are largely unchanged from those that were in the draft budget, although, as members know—given that we have been through the process several times—they are presented in a rather different form. The usual small changes arise from estimating changes, from the non-departmental public body resource to cash adjustments and from programmes that have moved between portfolios. We are happy to answer any questions on those.

I turn to the significant changes. Again, I apologise for the degree of detail on them. In schedule 1, we have introduced a new item 12, which covers Scottish teachers' and national health service pensions schemes. Those are treated separately in the supporting documents, starting on page 75. The change reflects discussions with Audit Scotland on the accounting for the schemes, which will no longer be covered in the Executive's consolidated accounts. As members will know, the accounts are prepared against the figures that are in the bill and it was therefore felt helpful to split the old item 10 in schedule 1 between the part of the Finance and Central Services Department budget that remains covered by the accounts and the pensions schemes, which will not be covered by the accounts.

Secondly, the provision that portfolios have put in the central unallocated provision for 2005-06 is included in the draft budget but excluded from the numbers in the bill. The provision is set out in that way in table 1.3, on page 4 of the supporting document. I draw members' attention to the negative figure for the Environment and Rural Affairs Department portfolio, which represents a draw-down in the next financial year of resources that have been put into the CUP and which will be carried forward from this financial year.

Thirdly, I would like to explain a convention that is used in the bill that caused some confusion during the stage 1 debate. As members know, for budget purposes, the smallest unit of resource that we use is £1,000. We do not recognise any numbers below £1,000—in accounting terms, I hasten to add—and all figures must be in complete thousands. However, the bill often includes receipts limits of £100. That is an accepted convention to signal that the exact amount of receipts cannot be forecast accurately and that we could not provide a taut and realistic—or robust, as Mr Morgan might put it—figure for the bill. We use the £100 figure to signal clearly that there will be receipts, but that we are as yet uncertain as to their extent. When accurate forecasts become available, we will insert them during the year through the regular budget revisions, to which we all look forward so much.

Similarly, there has been confusion over the income-to-be-surrendered lines that are set out in the supporting document at the bottom of each part of schedule 3. The committee will know that we are allowed to retain almost all receipts up to the limits that are set in the bill, except those that are specified in the designated receipts order, or unless there are good policy reasons why we would not want to use receipts as a main source of funding. Those who are interested can find a good example of that on page 79 of the supporting document. The Crown Office will retain £700,000 in receipts from the categories that are set out in schedules 1 and 2 to the bill, but it will also surrender £12 million of income from fines. I hope that colleagues accept that that is because we do not want to give the impression that it is in any way in the Crown Office's interest to impose more fines. If no figure is set against the income-to-be-surrendered line in the supporting document, that means that there is no income to be surrendered, not that the retained income and capital receipts applied that are set out in the supporting document will be surrendered.

Finally, I am sure that members will have spotted a small mistake in the bill. Table 1.5 on page 7 of the supporting document gives the overall cash authorisation for the Scottish Administration as £23,221,697,000, but the overall cash authorisation that is sought under section 3(a) of the bill is different—it is £53 million more than is required. That is because of a fault in the software that is used to extract non-cash figures from our main budget database, which we discovered before the supporting document was finalised, but after the bill was finished. When the bill was laid, the figure in the supporting document was more accurate.

There are three main reasons why we do not propose to correct the mistake. First, as we cannot use extra cash authorisation without also seeking additional resource allocations, the unneeded cash cannot be used. Secondly, we know that we will introduce at least two revisions to the bill during the year. With the draw-down of extra resources from end-year flexibility and the CUP, we can be 100 per cent certain that, by next year's spring revision, we will need a higher cash authorisation than is currently in the bill. Therefore, there seems to be little point in amending the bill now. Finally, since the production of the supporting document, we have explored the software error further to ensure that it has had no impact on other figures. We found one other error, which led to our understating our cash requirement in the current and the coming financial years. I will explain that further when we take correcting action for the current year in the spring budget revision. However, the error means that the overall cash authorisation that is sought in the bill is closer to the correct figure than the figure in the supporting document is.

I apologise for going into detail, but I hope that I have covered the three or four main points that arise from this year's bill.

The Convener: The same problem applies to other figures that are given in section 3. The figures for the Scottish Parliamentary Corporate Body, Audit Scotland and, I suspect, the Forestry Commission seem to be at variance. The figures are the same as those in the revised cash authorisation, but I am looking at the figures in schedule 3 to the bill.

Richard Dennis: I will try to explain that. The final column in table 1.5 in the supporting document gives the revised overall cash authorisations for various bodies—the last five figures in that column are the ones that are taken across into the bill. From a quick look, apart from the figure for the Scottish Administration, the other four figures seem to be exactly the same in the bill. The details in the schedule in the supporting document do not give cash numbers; they give only resource numbers. We take out the non-cash items for the figures at the front.

The Convener: So there is a variation in the bill between section 3 and schedule 3.

