

FINANCE COMMITTEE

Tuesday 19 April 2005

Session 2

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FINANCE COMMITTEE

11th 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:

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Sandy Cameron (Scottish Executive Environment and Rural Affairs Department)

Richard Dennis (Scottish Executive Finance and Central Services Department)

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

Jon Rathjen (Scottish Executive Environment and Rural Affairs Department)

Sandy Rosie (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Judith Evans

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 19 April 2005

[THE CONVENER *opened the meeting at 10:04*]

Infrastructure Investment Plan

The Convener (Des McNulty): I welcome to the 11th meeting in 2005 of the Finance Committee the press and the public, although not many members of either are in attendance. I remind people to turn off their pagers and mobile phones. We have apologies from Elaine Murray, Alasdair Morgan and Jim Mather.

The first item on the agenda is to take evidence on the Executive's infrastructure investment plan. I am pleased to welcome Tom McCabe, the Minister for Finance and Public Service Reform. With the minister are Sandy Rosie, who is the director of the financial partnerships unit in the Scottish Executive; Alison Ferguson, who is senior policy manager in the unit; and Richard Dennis, who is the finance co-ordination team leader. I welcome them all.

Members have before them a copy of the briefing paper on the plan, which was prepared by Arthur Midwinter, our budget adviser. I invite the minister to make an opening statement, after which we will move to questions.

The Minister for Finance and Public Service Reform (Mr Tom McCabe): Thank you, convener. Good morning to you and to assembled members. Thank you for inviting us here today to give evidence on the infrastructure investment plan. This is a good opportunity to contribute to the committee's review. I stress that we are at the start of an important process. I regard interaction with the committee as extremely important in refining our approach to the plan. From the Executive's point of view, it is important to listen to what the committee has to say and to take that on board as far as we can as we develop the plan over the months and years to come.

Although most committee members will have been present at the recent debate in the chamber on the infrastructure investment plan, I think that it would be appropriate to remind the committee of the reasoning behind the production of such a plan. The plan sets out our broad strategy for investment and shows our approach to improving delivery by raising awareness in both the public and private sectors. Our commitment to building the Scottish economy means engaging with business and seeking and taking on board public and private sector views. We are committed to

jointly engaging in the efficient and successful delivery of policies that will help individuals and our economy in Scotland to grow and prosper.

We will hold an infrastructure investment conference in May to build on the plan. We will complement that by arranging a series of meetings with key players and groups in the business community so that we can engage with them and work with them to improve co-ordination and delivery at a time when the Executive is investing increasing levels of resource in infrastructure. We had one such gathering yesterday at the offices of Quayle Munro, where we met a number of important players in the Scottish economy. We will continue such engagement throughout the year.

As members will know, the funding for the plans comes from a variety of managed processes. We believe that that demonstrates our mixed-economy approach in the delivery of the plan. Public sector managers in particular need to understand and appraise all delivery options and select a way forward objectively on the basis of optimum risk allocation and value for money. Of course, it is also important to ensure that all investments represent the very best value for money.

I know that Professor Midwinter has published a report. I am pleased about its positive nature and about the fact that it recognises the significantly increased priority that has been placed on capital spending and enhanced transparency in the overall budget process. We agree with several points in the report. I agree that what matters is the delivery of investment on the ground, not just budgets. I also agree that monitoring of the spend is every bit as important as securing higher investment budgets in the first place.

We very much agree that the plan is not the finished article. As I said at the start, I believe that we are at the beginning of an important process, which will develop as the months and years progress. The plan is an important starting point. It forms the basis of our future intentions for improving Scotland's infrastructure; the nature of the plan is that it will be built on in future. As I said, I hope that interaction with the committee will contribute significantly to that process.

I intend to set up an infrastructure investment group within the Executive. Part of its remit will be to take forward the plan as a whole. The group will cover all portfolios within the Executive and, although it will be for the group to decide its exact remit, consideration of exactly how we monitor the plan will be an extremely important aspect of that. It is likely to be difficult to assess the impact of the plan as a whole due to the wide range of objectives for the different forms of investment. As we try to refine that as much as possible, I would very much welcome the committee's interest and input into the process.

If there are any questions, I will do my best to answer them.

The Convener: Before we move on to questions, I highlight the committee's view that the infrastructure investment plan represents a positive innovation, which will enhance the scrutiny process in relation to the budget and which reflects the Executive's commitment to increasing capital expenditure and to moving towards more strategic targeting of that expenditure, as the minister indicated. Such issues were raised in the committee's report on its cross-cutting expenditure review of economic development.

The committee wants to address a number of policy issues, such as how resources will be targeted at more disadvantaged communities—Arthur Midwinter flagged that up. We want to consider the relationship between investment and return and how investment can best be targeted to deliver real economic returns. Such matters will not be resolved today, but they will be key issues as we take forward the dialogue to which the minister referred. The committee welcomes that dialogue and the opportunity to go down a route that will consistently be of interest to us in the months to come.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): Very large sums of money are involved in the infrastructure investment plan. What percentage of the projects that are included in the plan has been subject to pre-expenditure assessment?

Mr McCabe: All projects will be subject to pre-expenditure assessment as they come up. That happens as a matter of course in the Executive.

Sandy Rosie (Scottish Executive Finance and Central Services Department): The green book of option appraisal guidance, which has been used in the public sector for many years, has always been based on the principle of assessing projects in advance of procurement—by considering the various options and value for money, for example. Such an approach is not new. However, a more rigorous process of assessing projects in advance was introduced fairly recently, whereby the delivery risks that might be involved and the support mechanisms that will be needed to see projects through to delivery are more closely examined.

Mr Arbuckle: Is it the intention or the reality that all projects will be assessed?

Sandy Rosie: It is already the reality that all major projects are assessed in the way that I described, although the methodology is still developing.

Mr Arbuckle: A main criticism of such an ambitious expenditure programme is that, although it looks fine on paper, in reality there are delays, some of which might be significant. Are such delays due to a lack of funds or planning, or to physical constraints within the construction industry?

Mr McCabe: We do not anticipate delays due to a lack of funding. We have not yet settled on the most appropriate funding vehicle for every project. Such decisions will be taken, particularly on transport projects. I know that the committee will speak to my colleague the Minister for Transport in the near future, although I do not know exactly when—

The Convener: Next week.

Mr McCabe: Of course, in a sophisticated, regulated economy a number of factors can lead to delays. For example, we had to have a public inquiry into the M74 extension. However, it is important that the Executive should address delays in the proper fashion, by showing resolve and the determination to ensure that important projects for Scotland are carried through to conclusion.

Mr Arbuckle: You mention a flagship project that is likely to be subject to delay. Another major item of capital expenditure, the Markinch interchange, has been on the books for two years but keeps slipping away. I do not seek a response on that specific project; I just point out that, in general, major projects can be subject to delays not of months but of years, which can throw budgets into a cocked hat. The plans look good, but the reality can be different.