Richard Dennis: Yes. Schedule 3 to the bill relates to resource control. The Parliament sets a control on the total amount of resources that the bodies can use, as well as on the cash that they can use—one would expect those figures to be different.

Jim Mather: Is the software being checked out? Is it a standard product or is it something that you guys have written? What steps will you take to ensure that the software has no other fundamental errors?

Tavish Scott: I will leave Mr Dennis to answer that.

Richard Dennis: I see that the experts are listening. The product that we use is Oracle Financial Analyzer, which is well known and is used for many similar purposes.

Jim Mather: It might even be robust.

Richard Dennis: It might. A subprogramme is supposed to wander through our various accounts looking for all non-cash identifiers. It sources data at a number of levels, which, curiously enough, we call parents, children and descendants. In this case, the subprogramme found a parent, but did not find the child, or the other way round.

Jim Mather: Given that you use an Oracle system, which can produce read-only files, are there any plans to make the data available to parliamentarians and to the professionals you mentioned to allow us to browse them on a computer, rather than try to do the cross-referencing, which even you guys do not manage to do all the time?

Richard Dennis: There are no plans to do that, because I suspect that there would be no interest in it, given that we publish the data six times a year.

Jim Mather: We might surprise you.

Richard Dennis: I am happy to think about the matter.

Jim Mather: If the committee requested that information formally under the Freedom of Information (Scotland) Act 2002, would you be duty bound to provide it?

Tavish Scott: I am not sure that we would be duty bound to provide it in anything other than the published form, but I am happy to consider the published form. I will not give a commitment today, but we will consider that matter.

The Convener: In the absence of any further questions, we now turn to the formal proceedings for stage 2 of the bill. Although no amendments have been lodged, we are obliged under standing orders to agree to each section and schedule of the bill and to the long title. We will consider the sections in order, but we will consider the schedules immediately after the section that introduces them and we will consider the long title last. Fortunately, standing orders allow us to put a single question on groups of sections or schedules that fall consecutively and I propose to do that, unless members disagree.

Section 1 agreed to.

Schedules 1 and 2 agreed to.

Section 2 agreed to.

Schedules 3 and 4 agreed to.

Sections 3 to 5 agreed to.

Schedule 5 agreed to.

Sections 6 to 10 agreed to.

Long title agreed to.

The Convener: That was painless and it ends our stage 2 consideration of the Budget (Scotland) (No 2) Bill. I thank the minister and his officials for attending.

Cross-cutting Expenditure Review on Economic Development

11:01

The Convener: The fourth agenda item is to consider the main issues that have emerged from the written and oral evidence that we have received for our cross-cutting review on economic development. I welcome back to the committee Peter Wood, who is our adviser on the review.

Members have a copy of Peter Wood's paper, FI/S2/05/4/3, which summarises the issues that he feels have arisen from our evidence sessions. Peter Wood will speak briefly to the paper before I open up the discussion to members, who may then make comments or ask questions.

Peter Wood (Adviser): Good morning, everyone. As the convener said, the purpose of the brief paper that has been circulated is to summarise the principal issues that have arisen from the committee's work to date and to suggest lines along which the committee might set out its final report. I will not read the paper verbatim, but I will highlight a few points from it.

The preamble to the paper suggests that five principal sets of issues emerged from our discussions. I will talk briefly to each of those in turn, but let me give an overview first. The context for the inquiry is the fact that the Executive's stated number 1 priority is to promote or increase the growth rate of the Scottish economy. The purpose of the inquiry was to see to what extent that priority has been reflected in decisions about the disposition of resources.

At the start of the inquiry, members will recall that I produced a paper that sought to measure changes in spending on economic development. The paper used the two concepts of primary spending and support spending. Primary spending is the money that is allocated to programmes that clearly have as their first objective the promotion of economic growth and business development. Support spending is those other elements of spending that are influential in, and important to, the development of the economy. Although the committee's main concern is with the Executive's budget, the paper also considered spending by other parties, including the spending of local authorities and the remaining elements of United Kingdom-controlled expenditure that affect economic development in Scotland.

We discussed those matters at some length so, rather than labour the point, I will summarise the principal conclusions. Over the life of devolved government in Scotland, direct or primary spending on economic development has fallen as a share of the Executive's budget simply because that type of expenditure has risen much more slowly than the budget as a whole. That conclusion was quite clear for what we termed primary expenditure on economic development. For support expenditure, the difference was a lot less dramatic, but support spending still rose a bit less rapidly than other elements of public spending in Scotland.

That raised the question why, if economic growth is the number 1 priority, slower growth in the items of expenditure that might be regarded as being most supportive of economic development could be observed. Various witnesses responded to that question. The Scottish Executive challenged our conclusion by arguing that all kinds of public spending made some contribution to economic development and that there are other ways of cutting the cake. However, no specific conclusions or recommendations emerged from those comments. My present position is that, notwithstanding some issues of definition and debates of theory, the main conclusions of the paper remain robust. Over the period since devolution, expenditure on activities that directly promote economic development and on intervention in the economy has grown much more slowly than public spending as a whole has grown. Given that fact, the question that we must ask is why.