10:15

Mr McCabe: I am appalled at some of the delays that we encounter—I think that I can speak for the Executive in saying that. We are determined to grow Scotland's economy and so must ensure that we speed up the implementation of programmes for the delivery of major infrastructure. If we identify serious gaps in the economy's physical infrastructure, we must find ways of supplying that infrastructure faster than is currently happening. The M74 extension provides a good example: it has been identified as being extremely important because it can provide a critical link and create an economic corridor that can generate employment, but it has taken too long to make necessary progress on the project. We must take proper cognisance of the checks and balances in the system but, whether we are talking about the Markinch interchange, the M74 extension or any other infrastructure project, we need to be sharper about producing the infrastructure.

Mr Arbuckle: You said that you will set up an infrastructure investment group. Will it be part of the group's remit to oversee the implementation of the expenditure plan? If so, how will the group work? To which authority will it report? Will it comprise just officers or will it include members, too?

Sandy Rosie: We are still finalising the details of the group, as the minister said. Currently, the intention is that the group will comprise Scottish Executive officials, who will oversee the major projects in all the portfolio departments and report to the Minister for Finance and Public Service Reform. We must have further discussions with local authority interests, to ascertain whether we can capture that sector in the process.

Mr McCabe: It might be appropriate to widen out the reporting mechanisms. Our minds are not closed on the matter.

Mr Frank McAveety (Glasgow Shettleston) (Lab): Are you saying that there is little potential for delay in the investment strategies? The committee recently considered submissions that raised the concern that the planning framework is not speedy enough or flexible enough to be able to respond to proposals.

Mr McCabe: It would be less than judicious of me to suggest that there is little scope for delay. The history of major infrastructure projects tells us that there can be substantial potential for delay. As I said, the minimisation of delays is a major aspect of our determination to grow the economy. As members know, we are engaged in a fairly radical review of the planning system in Scotland, the outcome of which will be announced in due course. We hope that the review will make a major contribution to the elimination of delays by reducing as far as possible those delays that are caused by unnecessary bureaucracy and by creating a planning system that complements rather than hinders economic growth.

Mr McAveety: Are we investing in the right places?

Mr McCabe: We think so. As I said, the infrastructure investment plan represents the start of a process. The initial work produced by the plan will feed into the spending review 2006 process. It is important that we complement that work by trying our best to maintain levels of investment in public infrastructure, to make up for the ground that was lost in previous years. We must also ensure that we are sufficiently aware of developments elsewhere in the world, so that we can improve our competitiveness and ensure that we are in as good a position as possible to be able to provide the maximum opportunity to people in Scotland.

Mr McAveety: In his briefing paper on the infrastructure investment plan, the committee's adviser describes

"a lack of information regarding the efficient targeting of resources on the most disadvantaged communities, and the effectiveness of the pattern of investment on economic growth."

A perfect example of that relates to the M74, which is a cause célèbre. Anybody who wants to delay that plan should be made accountable to the local communities in the next few years. The area has the economic disadvantage of being in the triangle of poverty in Scotland, if not Europe. If economic growth means anything, it should provide opportunities in such areas. As our adviser says, the critical weakness in the infrastructure investment plan is that there is no real evidence tracking what goes on in those disadvantaged areas or monitoring the economic growth that could most help them.

Mr McCabe: You make a number of points. Thinking on the Executive's involvement in regeneration is developing. I hope that, before this year is out, we will be in a position to make a more definitive statement on how we intend to approach regeneration.

There is now more recognition of the distinction between social regeneration and economic regeneration. It is important that we identify times when opportunity and need cross over—where the market can see an opportunity, but also where that opportunity addresses need in specific communities. All that plays an important part in the thinking that is developing in the Executive on broader regeneration in Scotland.

In a number of the regeneration projects in Scotland, we have set targets and established indicators that will tell us the type of progress that is being made. For instance, in one project—I will not name it—a lead indicator is the number of new business start-ups. We have said that we will try to introduce at least two strategic employers to the area to generate a mixed economy. Another indicator is the percentage of residents on incapacity benefit. The aim is to reduce by 70 per cent the current level of individuals on incapacity benefit. Those are the kinds of target that we try to set ourselves in particular regeneration projects.

On a wider basis, of course there is an on-going debate on how we measure economic progress and gross domestic product in Scotland, but we have set a number of targets. Most objective commentators would accept that, through the achievement of those targets, we can produce all the necessary conditions to grow our economy in Scotland. For instance, in our "Closing the Opportunity Gap" document, target A is to

"Reduce the number of workless people dependent on DWP benefits in Glasgow, North & South Lanarkshire, Renfrewshire & Inverclyde, Dundee, and West Dunbartonshire by 2007 and by 2010."

There is acceptance that one of the best things that we can do to grow the economy in those areas is to produce more of an available labour market with the necessary skills and better training to give people the opportunity to cut down dependency on benefits. If we achieve that target, we will produce the potential for economic growth.

Another target is to reduce the proportion of 16 to 19-year-olds who are not in education, training or employment by 2008. Again, we aim to increase the availability of human resource and labour in the marketplace to grow our economy. I could go on and read out a range of targets, but I have given a good indication that, if we are successful in realising those targets, the potential is that we are creating the conditions for economic growth.

Ms Wendy Alexander (Paisley North) (Lab): The committee warmly welcomes the infrastructure investment plan, because it is absolutely a step in the right direction. As ever, my question is probably one for officials, but I will pursue a couple of issues that were raised in the budget adviser's report. You have already talked about one of them, minister—if we are to minimise delays in the future, which is clearly the ambition, we need a sense of where the delays arise. There is not currently a commitment in the infrastructure investment plan to monitor outturn against planned budgets, but such an approach would allow policy makers, committees and parliamentarians to say on a planning issue, for example, "These are where the delays arise." Will the officials say whether they think that the report could be strengthened in the future by having some data about recent trends on planned expenditure against outturns? Might that be something that is reflected on in advance of the conference?

Richard Dennis (Scottish Executive Finance and Central Services Department): Two separate issues arise, both of which are worth addressing. One is monitoring the delivery of projects, which is different from monitoring actual spend. To be honest, we care about the projects a lot more than we care about the spend—Sandy Rosie might say more about that in a moment.

Most of the detail of the spend exists in the Executive accounts. Although we have not pulled the numbers together into one place, it should not be a problem to do so if the committee wishes. I suspect that Ms Alexander is probably the only committee member who leaped to read the Treasury's "Public Expenditure Statistical Analyses 2004" when it came out last week, but that document gives a 10-year run of numbers—including those for investment—for all

departments, including the Executive. The detail is there, if members want us to pull it together.

Sandy Rosie: We regard the two ends of the process as important. We have touched on the first, which was identifying almost in advance of projects proceeding what the risks are and the likely bits of preparation that people should be doing. I suggest that some projects go to procurement too early—some of the problems that are encountered in the middle of procurement might have been better dealt with at an earlier stage. On the other hand, as has been said, we do not want to delay projects that will contribute to economic growth. We need to get that balance and all the other aspects right.