Three alternative explanations might be given. The first is that, in practice, the Executive's main priority is not the promotion of economic development but things such as improving health or increasing the quality of health care, improving social housing or raising standards in schools. The second is that economic growth is indeed the Executive's first priority, but the Executive does not take the view that it must spend substantially more money on economic development than was already being spent. In other words, the Executive might view the level of direct economic development spend that it inherited—if I may put it in that way—as being broadly right. The third explanation develops that point further. It could be argued that increasing expenditure on economic development by, say, increasing Scottish Enterprise's budget is not an effective way of promoting economic development.

The evidence that we received from ministers produced no clear indication of which of those alternative explanations is valid. However, it could be argued that the evidence from the Minister for Finance and Public Service Reform was that the Executive's view is that a broad spectrum of public spending—in fact, practically all types of public spending—is in some sense supportive of economic development.

The second, more minor, topic to emerge that is worth mentioning is the balance between economic development spending that benefits mainly rural areas and spending that benefits mainly urban areas. In essence, the conclusion was that economic development activities that are relevant mainly to rural areas absorb a higher proportion of spending than equates to the rural share of Scotland's population. In other words, economic development spending is higher per capita in rural areas than it is in urban areas.

The Scottish Executive's chief economist raised some objections to that analysis. Dr Goudie suggested that not all the spending that I had classified as rural spending was solely of benefit to rural areas, although we were given no specific instances of that. There was some debate about the significance of spending on the common agricultural policy and a suggestion that other forms of spending that might be more beneficial to urban areas than to rural areas had not been properly accounted for. However, those points do not add up to a major critique. Over the life of the Parliament, spending on rural economic development has risen by, I estimate, 88 per cent in real terms. By contrast, the budget of Scottish Enterprise, which is mainly concerned with urban Scotland, has fallen in real terms, as has expenditure on regional selective assistance. I do not dispute that there might be sound reasons for that spending pattern, but those reasons were not revealed in the evidence that we received. For the moment, that is as much as I will say about spending patterns.

I turn to whether decisions on spending are driven by economic development priorities. The committee received evidence on that from a number of witnesses, including representatives of Scottish Enterprise and Highlands and Islands Enterprise, Government civil servants and others. There is general agreement that the key documents in respect of priorities are the "Framework for Economic Development in Scotland" and "A Smart, Successful Scotland". FEDS argues that the six areas that are most important to economic growth are planning and the housing market, transport, schools, lifelong learning, the electronic infrastructure and health care, and discusses generally how those might affect economic growth—for example, if people are healthier, they are less likely to be off work. However, we cannot derive from FEDS a clear message about where spending should be concentrated or where it should be increased in either relative or absolute terms; the discussion is general.

The evidence from the Scottish Executive witnesses did not indicate that FEDS or SSS were playing a major role in spending decisions. The evidence from Dr Goudie that the relationship between the priorities in FEDS and spending patterns was a subject worthy of research suggested that the Executive did not know the answers. The overall conclusion is that it has not been demonstrated that a policy framework exists that aligns strongly the pattern of public spending with economic development priorities. We tried to establish whether there was a consensus about what those priorities should be, but the views of non-governmental and private bodies were varied. There was no doubt that organisations tended to see the main priorities as lying in their own bailiwick, whatever that might be. It is also fair to say that there is no evident consensus outside Government about what the principal priorities should be for spending to support economic development, and I understand the difficulties in that.

We come to the specific argument about whether individual, general expenditure decisions have been aligned with economic development considerations. It is stated in FEDS that expenditure proposals are evaluated on their social, environmental and economic impact. Therefore, the framework for making spending decisions supports what is in FEDS. However, what is really being described is standard good practice and appraisal, in line with the guidance produced by HM Treasury for example. In itself, that does not establish that economic development has a special priority in decision making and it does not answer the question about how the broad strategic decisions are being made about how much we spend in the major areas of public sector activity.

The written and oral evidence gave relatively few insights into the process. FEDS states that health care is important to economic development, but there is no way of establishing to what extent the large increase in spending on health has been in the areas that are most closely related to economic activity, such as occupational health or the well-being of people in the working age groups, as opposed to care for the elderly or children. We cannot really tell whether or how public health care spending has been aligned with or driven by economic development priorities.

Transport is of special interest, because a number of witnesses identified it as being of great importance to economic development and it features as such in FEDS. We have seen high growth in spending on transport since 1997, but the great bulk of that has been on aspects of public transport, including funding for concessionary fares. Expenditure on roads, which most of the private sector witnesses identified as being important to economic development, has shown practically no growth since 1997. It might be argued—and no doubt will be—that public transport has more to contribute to economic growth than does building new roads, but that view would certainly be contested.