After that, we need to monitor the progress of our project, its costs and the timing. Until now, that has happened through normal governance and accountability arrangements of the public bodies that are responsible for each project. Against the background of the infrastructure investment plan and the infrastructure group that was mentioned, we will now have the opportunity to monitor those aspects at a more aggregate level. We agree with the point that further monitoring can be done.

Ms Alexander: It is a point for us to reflect on collectively. I take the point that the data on the extent of underspend in individual departments are available elsewhere. However, given that capital infrastructure underspend is accounted for as being between a quarter and almost half the budget—43 per cent—of total end-year flexibility, for which we have new arrangements in the run-up to SR2006, some clarity about where the worst offenders lie might be helpful in improving not so much the internal monitoring at the Executive, but the quality of policy making in the Parliament as a whole when it takes into account policy or legislative decisions that might impinge on our ability to deliver any of the projects on time. That is why some comparison of who is not managing to deliver against budgets and where outturns are lagging would be helpful in the medium term. I leave that on the table.

Mr McCabe: That point is well made. I said at the start that we are keen to take on board the thoughts of the committee as the plan evolves and we have listened to what the committee said on that point.

The Convener: Wendy Alexander talked about monitoring, but is there another issue about programme planning? From my experience, and I suspect from the minister's, in local government, big capital projects characteristically experience delays—there is a built-in expectation that they will happen. I do not want to stray into the transport area, but one can anticipate that legal and other processes are likely to cause delays in some of the significant on-going capital projects.

Is there a mechanism by which the Executive can anticipate delays, fill in with or bring forward other projects and manage the process within the available timescale? That approach might leave you in the statistical position of being overcommitted at one point, but would it be a better way of managing the expenditure and delivery process?

10:30

Mr McCabe: The central unallocated provision mechanism might make a financial contribution in that respect. Public-private partnerships on schools are a good example. They are not experiencing significant delays, because the requirements were clarified up front and have been stuck to. One of the big lessons that we must learn in public sector procurement is how to decide what we want and stick to it. In my experience before I came to the Parliament, some of the most significant delays were experienced in projects on which the architect's instructions flowed thick and fast. It might even be said that we are sitting in one example of such a project.

The Convener: We are particularly interested in the mechanism, whether net present value or some other mechanism, by which the Executive seeks to identify which project allocations are justified. We will pursue the Minister for Transport on some of the transport projects next week, so I do not want to get into the detail of those now, but do you, in your role as the Minister for Finance and Public Service Reform, look across the range of projects in health, transport and the other portfolios and try to establish criteria against which you can decide whether the case for the allocations that a particular minister is making is justified? How does that work within the Executive?

Mr McCabe: The spending review process makes a contribution towards that. I was less involved in SR2004, but I hope to be much more involved in SR2006. I hope that, as we engage in SR2006, we will develop an approach that ensures that the projects that are coming to the fore are considered more strategically.

The Convener: Will that approach be taken throughout the Executive? One of the concerns that we identified was that different departments within the Executive seemed to be adopting their own approaches and there did not seem to be a clear role for a strategic view of the investment package as a whole. In the context of SR2006, if in future a minister proposes a project that you do not think fulfils a proper set of investment criteria, will that minister be asked to go away and think again?

Mr McCabe: There is certainly a need for a strategic approach to investment. I would not

pretend that the final decisions would be wholly in the gift of the Minister for Finance and Public Service Reform, but the view that I and the officials who support me express should carry considerable weight and at least contribute to the wider debate in the Executive about how we establish priorities. As I said, I hope that, not only in SR2006 but as we move forward, we will continually refine the way in which we make judgments on how infrastructure projects gel throughout the Executive.

The Convener: What proportion of investment is allocated on grounds other than those that follow from ranking projects according to the criteria that are used in the pre-expenditure assessment? That is perhaps a question for Richard Dennis.

Richard Dennis: I am not sure that there is an answer, I am afraid. The aim of a pre-expenditure assessment is to ensure that a particular project achieves a positive cost-benefit ratio, that it is good value for money relative to other approaches and that it uses the best delivery mechanisms. If we were to boil down the trade-offs between, for example, a new rail link and a new hospital to the individual cost-benefit ratios alone and the relevant figures were seven and six, that would not give us the right basis on which to make a decision. I am not sure that we could ever produce a cross-portfolio ranking of projects and just tick off the top ones. If we were thinking about where to put a new hospital or which new road to build, we could make a more direct comparison of the costs and benefits, but I do not think that it would be possible to do that across the Executive.

The Convener: I appreciate that there will always be matters of judgment and that the factors that balance out spending in rural areas against spending in urban areas cannot be numerically assessed in quite the way that other issues can be. However, we go through an elaborate process of making assessments, so how do we monitor the decisions that are made when the numbers do not point to a particular decision but it is made anyway?

Mr McCabe: Those decisions are for politicians to stand up and try to justify.

The Convener: Do you agree that, when a decision is so far outwith the parameters that you have set out, there must be some way for the committee or the Parliament to say that the politicians should come under particular scrutiny?

Mr McCabe: Yes. The committee has the opportunity to speak to different portfolio ministers and, if it has a specific concern on any portfolio, I am sure that it will not miss that opportunity.

The Convener: I am sure that we will not. We are agreed that there should be arrangements for monitoring the scale and cost of spending that does not fulfil the normal investment criteria, but how could we strengthen those arrangements so that the committee's energies could be directed towards projects that require stronger scrutiny?

Mr McCabe: We could continually strive to satisfy ourselves that all the indicators that are fed into that process are appropriate. The need to address shortfalls and deficiencies in all of Scotland skews consideration. If we were taking a narrow view, we would probably invest a lot more in the central belt on the basis that by doing so we would improve the infrastructure where the mass of the population is, but that would be inequitable and unfair. There are times, therefore, when other considerations must be factored in and that is when some of the difficulties arise. We need to strive to ensure that the different pieces of information that feed into the indicators and measures are as appropriate as possible.

The Convener: That is right. I am interested in what would happen, especially post Fraser, if any investment decisions were justified not by the pre-expenditure assessment but by other criteria. It is in our interest to ensure that those criteria are properly explored and identified, to ensure that the numbers arguments do not undermine the interpretation of those other criteria and to identify what mechanism there might be for reallocating funds if priorities change or it becomes apparent that the cost-benefit ratios are not as favourable as they were forecast to be. I assume that you would want to consider those issues as well.

Mr McCabe: I would.

Richard Dennis: In an extreme situation, in which a project does not, on the face of it, appear to be justified in cost-benefit terms but there is an overriding political imperative for the project, the accountable officer of the department would need to seek a direction from their minister. The accountable officer is responsible for securing value for money for the public and, if the officer has concerns about a project's value for money, they can seek a direction from the minister, which would be reported to the Parliament. The only such case in which I have been involved arose during my days at the Treasury when we were discussing the purchase of the land on which the millennium dome was eventually built. Ministers are very hesitant about issuing such directions.

The Convener: You have just underlined the point that that circumstance is extreme. I recall it happening only once in my experience. We want a mechanism that caters for a less extreme eventuality, but which might nonetheless involve appropriate monitoring. Is the level of flexibility to reallocate funds in the light of new information an

issue? For example, it might turn out to be cheaper and more effective to build a new flyover in Aberdeen rather than a ring road. How quickly can the Executive respond to new information that suggests a cheaper and better way of achieving the same benefit?

Mr McCabe: You will be as aware as I am that such decisions can be difficult. If politicians have committed themselves to a way forward and objective information suggests that they need to do something entirely different, it can sometimes be difficult to unhook oneself from the pin. That is a question of the Executive, or any political executive, having the maturity to face up to new information and circumstances and to react accordingly.

That maturity is growing all the time in the Executive. I think that the Executive is willing to take on hard decisions—some people may agree with that statement and some may disagree. Under the First Minister's leadership, we have had examples of the Executive being prepared to take on difficult decisions. Some of those might not be directly connected with the expenditure decisions that we are talking about, but we are certainly embarking on bold initiatives that may have raised a few eyebrows in other places.

The Convener: You mentioned regeneration in an answer to Andrew Arbuckle. I agreed strongly with you about considering regeneration in the context of opportunity and linking infrastructure expenditure to that. That is what regeneration properly should be. However, it is interesting that elsewhere in the Executive, the social inclusion partnership fund has become the community regeneration fund. That is about not opportunity, but distributing resources in line with criteria that relate to multiple deprivation. Do those different interpretations reflect a lack of clarity throughout the Executive about the meaning of regeneration?

Mr McCabe: With the best of intentions, the term "regeneration" has been used loosely. Regeneration may have different meanings in different portfolios and in how we use resources. Clarity needs to be introduced in that regard. I hope that when our thinking on the Executive's involvement in regeneration is concluded and we are in a position to make a definitive statement, much of that clarity will be introduced.

The Convener: We must have more clarity on the issue, because the terms "deprivation" and "poverty" are used interchangeably for different purposes; the adviser's report that we will discuss later makes that point. To an extent, that makes the monitoring process and the policy development process very difficult.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): We have heard that big projects tend to

overrun and to increase in price. As the minister suggested, no better recent example of that exists than the grotesque overspend on the Parliament building, but there are other examples in information technology, defence and elsewhere. What arrangements are in place for monitoring the delivery of infrastructure investment?

Mr McCabe: Sandy Rosie will comment on that, but in case there is any risk that I am misquoted, I will say that the considerable overspend produced a beautiful result.

Mr Brocklebank: In some people's view.

Ms Alexander: In many people's view.

10:45

Sandy Rosie: I will elaborate on what I have mentioned already. Public authorities have their own governance and accountability arrangements, so when they commence projects, they are fully expected to follow best practice for project management arrangements, to establish the appropriate skilled project teams and overseeing project boards and therefore to conduct directly the monitoring of their progress and to report that up through the appropriate accountability lines. That has largely been the arrangement throughout the public sector.

Some of the mechanisms that we are introducing are designed to support such an arrangement. I am not sure whether the committee is familiar with the gateway process, for example, which is a peer review system. In the Executive, every major conventional project—that means projects that are not PPPs—is supported by the gateway process. At key stages in the process, we have the ability to obtain an independent review of progress and to offer support from skilled and experienced people on any issues that may be faced. That ensures that we are alive, in a way that we might not have been in the past, to any difficulties, delays or cost increases that arise on projects.

PPPs are perhaps the topic that I know best. PPPs are subject to a similar process—the key stage review process—which performs the same task by using the skilled services of Partnerships UK to advise us of issues that cause concern, delays or cost increases as procurement proceeds. As the committee realises, once a PPP contract is signed and the job starts, the contractor has tremendous incentive to deliver to time and cost targets, because it will not be paid by the public sector until delivery is completed.

Mr Brocklebank: What proportion by value of infrastructure investment in recent years has been delivered on time, to specification and for the agreed price?

Mr McCabe: We do not have those figures to hand. However, we will examine the figures that we have and get back to you.

Mr Brocklebank: It would be useful to drill down into that and to have percentages on investment that has been delivered.

Does a pre-expenditure assessment take into account underperformance—for example, if the proportion is less than 50 per cent?

Sandy Rosie: I return to your previous question on the facts. The most recent relevant report of which I am aware covers the United Kingdom and was commissioned from Mott MacDonald by the Treasury. That report related to so-called optimism bias and concerned delays and cost overruns on conventional projects. The report, which is available, shows a wide range of figures by sector, cites high figures of 20 to 40 per cent in some cases and gives the track record as far as it could be established. However, many issues about definitions and other matters relate to that.

The pre-expenditure assessment process is intended to identify potential problems in advance and is less concerned with the monitoring processes that I have described. The aim is to anticipate and deal with problems before they arise and to ensure that once procurement starts, it proceeds efficiently. That in itself is an important factor in avoiding delays and cost overruns. That is the focus of that process.

Richard Dennis: A change in the green book was introduced a few years ago to tackle optimism bias. That reflects the fact that, 10 or 15 years ago, we were all too optimistic that everything would run to time and to budget. Now, the appraisal process builds in contingencies to tackle that.

Mr Brocklebank: From memory, can Sandy Rosie say whether the projects that were examined in that Mott MacDonald report performed satisfactorily in respect of time, specification and cost?

Sandy Rosie: From memory, I think that the report did not analyse projects to that extent. It was an attempt simply to record the facts, which your original question sought, on delays and cost overruns. I would need to revisit the report to find out how much analysis it offered.

Mr Brocklebank: If we do not know whether performance was satisfactory, one presumes that we cannot know whether it is improving.

Sandy Rosie: I do not know the answer to that. The report was published perhaps only two years ago, so not much time has passed between then and now.

Mr Brocklebank: Can you outline what the current arrangements are and what arrangements are being considered for monitoring the delivery of projects on factors such as price and delays?

Mr McCabe: Mr Rosie has already explained, in deep detail, the arrangements that individual organisations put in place to monitor the progress of projects. Do you want him to restate that?

Mr Brocklebank: I am more interested in finding out what the Executive believes about such matters. Is it happy with the current situation?

Mr McCabe: No, it is not happy. If this or any other Executive were not to pursue a policy of continuous improvement, it would rightly be subject to severe criticism. We seek continual improvements. As I mentioned earlier, some of the school PPP projects are producing procurement processes that are far more satisfactory in respect of time, specification and cost than the processes for previous projects were. In those areas, we need to consider why that is the case and what lessons we can learn.