11:15

The Minister for Transport stated in his evidence that although appraisals of road projects tended to show higher economic gains than did appraisals of other types of transport investment, policy had shifted away from road construction towards public transport priorities. That suggests either that decision makers believe that the appraisal procedures that show high levels of economic return from roads investment are deficient, or that other priorities, such as environmental priorities, are being given greater weight in the decision-making process. What the committee has heard has not demonstrated that economic growth as a priority is having a strong impact on decisions about resource allocation at what we might term the strategic level.

We have seen slow growth in direct spending on economic development. It is unclear whether that means that economic development is not the practical priority that it has been suggested it is, or whether the Executive's view is that that form of spending is not effective in promoting economic development. We have had no real explanation of why there appears to be more spending per capita in rural areas than there is in urban areas. Overall, there is a lack of evidence that the pattern of spending on and investment in public services has been influenced strongly by economic development priorities. There is certainly no transparent framework for spending decisions that would enable us to say that spending has been increased in one area because that matches up with an identified area of priority elsewhere, or to show the connection between priorities and spending decisions. Specifically, I suggest that spending on transport has been driven more strongly by factors other than economic development considerations.

Those are the issues for the committee to consider and around which I suggest its report might be framed.

The Convener: Thank you, Peter. That was an interesting and, in many ways, challenging set of findings. The views that you have set out have the great virtue of clarity.

I begin by making a slightly cautionary remark: economic growth might be the Government's first priority, but it cannot be the only priority, and there must always be a balance between the priorities of any Government at any point. In testing the relationship between the economic growth priority and spending, mapping out consistency, as you have done, is an interesting intellectual exercise, but Governments must always make judgments on balance.

That said, the point that you made about transport spending is entirely relevant. Would you make the same point about higher education spending, because it seems to me that a great deal of such spending has been geared towards access issues, which I suppose feeds into skills, rather than towards the Turner approach of high-level research specialisation and commercialisation by university spin-out companies? Is there a similar argument?

Peter Wood: There certainly could be, although the issue is complex. It is true that at both UK and Scotland levels, the expansion of higher education has been justified on the ground that graduates earn more and are more productive, so the more graduates we have, the higher the added value, as it were, in our economy. That argument must be kept under review. The questions that you raise are relevant.

Has anyone asked whether the best way of using the higher education budget to promote economic development is to widen access? I am not saying that doing that is necessarily contrary to economic development priorities, because one way of expanding the economy is to raise the productive capacity of people who have been hitherto excluded from the higher levels of the workforce. However, is doing that more or less effective than building up centres of research excellence? I take no view on which course of action is better, but I can say that the choices are not really set out in FEDS and SSS. It is as if everything that might be beneficial or worthwhile is recorded—quite reasonably—but no sense of relative priorities or relative importance is given.

You draw a pertinent parallel between the situation in higher education and the situation in transport. The rationale behind the decisions that have been made was not made explicit in the documents that we received or the evidence that we heard.

The Convener: I have two other questions. On the volume of spending, which is the main burden of the first part of your report, you paint an interesting picture of priorities. If we look slightly beneath that, at the direction of spending rather than the volume of spending, and consider spending on the enterprise agencies, and specifically spending on Scottish Enterprise, it seems that the approach that has been inherited is essentially a business support-oriented approach, which sees the fundamental role of Government in promoting economic growth as being to support the growth of business. What concerned me about that was that the alternative approach, which existed before 1992, and which saw Government as having more of a co-ordinating role in areas such as land reclamation and development in particular localities, does not seem to be being pursued. As we heard, that approach has been followed down south by English partnerships and other agencies. The question is not simply about volume of spend, but about whether spend is being directed correctly, and whether a form of planning-geared, strategic spend is not taking place or is not being properly co-ordinated in Scotland.

Peter Wood: I agree that there are some issues that we should certainly develop in the report. I will respond to those points. What we have observed is very slow growth—not real growth—in the expenditure of Scottish Enterprise. It is quite right to say that Scottish Enterprise's main activities over the period have been in direct business support and business intervention, which is, indeed, a contrast with the balance of activity pre-1992, when there was much more emphasis on physical land reclamation. I might be reading more into FEDS than is there, but I am struck by the extent to which emphasis is put on the creation of a framework or context for economic growth—the physical, social and economic infrastructure, including education, training and so on—rather than direct intervention.

What might really be happening is that the priority is shifting away from the interventionist activities associated with Scottish Enterprise towards gearing spending to create an environment—or indeed a framework, as FEDS has it—for economic development. The activity is implicit rather than explicit. That is my observation and it would be helpful to know whether that is indeed the priority.

I refer again to the evidence of Dr Goudie, who said at one point—I am paraphrasing—that there are questions to be asked about the balance of spending on skills, direct support for economic development and infrastructure. That leaves the question of what the right balance is, and one might say that it is for the Executive to suggest what the right balance is. The shift and Scottish Enterprise's loss of spending share might reflect a policy change that, to some degree, downgrades the activities that Scottish Enterprise engages in nowadays, which are essentially business support activities rather than measures to change the physical or economic infrastructure.

The Convener: My final question is about strategic choice at the level of projects, or at least at the level of area intervention. I do not think that this has quite emerged in your summary, but I certainly took from the evidence that the general assumption is that higher education or more transport spending is a good thing for economic growth, but that does not drive choices between different policy goods or project goods. For example, when you bundled together the transport priorities, the M74 came out the same as the Borders rail link or any other project; no economic growth driver was saying that we should do one thing rather than another, nor was there any evidence of an exercise similar to the one that the Deputy Prime Minister has mounted in the south-east of England to link affordable housing to serving specific employment needs. Is that a fair point to make about the report—that we need to have a better link between economic benefit and project choice than we appear to have at present?

Peter Wood: I apologise for not making that point more clearly. At one stage, I was trying to make it, but I obviously did not underline it sufficiently. There is a gap. One can think of various levels at which decisions must be made about public spending. At the highest level, there is the question of how the budget is cut up among health, education, transport and other things. That is a complex process, and changing that balance is very slow. At the level of individual projects, we are deciding whether to build a bypass round Aberdeen, improve a bit of road up beyond Crianlarich or whatever. Appraisal procedures are used to assess individual projects, and those can be examined and one can say whether they are rigorous.

In between those two levels, there is a mesolevel, at which we determine the big priorities in, for example, the education or transport budget. Are certain key projects of strategic significance? Where does upgrading the M74 come relative to the Borders railway line, or how does expanding one aspect of higher education match up against another economic development priority? That level is missing in the framework documents. If we examine FEDS, we find sensible statements about the connections between aspects of public spending—of course, it is true that an efficient housing market is important for labour mobility and that a healthy population is important, as that makes for a more productive population—but what is missing is something below that, namely a level at which we ask, "Within the overriding, broad conclusions, in which areas can the greatest difference be made? What is most important in the medium and longer term?"

I concur with the convener's view and that is what I was trying to say. I think that there is an absence in the framework of clearly articulated priorities at the level between the global budget and individual projects.

Dr Murray: What you have said is quite a useful suggestion. I found the inquiry a bit disappointing, in a sense; not only did the Executive seem not to be able to demonstrate how it supported its top priority of economic growth, but nobody else seemed to have much idea of how they would do things differently and they could not make any alternative suggestions. That was quite frustrating.

The type of suggestion that could lead to a positive improvement would be helpful, because I feel that our conclusions are a little bit downbeat and that they do not point to things being done differently or invite the Executive to do something differently.

Suggestions were made about road transport, but one of the big issues at the moment seems to be planning constraint due to lack of water and sewerage infrastructure. I was slightly surprised that that issue did not emerge in our inquiry, and we do not seem to have highlighted it.

I have taken issue with people before about the question of rural and urban spend. It would be easy to overdevelop that issue, because we are looking only at a devolved budget and the division of expenditure in urban and rural areas must be examined in a UK context. You might be getting a skewed picture of spend, because more of the devolved issues are more relevant in rural areas. I will illustrate that with a small example. You made reference to the Scottish agricultural and biological research institutes, but they are the only part of the scientific research community that is funded through the Scottish Executive and not the UK Government. A very different picture of scientific research might emerge if you were to look at the research community as a whole and not only at the part that is devolved to the Scottish Administration. I am not anxious to get involved in constitutional arguments but, that said, too many conclusions can be drawn from the division, which may not be accurate.

11:30

Peter Wood: I am grateful for that point. On the issue of water and sewerage infrastructure, I can only agree; that point emerged in evidence taking. Infrastructure is a good example of a priority area that has arisen in various discussions. However, one looks in vain for infrastructure being articulated as a priority in the framework document. I concur with the point.

Urban and rural spend should not be set up in antithesis. I did not intend to suggest that too much is being spent on rural areas; I mentioned the issue because it is one in which the spending changes have not as yet been quite explained. For example, we are seeing a big increase in spending on rural economic development at a time when other types of spending have not risen. It would have been useful for that change to be acknowledged and for the reasons to be discussed. I leave aside the question whether the spending is justified; I cited the example merely because it shows the difficulty in deriving explanations of what can be observed, in terms of spending, from the priorities that have been set out in the documents. I do not suggest that the committee should take a position on whether the balance is right or wrong; I simply suggest that the item is one for which an explanation is lacking. Although I can imagine what some of the explanations might be, they have not been articulated.

To return to Dr Murray's first point, the purpose of the document as it stands is to promote discussion. I am looking for a sense of where the committee is going. The committee might want to put forward a stronger view on the need for the Executive to articulate and set out its priorities in the areas of spend. I can see how the report could be written to do exactly that. The committee wants to produce positive recommendations and this is one of the areas in which one would hope to see that happen.