The Convener: Given the considerable emphasis that the Executive has placed on improving procurement processes, including the making of new appointments, the committee might find it useful to receive a report on what steps the Executive has taken and what the previous performance record was on issues such as time, specification and price. Given the scale of the increase in capital expenditure, it would be particularly useful to find out what positive steps are being taken to manage the process to ensure that improved performance on those issues is being achieved. We know that there is a continuing problem. Will you report to us on the steps that the Executive is taking to deal with both current and anticipated performance issues?

Mr McCabe: We will come back to you on that.

The Convener: By what process does the Executive measure asset performance? That is a bit of a technical question, which might be best picked up by one of the officials.

Sandy Rosie: I am not sure that I completely understand your interest in asset performance. Will you elaborate a little on what you mean by performance?

The Convener: In the investments that are made in housing or roads or schools—I think that the latter is Sandy Rosie's particular area of interest—does the Executive monitor the annual performance of the assets that are created? Is there a mechanism for dealing with that, as would be customary in a business context?

Mr McCabe: Do you mean whether, say, in Glasgow City Council's substantial schools investment project, we monitor the educational outcomes over a period of time?

The Convener: Glasgow's schools project is probably a good example—both Frank McAveety and I were involved in its development—of significant expenditure being made on the basis of particular returns in improved educational performance and in the increased use of the assets relative to what happened previously. Are those figures monitored and assessed by the Executive in a co-ordinated way?

Frank McAveety might want to amplify on the question.

Mr McAveety: For any major investment programme, no matter whether the procurement route is conventional or PPP, the issue is how the building project performs in terms of life-cycle commitments on maintenance and sustainability. Whereas conventional procurement might involve the maintenance of the building being revisited from existing resources two or three times over a period of 30 years, a key element of PPPs—irrespective of the ideological debate about that method of procurement—is that they involve someone else taking on that risk. The question is about whether the Executive monitors that kind of performance and other outturns, such as whether the project has improved the attractiveness of the assets. Given the issue of educational choice, that issue has been a particular challenge for Glasgow City Council over the past five or six years.

Mr McCabe: Our contract monitoring arrangements for projects such as schools and hospital PPPs are pretty involved. The process involves important judgments being made on whether the asset is maintained to the same standard 10 years into its life as it was at the start of its life and on whether the asset is as productive as was anticipated. For me, a major benefit of the process is that it will ensure that public buildings, whatever their intended use, do not demoralise people after a period of time but encourage and enthuse people as much 10 years into their life as they did on the days that their doors opened.

Mr Arbuckle: I have a follow-up question on the same issue. The minister said in his opening remarks that all investments, not just education projects, would be subject to value-for-money scrutiny. By what mechanism will that scrutiny be undertaken?

Sandy Rosie: The value for money and performance of an asset are closely connected. Two thoughts occur to me. First, when people propose an investment, they are expected to produce a business plan that sets out the point of the exercise and the value of the investment to the public authority's policies. Therefore, the business plan includes the asset's expected performance in supporting education or health or whatever. Its purpose is not simply to deal with the value-for-money numbers that we mentioned earlier, but to

define the purpose of the asset. That creates a basis for monitoring.

In a conventional project, the public authority takes ownership of the asset as it is delivered. The authority also assumes direct responsibility for the asset's maintenance and for monitoring whether it is receiving what it expected from the asset. One strength of PPP is that those issues are largely taken care of through the definition of the life-cycle contract. Obviously, it is still important that the authority monitors the relevance of the asset over time, but the contract at least locks in the specification of the asset's physical aspects such as servicing and maintenance, including periodic refreshments. In a sense, the monitoring is already taken care of and agreed in the PPP contract. Under the conventional procurement route, it is very much for the public authority to decide the level at which the condition of the building should be maintained and to ensure that it can fund those decisions periodically over the life-cycle of the asset.

The Convener: Does the Executive intend to perform any kind of needs assessment for capital expenditure? In a sense, the project assessments that we have talked about identify appropriate projects and decide what their priorities might be. Does the Executive consider the condition of existing assets, such as hospital buildings or roads? Classically, local authorities and other agencies have performed periodical condition surveys, which examine the state of such assets and work out what investment might be required in them. Does the Executive have a mechanism for doing such an exercise or for co-ordinating such an exercise across the public sector?

Mr McCabe: We take on board the results of exercises that are performed by public authorities such as councils and health boards. We do not build a new hospital just because we think that it is a good idea. Obviously, an individual health authority will consider its existing stock of goods and the future requirements for delivering health services in its area when it considers to what extent a new hospital might contribute to its achieving the broader targets that the Executive has set for health improvement in Scotland. Similar processes go on in local authorities. We take account of those things.

11:00

Sandy Rosie: As part of our general approach to risk management, we in the Executive recognise that estate management plans and planned preventive maintenance are best practice approaches, and we adopt them. We expect anybody who comes forward with a major proposal to have that background in place. For example, the work that local authorities have done

on the condition of schools is feeding into the Executive in estate management plans and supporting decisions.

The Convener: That is fine; I am comfortable with that answer. The question becomes more difficult when you are talking not about schools, for which local authorities clearly have responsibility, but about areas in which responsibility is shared, for example between the Executive and local authorities or local enterprise companies. Is the Executive fleet-footed enough in relation to the strategic acquisition or disposal of land, or other mechanisms that are needed to make infrastructure projects come on stream as quickly as possible? That point might be addressed in the planning bill in due course, but it is not just a planning issue; it is a co-ordination issue throughout the Executive, which was raised in our report on economic growth.

Mr McCabe: You are right to say that some of that will be contained in the review of planning, which, as I said, will be announced later this year. It is also an important part of our wider consideration of regeneration. Being fleet of foot will be important, because if we are serious about identifying specific areas that will produce economic opportunities for regeneration, we need to have the levers at our disposal, for example to acquire sites where necessary. That is an important part of the thinking on the Executive's overall involvement in regeneration, which we will conclude later this year.

The Convener: I appreciate that rural Scotland has a different set of arrangements and concerns. However, central to effective infrastructure planning is looking at city regions—particularly in the west of Scotland and perhaps the Lothians—and finding a way of driving forward the key projects that are required, not on a local authority basis but across local authority boundaries. The real economy operates on a conurbation basis, rather than within local authority boundaries. You may not share my view that local government reorganisation 10 years ago had a severe adverse effect on the capacity of conurbations to plan, co-ordinate and respond, but only the Executive is in a position to make good some of the co-ordination shortfall, perhaps through a leadership role rather than a delivery role. There is a gap, which has affected infrastructure planning adversely.

Mr McCabe: I do not think that our views on the 1995 local government reorganisation differ greatly. Our agenda for public sector reform is predicated on addressing some of the structural deficiencies and on doing so without over-concentrating on boundaries, but instead concentrating on the way in which public authorities can work together administratively and in a policy sense. I agree that we have a reduced

capacity to take a more regional view. The retail sector provides a good example of an area in which developments crop up that have a detrimental impact on footfall in major city centres. We have to take a wider view and ask whether we want to continue to go in that direction and what impact the regionalisation of retail is having on our city centres. Taking a city region view will help to address that.

The Convener: We have no more questions, so I thank the minister and his officials for coming. As I said, we have the Minister for Transport here next week, so we can ask him about specific transport issues that concern us.

Mr McCabe: Thank you. What I said at the start was genuine—we want very much to interact positively with the committee as we progress the plan. We will take on board what you say.

The Convener: I am sure that the committee echoes that sentiment and wants to engage in the process.

11:05

Meeting suspended.

11:07

On resuming—

Environmental Assessment (Scotland) Bill: Financial Memorandum

The Convener: We resume to deal with the second item on our agenda, which is scrutiny of the financial memorandum to the Environmental Assessment (Scotland) Bill. The bill was introduced on 2 March by Ross Finnie, the Minister for Environment and Rural Development. The committee agreed that it would undertake level 2 scrutiny of the bill, which involves taking written evidence from organisations on which costs could fall and oral evidence from Executive officials.

From the Executive we welcome Sandy Cameron, deputy director of sustainable development directorate, environment group; Jon Rathjen, bill team leader; and Janet Brunton, deputy bill team leader. We have submissions from Scottish Natural Heritage and the Scottish Environment Protection Agency. We also received submissions from the Convention of Scottish Local Authorities and Historic Scotland, which arrived late and were circulated to members on Friday.

As is our normal practice, I ask the witnesses whether they want to make a brief opening statement, after which we will proceed to questions.

Sandy Cameron (Scottish Executive Environment and Rural Affairs Department): Thank you for inviting us to give evidence today. The Scottish Executive believes that the bill, if enacted by the Scottish Parliament, will have three major benefits: it will improve the protection of Scotland's environment; improve the quality of public policy making; and create more open government in Scotland by giving the public rights to comment on the environmental effects of policies, plans and programmes.

Those benefits will have resource implications. All Scottish public bodies preparing policies, plans and programmes will need to comply with this good-practice legislation. We have worked hard to assess the costs as accurately as possible. We have identified the main areas of uncertainty, such as the number of plans that are likely to be produced each year and the likely average cost of preparing an environmental assessment. We have used a consultancy report to help us and supplemented that work with internal surveys in the Executive and discussions with key officials in the Executive and other public bodies. We continue to work on those matters with

stakeholders such as COSLA. That work has resulted in a set of soundly based and robust costings. However, we have been cautious, and our calculations are in the upper range. The total additional costs should not be as high as stated. For example, environmental assessment work is already carried out. Indeed, some councils now carry out full strategic environmental assessments. Undoubtedly, costs will fall as public bodies gain expertise in the preparation of reports and the use of environmental data.

We will deliver a number of important supporting initiatives. We will provide comprehensive guidance, encourage the use of standard templates for environmental assessment, capacity build and undertake a case-tracking project to reduce costs without reducing quality in order to achieve the benefits of the bill with best efficiency. Crucially, we note the downstream benefits in avoiding environmental damage. Investing in careful consideration of environmental issues now should save costs in sorting out environmental damage in the future.

Mr Brocklebank: Thank you. A cursory look through the submissions, particularly those from SEPA, SNH and Historic Scotland, reveals that the one thing that they all have in common is the fact that, far from thinking that you have been over-generous with your allocation, they suggest that the funds have not been allocated as generously as they might have hoped. That theme runs through the various submissions that we have received.

My questions relate to the SEPA submission. I understand that SEPA commissioned its research from the Babbie Group, as did the Executive. SEPA argues with your figures. In its submission, it claims that although the financial memorandum says that the total cost to SEPA and SNH will be £1.35 million, of which £675,000 is attributable to SEPA, in its view £900,000 is a more realistic figure. Why do you think that there is such a disparity between the Executive's figures and SEPA's figures, given that they are based on the same research?

Sandy Cameron: The Babbie research was carried out some time ago and a lot of work has been done since then. The figure of £1.65 million, which is for the costs of the consultation bodies' work, in essence combines the figures with which the three consultation bodies provided us—£300,000 for Historic Scotland and £1.35 million for SEPA and SNH. I am not aware of a contradiction there.

Mr Brocklebank: You disagree with SEPA's figures; SEPA stated that its costs are more likely to be just under £1 million at £900,000.

Jon Rathjen (Scottish Executive Environment and Rural Affairs Department):

The figure that we have quoted in the financial memorandum is £1.35 million for SNH and SEPA, with which I think they agree. If I read SEPA's evidence correctly, the disagreement relates to the fact that it says that the funding allocation that it has received in the three-year settlement ahead is lower than it had expected. That is perhaps where it is saying that the funding shortfall lies. The Executive allocates a gross budget, so it allocated £35.5 million this year. It is for SEPA to decide what it gives to each priority in its work. It is a little difficult for us to talk about exactly how much money has been given to the priority of SEA in SEPA's work, because the Executive gives SEPA a bulk figure for all its priorities.

Mr Brocklebank: SEPA also argues that it will have to provide much wider support for responsible authorities beyond the statutory SEA stages. What is included in the quoted figures? Do they anticipate the cost of providing the wider support that SEPA is talking about?

Jon Rathjen: Yes. We expect SEPA to do a range of things. We expect it to manage the statutory elements of responding to the screening stage and the scoping stage. Beyond that, it has work to do in the provision of data and in the explanation of the data that it holds. However, it does that work already; it is a current obligation. There might be a more intense demand for the data, but it is used to handling that work.

The other work that SEPA is talking about is in areas such as responding to consultations, which is not a statutory SEA obligation. SEPA has to go through a scoping stage, but when it comes to the public consultation it is just another consultee like everybody else. It has a choice. It already has a good go at the material at the scoping stage and a lot of input, which we expect will reduce the amount of work that it has to do at the later consultation stage—work that it already does. It might do other informal work, such as dealing with people who call to ask its advice about the process. That will be additional work, but it is part of the relationship that it has with the stakeholders. We are not building new relationships; we are just talking about another aspect of existing relationships.

11:15

Mr Brocklebank: So you are saying that the miscellaneous costs for consultation authorities have been taken into account in the figures that you have provided.

Jon Rathjen: Indeed.

The Convener: I want to focus on the position of responsible authorities, particularly local

authorities. Fairly strong language is used in the COSLA submission that we received. It states:

"We also believe that the Scottish Executive itself is hugely underestimating the scale of SEA ... COSLA does not believe that the assumptions made accurately reflect the cost to responsible authorities, specifically local authorities."

How do you respond to that?

Sandy Cameron: In the financial memorandum we have tried to consider the gross costs. We have shown the maximum possible—in a number of cases we have shown it with a plus or minus 25 per cent margin of error. We have assumed that environmental assessments will be carried out by consultants. The estimated cost of those consultants is higher than that in the equivalent legislation in England. In practice, we would expect most public bodies, certainly those of a significant size, to develop expertise to do the work in house, which would be cheaper than consultancy rates. Our view is that COSLA's concerns are not justified. We think that what we show in the financial memorandum—with a maximum figure of something around £14 million for the whole public sector—is right at the top end. We do not share COSLA's concerns that we are underestimating costs.