Again, as Dr Murray pointed out, the difficulty lies in establishing consensus on the priorities on which the committee needs to focus. If I were to be critical of FEDS, I would say that there is an absence of such choices—or of evidence that they are to be made—in the document. FEDS would be more useful if it articulated some of the choices that must be made about the direction in which we should be going and where the priorities should lie.

The Convener: I take a slightly different view from Elaine Murray. She is right to point out that some of the evidence was disappointing, but it gave us the opportunity to highlight the need for a debate that has not yet taken place. For example, we should have the chief executive of Scottish Enterprise knowing what the top transport priorities are and being able to explain them clearly.

Ms Alexander: Like the convener, I think that a concise and balanced report has emerged from incredibly diffuse and difficult evidence. I congratulate our adviser on being so concise. Although the report is not written in our usual style, it is balanced because it does not try to impute rationales where they were not articulated.

I share the convener's belief that our expectation for the report should be that it opens up a debate on the subject. The rationales that the Executive can be asked to articulate could be reflected on by the Enterprise and Culture Committee and other committees. In general terms, the report is helpful. As I said, although it does not impute rationales, it invites others to be clear about them.

I have three minor suggestions to make, the first of which returns to the point that Elaine Murray made about water and sewerage. We should say clearly that the report is about spending on economic development and that it does not deal with the ways in which regulatory or legislative action affect the competitive climate. It is outwith the scope of the Finance Committee to talk about issues such as planning and water—although, God knows, I feel strongly about them. We need a disclaimer at the beginning of the report to the effect that the report's focus is on spending on economic development and not the way in which the regulatory environment might impinge on it.

Under paragraph 2.11, the point is made that aspects of the classification of main spend and development spend have been disputed. It is stated that, although revised figures will be included in the committee's report, they will not fundamentally change the conclusions. That point is absolutely fundamental. The final report should include a rerun of the tables, even if we have to add footnotes with a caveat that says, "The figures are disputed, but, because the order of magnitude is 1 per cent, they do not change the bigger figures." The data annexes are vital.

My final suggestion also concerns the key nature of the data annexes. I return to one of the points that Elaine Murray made. The bottom line is that the SABRIs account for £4 million or £5 million—how many million is it, Elaine?

Dr Murray: It is £100 million.

Ms Alexander: Okay, the total figure is £100 million, but that is still less than we spend on fishing and forestry combined, to choose one example. We should deal with that by putting the data tables in the report.

I have one further query that relates to paragraph 3.3, in which you say:

"CAP spending should be excluded from the analysis on the grounds that the parliament has no effective control over this spending."

You might want to add a footnote about the increasingly discretionary aspects of CAP, because that would clarify the extent to which control can be exerted.

Similarly, in paragraph 3.4, a contrast is made between 88 per cent and 10 per cent. Is CAP in or out of the 88 per cent figure?

Peter Wood: It is out.

Ms Alexander: Perhaps it would be helpful to include a footnote to that effect.

In paragraph 5.2, a point is being made about FEDS, but the final sentence of that paragraph does not quite tell us about the relative priorities or the higher-level strategic decisions—the big-ticket items.

Finally, I have a point of clarification. I am not suggesting that the answer to my question should go into the report, but are other branches of Government more clear about how the trade-offs are made? Does the Treasury do that in terms of total public spending? I suppose that my question hints at the extent to which this is a problem of Government per se or a problem of FEDS.

Peter Wood: It would be wrong for FEDS to be castigated, as sometimes happens, for being worse than other documents. Certainly, Treasury documents start with the priorities that are set out in the Chancellor of the Exchequer's budget statement. The issue is one of Government and not FEDS; the criticism was not specifically aimed at FEDS.

I would like to reflect on the matter a little more—

Ms Alexander: Sure, that is what I would like you to do.

Peter Wood: Reference was made to some of the priorities that were articulated by the Office of the Deputy Prime Minister in England. Perhaps some points should be drawn from that. I reserve my position for the moment.

Ms Alexander: I agree with that. Indeed, as you write your conclusions, you might reflect on whether the overall problem is one of Government and whether the problem might be more acute in Scotland because our Administration is newer than that at Westminster.

Mr Brocklebank: I am particularly interested in the section of the paper that deals with the balance between urban and rural spending. It would be helpful if we were clearer about the areas that we refer to as rural as distinct to those that we refer to as urban.

There is an argument that the only real urban areas in Scotland are the four major cities. My quick calculation is that the total population of those cities is about 1.65 million. Even the urban cities have huge rural hinterlands—for example, there are rural areas right round the outskirts of Glasgow. The adviser's paper states:

"Rural areas account for 47% of the expenditure - rural Scotland accounts for 27% of the Scottish population".

Are those Scottish Executive definitions?

Peter Wood: They are indeed. There is a whole literature devoted to the subject of defining rural areas. The Scottish Executive uses a definition that is based on settlement size. We are talking about the population living in and around settlements below a certain threshold. There are different thresholds. However, basically, the definition is based on settlement size

Mr Brocklebank: Would that include our old county towns?