The Convener: COSLA chooses to unpack issues such as the costs associated with creating the skills set required to do the work, perhaps across more than one council department, which is an interesting issue that needs to be addressed. It also questions your estimate of the number of SEAs that might have to be undertaken in a single year and says that, in a sense, the bill creates rights for people to ask for assessments to be carried out and therefore may create an expectation that they will be undertaken. Its estimate of the likely load is significantly different from your assumptions. Do you have comments to make in response to that?

Sandy Cameron: On expertise, COSLA is right to some extent. Clearly there is a need to build up expertise in this area. We are working closely with COSLA on an initiative in which we will be taking some of the cases that are already being processed under the current regulations and considering some of the issues that arise in terms of workload and skills.

We have considered carefully the issue of the public's ability to ask for cases to be considered. Clearly the cases that are covered by the European regulations, which are already in force, are strictly controlled. There is little that we can do to affect that. We have transposed the European regulations.

The bill will cover a wider range of cases—the partnership agreement made a commitment to

introduce SEA for all policies, plans and programmes. We are proposing that with those policies, plans and programmes that are likely to have no—or minimal—environmental effect, the responsible authority, which would be the local authority, would be able to say, "We don't need to proceed to the next stage." Plans for schools have been given a specific exemption. That means that we will consider taking on to the next stage only those cases in which there is a reasonable argument that there will be significant environmental effects. That will involve significant work for local authorities.

It is clear to us—although we cannot quantify the extent of the trend—that progressive local authorities are already doing a significant amount of work in this area, even though it may not be formalised in quite the way that is required under SEA. Indeed, we have already come across cases in which local authorities have done full SEAs when they were not statutorily required to do them.

The Convener: I will pursue that shortly, after I have asked a related question. As the minister has just told us, we anticipate that a planning bill will be introduced later on in the year. There is every chance that it will have a significant effect on the planning process, if the consultation and the outcomes from it are anything to go by.

In the Environmental Assessment (Scotland) Bill, you propose a change that will be implemented in advance of the introduction of the planning legislation. There is no reason to suppose that that change will be co-ordinated effectively with the outcome of the planning reform process. Is now the right time to be introducing such a significant change for local government, when the whole system to which it relates is likely to be thrown up in the air and to have a different shape when it lands?

Sandy Cameron: Of course, that change has already taken place. Many of the local authority plans that would be affected by a planning bill are covered by last year's transposition of the European regulations.

On your wider point, if SEA is to work as efficiently as possible, it is vital that it routinely forms a part of any public planning process. That applies not just to local authority plans, but to steps that the Executive takes on matters such as economic development. The assumption is that environmental consequences should be considered when alternatives are weighed up. In our view, the nature of planning is not sufficiently different that a special problem arises. It is simply that consideration of environmental consequences will be a fundamental part of the policy-making process.

The Convener: But from a statutory point of view, planning is separate. Anyone who has local authority experience knows that the obligations on elected members and officials in the context of planning are guided by a legal framework that is different from that which applies in most other local authority contexts. Again, I put it to you that the planning process is likely to be disturbed significantly when the legal elements of the application of SEA come through. Is work on the bill and on planning reform being properly co-ordinated with regard to the overall implications for local government in particular? COSLA has made it clear that it would have preferred a different mechanism, whereby SEA was trialled and implemented over a longer timescale.

Jon Rathjen: Throughout the process, we have been working extremely closely with planning colleagues. There is no doubt that the full consequences of SEA will be taken into account in the planning bill. There is no gap in that regard.

The financial memorandum is useful in that it shows how we have looked ahead at the cycle of plans, which last for three, four or five years; indeed, many plans have an even longer cycle. You suggest that we are imposing a duty on local authorities in the short term, but the reality is that new plans trickle in in quite small numbers. That has proved to be our experience under the regulations and I am sure that it will continue to be the case under the bill. Let us say that the bill is enacted in early 2006—that is a reasonable estimate. It would affect new plans—some of which have a five-year cycle—that are produced after that date. We are talking about a slow build-up over quite a number of years. If we were to delay the bill for another year or two, that would not have a significant effect. Since the regulations came into force in July, we have had about 12 or 14 plans to deal with. Our desks were not suddenly covered with huge piles of cases on day one. There will be a gradual build-up over time.

I do not think that delaying the bill by a year would make much difference. The SEA directive was introduced back in 2001, so the concept of environmental assessment has not bounced on to the scene in a matter of hours. Slow progress has been made over a number of years and SEA will continue to be incorporated into the system gradually. The process is about more than planning; it is about changing the way in which we develop plans, programmes and strategies across a range of subject matters. Environmental assessment does not have implications just for planning; its implications are broader than that.

The Convener: I do not take that as a comfort; indeed, that makes matters more complicated. My point is that planning is the area that is most likely to be directly affected by the bill. It is almost

inevitable that planning will face significant legislative change in the next 12 months. The fact that the bill's impact will extend beyond planning means that some co-ordination between planning departments and other local authority departments will be necessary. As that requirement has not explicitly been taken account of, COSLA feels that its members will be presented with significant problems. The breadth of the impact of SEA is a compounding rather than an alleviating factor.

Mr Arbuckle: It is easy to identify which members are former councillors from their concerns about the planning system. I concur with the comments that have been made. Planning officers are already overburdened with work, but that is not an issue for the Finance Committee.

It has been pointed out on several occasions that the Executive's financial estimates are at the top end. Does the Executive have any plans to review the costs of implementing the bill after a year, or at some other point down the line?

Sandy Cameron: We will certainly review the costs, but it is important to emphasise Jon Rathjen's point, which was that we are talking about the costs that will be incurred once the full system is up and running and we are processing the plans that will come in at the top of the cycle. We mentioned the costs on the consultation bodies such as SEPA and SNH. Those costs will start to kick in only once the regulations are in place and the bill's provisions have been commenced and in operation for more than two years, which is when the larger number of cases that it covers will start to come in. We will monitor such matters, on which we are regularly in close contact with bodies such as SEPA.

Mr Arbuckle: I do not want to labour the point, but there is a divergence of views on how much it will cost to implement the bill. Your views on that are different from those of SEPA, for example. How would the Executive respond if SEPA thought that more money was necessary to ensure that the bill worked?

Sandy Cameron: I am sure that SEPA would make well known its views to the SEPA-sponsoring division and the minister and that its representations would be taken into account when its annual allocations were made.

The Convener: What is your response to COSLA, which feels that extending SEA beyond the regulations will strain the responsible authorities too much and that going about the process in a more measured way would deliver better outcomes in the longer term?