Peter Wood: Let me explain exactly how the definition works. The trouble is that the definition is slightly coarse, because it is based on individual local authorities. A local authority is classified as urban or rural—which is a kind of all-or-nothing classification, as you might well imagine—whereas, in reality, even the Highland Council area, for example, includes Inverness, which is a city, naturally. You are right to draw attention to the statistical problems that rest with the definition of rural. However, the definition is based in essence on the proportion of the population of each local authority area that lives in smaller settlements. If that proportion rises above a certain level, the area is defined as rural.

Mr Brocklebank: So Fife, for example, which is where I come from—

Peter Wood: It is urban.

Mr Brocklebank: It is urban, yet look at it: everything east of Leven is rural. The place splits totally in half. The west part of Fife is urban—Dunfermline, Kirkcaldy, Buckhaven and so on—but beyond Leven and into north-east Fife, it is totally rural. Therefore, it seems to me that some of the Executive's distinctions are not particularly helpful. We would think that the old county towns, such as Inverness, Perth, Stirling and Ayr, would be regarded as rural. If they were, that would bring up the figures.

Peter Wood: The Highland Council area is certainly classified as rural. Mr Brocklebank makes a fair point. It would be useful to provide an explanation in the report.

Jim Mather: I appreciate what you have done, Mr Wood. Your paper is objective and genuinely worth while, and is a significant contribution to taking forward the debate. I consider it exceedingly helpful.

I want to return to the rural versus urban issue. An article on the front page of today's *Financial Times* gave me a new word for my vocabulary: delocalisation. That probably describes an approach that is the opposite of relocation: the drift away from rural areas. Given the current debate, I wonder about state aid for poorer areas and about rich countries being under threat. I wonder whether we should take more strident steps here in Scotland to protect our position and start to make a special case.

Peter Wood: It is hard for me to make that judgment. For me, that is a further example of the kind of issue that needs to be addressed and for which we need a framework. I emphasise that I am not suggesting that the Finance Committee take a position on what the right balance is between urban and rural spending. However, it would be good if we could trace back what we observe to priorities that have been articulated, so that we could say, "This is a particular problem to which we are giving greater priority."

I do not like to speculate, but my guess is that the increase in spending on what is classified as rural development is, in fact, a response to the problems that affect the agriculture and fishing areas in particular in rural areas. Indeed, we are talking about the loss of some support that has historically come through direct support to those activities. Therefore, the expansionary expenditure in rural development may be entirely appropriate. My point is that one will search in vain in FEDS, for example, for an explanation of why that is being done. I am making an argument for having more explicit and transparent priorities to which we can connect spending decisions.

Jim Mather: Given that, do you believe that there is an ideal blend of priorities and followed-up spending, or do we have a rather incomplete proposition? Do we need to do something to change the conditions that generate growth, rather than just depending on a magic formula of support programmes and services? Pretty much every other country in western Europe is doing that.

11:45

Peter Wood: Again, I will remain uncomfortably sitting on the fence. I do not want to take a position on what the right balance would be between, on the one hand, supporting the infrastructure of development and, on the other, intervening directly.

The more we consider what is happening with spending, the more we see that decisions are being made that might imply what the priorities are. However, things are not transparent. To some extent, the evidence from the Scottish Executive witnesses left the question open. It was as if they were saying, "We don't quite know what the right balance is on questions such as whether to spend more on training, or more on roads." It is important that we should try to arrive at a view on such matters.

Wendy Alexander is right to say that one can influence and support economic development in ways other than by simply spending money. Nevertheless, the Executive's primary mechanism is its control of the budgets. It can decide what to spend its budgets on. Again, I come back to the basic point: it is not clear what priorities are influencing the balance of spending decisions, or what beliefs are held about the relative efficacies of different types of expenditure.

Jim Mather: In 20 years' time, should people look back at this report, will they see that we were on the cusp of recognising that the artificiality of Scottish economic management and the incompleteness of its mechanisms were coming home to roost?

Peter Wood: Why do I feel the ground opening up beneath me?

The Convener: You could pretend that it was Magnus Magnusson and say, "Pass."

Peter Wood: There are different forms of government in which different levels of decision are made at different scales. The question was interesting. One would argue that economic development priorities should be aligned at the different levels—that national budget policies should align with regional spending patterns, which should align with the allocation of money at local level.

In a way, we have an experiment that has yet to be run in the Scottish Parliament, with regard to what might happen if there were to be a misalignment between the views of this Parliament and the views of the Westminster Parliament. That experiment awaits us.

The Convener: Its time will come at some point.

Dr Murray: In case there was any misunderstanding, I want to make it clear that my criticism was not really of Peter Wood's paper but of our inquiry. The paper is a very good reflection of the inquiry.

We have mentioned water and sewerage infrastructure and planning constraints. Those issues are to do with spending, not legislation. The major local development issues that many local authorities face concern investing sufficiently in water and sewerage infrastructure, so that they can build the houses and attract the businesses. I disagree with the view that that is a legislative matter; I think that it is about spending priorities.

I want to pick up on Ted Brocklebank's point. We need to define what is rural and what is urban. I presume that Dumfries and Galloway is rural. The analysis suggests that expenditure on agriculture, forestry and fisheries benefits the town of Dumfries but in no way benefits north-east Fife. That is a silly conclusion and I am not sure that we can stretch that sort of analysis too far.

Peter Wood: That point is worth reflecting on.

On the first point, a question clearly arises in relation to overall expenditure on water and sewerage. Again, I say that Wendy Alexander was right to say that Government can do more to promote economic development than simply spend money. Elsewhere, such matters are rightly being considered. I know from current direct personal experience that the Executive is examining the extent to which the planning system inhibits, or fosters, economic development.

Mr Arbuckle: I am concerned that we are drawing such a division between urban and rural. If a farmer receives a subsidy and goes to the town or city to buy his tractor, where is the economic benefit? Is it urban or rural?

Alasdair Morgan: The benefit goes to the United States.

Mr Arbuckle: Not always.

What about a situation in which a farmer goes to Edinburgh to see his lawyer or accountant? Where is the benefit there? Members are considering the matter as though there were two boxes, but there are not. The two aspects are intertwined and it is negative to regard them as separate boxes.

There is a far bigger issue in the adviser's paper about direct support to infrastructure and spending that is supportive of economic development. Do industries such as the tourism industry benefit from support? Other industries, such as manufacturing industries, might benefit more from direct investment in infrastructure.

Peter Wood: Again, that is a big question. It is difficult to answer, but I will try to strike a balance between personal opinion and the body of opinion. There is general acceptance that some kinds of industry and business—tourism is a good example—have a collective interest, for example in promotion. It is beyond the resources of individual businesses to promote their wares internationally, but by acting together with the help of Government they can do so. We can therefore argue that we need a national tourism promotion strategy.

The manufacturing industry has a different type of structure in that regard and on the whole we think that individual businesses are best able to promote their products to potential customers. There are parallels with agriculture, which has been mentioned. Agriculture is sometimes regarded as an area in which there is a form of market failure, because it is difficult for individual farmers to promote their interests, which leads to arguments for marketing co-operatives and other such measures. The general point that the appropriate type or extent of intervention varies according to the circumstances of individual industries is absolutely right. What is appropriate to support—for the sake of argument—the Scottish crafts industry, is not necessarily what is appropriate to support mechanical engineering.

Such discussions and issues lie rather beyond the remit of this committee. How and where we should intervene appropriately is perhaps a matter that belongs more in the realm of the Enterprise and Culture Committee. However, I concur with the view that different types of intervention are appropriate for different industrial and market structures.

Mr Arbuckle: What is your response to my other point about the artificial division between urban and rural?

Peter Wood: I am sure that we will not reach an agreement on the matter. As you rightly suggest, someone who lives in Lochinver will no doubt go to Inverness from time to time to do some shopping, which brings benefits to the area. However, I emphasise that we should not fudge the issue too much. There is a question about why, for example, there has been an increase in measures that are intended directly to promote economic development in rural areas at the same time as measures to do that in predominantly urban areas have been relatively cut back. I am not suggesting that that is right or wrong, but it would be interesting to know why that balance exists. I am not suggesting that the committee make a crude point about spending too much in rural areas; the issue simply exemplifies the question about how we match up what happens in spending with the priority framework.

The Convener: We have had a good kick-about on the matter and useful comments have been made. As I said at the beginning of our discussion, our report is potentially important, because it will highlight a number of issues that I think the committee would agree need to be considered properly. The advantage of the Finance Committee undertaking the exercise is our ability to look across the range of expenditure and take a vantage point that subject committees, which have more restricted remits, cannot take. We will try to incorporate issues that have been raised today in our draft report, which we hope to produce around the beginning of March. It might take a bit of time to finalise the report, but that is a reasonable timescale to set.

Although there was some unease about the urban/rural issue, particularly from members who represent rural areas, I do not think that we can avoid any of the issues that have been raised. We must deal with the issues that have been introduced. I am keen to try to push the Executive on the link between general, framework statement issues and the process by which decisions about investment or policy choices are made. We need to explore the rationale for such matters. Perhaps we should consider areas in relation to which discussion does not take place—or appears not to take place sufficiently—between ministers or between ministers and agencies across the boundaries of departmental responsibilities.

Are members content to proceed in that way and to return to the matter at the beginning of March?

Members *indicated agreement*.

The Convener: I thank Peter Wood for his participation and for his paper.

The committee agreed to take in private the final agenda item, which is consideration of our report on the Charities and Trustee Investment (Scotland) Bill.

11:56

Meeting continued in private until 12:00.

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