Sandy Cameron: Arguably, we have gone about our work on SEA in a measured way. Last year, we introduced regulations that cover half the cases that will be covered by the bill. The fact that

the number of cases will build up relatively slowly means that we will be on a learning curve. We are already considering the lessons that can be learned from the first cases. We do not see that as an insuperable management problem. The legislation is a priority for Scottish Executive ministers and, when they appear before the relevant committees of the Parliament, they will, no doubt, stress that.

The Convener: We are interested in the financial aspects rather than the policy aspects.

11:30

John Swinburne (Central Scotland) (SSCUP): COSLA alleges that, at a meeting with ministers, it

“voluntarily offered to trial SEA across council services in two or three local authorities”,

which it believes

“would help quantify the resource implications of the Bill.”

However, it adds:

“Regrettably, we still await the start of this pilot.”

Why not take advantage of that offer?

Jon Rathjen: The simple answer is that we have taken advantage of that. We have worked with COSLA and have met it to discuss suitable cases to track forward. We have put a project plan together, which is currently with COSLA to consider, and we have taken active steps. It is important that we consider some of the early cases and the implications for resources and cost, and we are doing that. Perhaps there is a timing issue to do with evidence and the process, but that work is happening.

The Convener: The focus of the bill is obviously on the assessments that are to be made. One of the points that COSLA might have made but which it did not make strongly in its submission is to do with the monitoring of the specific recommendations that are made. Do you see that purely as something that local authorities should subsume under their existing responsibilities, or do you recognise that additional burdens will fall on responsible authorities, especially local government, as a result of the outcomes of SEAs, which have not been quantified in the financial memorandum?

Jon Rathjen: That is a very difficult area to quantify for the simple reason that the provisions of the bill ask local authorities to describe how they will monitor. Until we have hard evidence of how they will do that work, it will be extremely difficult to put costs to it. A lot of monitoring activity is already under way, much of which is being undertaken by responsible authorities and by a number of environmental agencies; however, it is not yet clear whether there will be additional

needs. It is quite likely that there will be some additional data and monitoring needs, but we do not know what those will be.

In part, it is in the hands of the responsible authorities to set out how they intend to deal with monitoring, so it is quite difficult for us to comment. We are not imposing a monitoring regime; we have left it as a fairly light provision in the bill. We have said that authorities must look out for and take account of unforeseen effects. I know that it is quite an odd thing to try to monitor for an unforeseen effect, but the whole process of SEA is designed to reduce damage to the environment—to reduce the risk of things happening. The fact that there should be less environmental damage and the fact that it will be more predictable—because the authorities will have done more analysis beforehand—mean that the monitoring job should be easier at the end of the process. Monitoring should be a more predictable job.

The Convener: I can see how one might think that when approaching SEA as a theoretical model. However, in practice, it is likely that the developments that are subjected to those monitoring processes will be contested and that a local authority will be tied into either doing the monitoring itself or supervising the monitoring process. It is almost inevitable that there will be additional burdens for local government arising from SEAs. The Executive cannot say that SEAs are a good idea and that it will—however adequately or inadequately—deal with the start-up costs that are associated with them, but that, because we do not know what the outcome will be, significant financial implications are unlikely. I suspect that the monitoring will have significant financial implications.

Jon Rathjen: In the financial memorandum, we state that we understand that monitoring is an obligation and that we know that it will have implications, although we do not know what they are at this stage. Some of the work that we are doing on case tracking may help us to find some answers to that. Indeed, as is normal practice, we will review the bill after a number of years to see what its impact has been and how it has operated in the field. Such a review may shed a bit more light on the area.

The Convener: We have talked about SEAs in the context of local plans across local authority areas or parts of local authority areas. The bill will allow, and perhaps encourage, people to request SEAs for specific, significant projects that developers or other public agencies put forward.

I was involved with a huge reservoir and water treatment plant project in East Dunbartonshire. The fact that the project was to be in that local authority area imposed a significant burden on the local authority, not just in the planning process but,

subsequently, in the carrying out of strategic environmental assessments and the monitoring of the environmental impact of a major project that cost £100 million. Even before the new system is introduced and a framework of legal requirements is set up, a significant cost to local authorities arises from projects that happen to take place in their areas. You will be aware of that from the example that I gave, if from no other. Is there any sense that, under such circumstances, there will be a burden on the developer to pay at least part of the cost of carrying out the SEA that is necessitated by a project? In the example that I have cited, the developer was Scottish Water, but I presume that housing developers and other developers will propose projects that will have a significant environmental impact, which will require SEAs.

Sandy Cameron: The difference is that the bill is not about individual building projects, which would be covered by environmental impact assessments; it is about public sector-generated policies, plans and programmes that in a sense set a framework for individual development projects that developers come along with. It would cover a Scottish Executive economic development plan, and it would probably cover the industrial regeneration plan that is proposed for the Borders. However, it would not cover a company's individual application, under the planning system, to build a factory.

The Convener: I understand that. However, when Scottish Water, which is a public agency, produces a strategic plan for its water infrastructure investment, that plan impacts on a variety of local authorities. In the example that I cited, it impacted in a specific way on East Dunbartonshire Council, because of the topography of the area. Scottish Borders Council might provide another case in point. There might be a development plan for the Borders, which would be a public agency plan, but I suspect that private sector developers would have an interest in aspects of that plan. Should all the burden fall on the local authority to deal with what are, in effect, planning applications or strategic development plans that are put forward either by other public agencies or by a combination of public and private sector agencies, which will feed into the broader plan as well as being specific planning applications?

Sandy Cameron: Jon Rathjen may have something to say on that. I understand the point that you are making. The difficulty is that, in the vast majority of the plans that are produced, it is not possible to identify a specific individual private sector developer who would create a development under a particular project, whether it is an industrial development policy, a health service plan or whatever. The issue is problematic.

Jon Rathjen: The bill is quite simple in that it says that there must be one identified responsible authority for each plan. However, it is entirely possible that people will work in collaboration. Through community planning partnerships and linkages with private organisations, it is entirely possible that people will come together to develop SEAs. From a legislative point of view, and because of the timing issue to which Sandy Cameron has alluded, we need to have one responsible authority for each plan to ensure that the assessment happens; however, it is quite likely that people will work together on such things. We have seen examples of that happening elsewhere in the UK, but more informally.

The Convener: The poor old local authority, with responsibility for its own territory, has to pick up the financial burden. Although the authority may be involved in them, the plans may belong to someone else and may involve others as well. Despite that, it is the authority alone that picks up the environmental financial burden.

Sandy Cameron: That is absolutely true. However, although there are costs, we are working with all public bodies to try to make the system as cost effective as possible.

If new plans cause damage, public bodies—particularly local authorities—have to pick up the cost of environmental remediation. However, the priority is to make local environments better and to avoid environmental damage.

The Convener: If the legislation goes through, the measures will be implemented around 2007-08.

Jon Rathjen: Perhaps earlier than that, in 2006.

The Convener: But full implementation will be around 2007-08, which, according to the minister, will be the most difficult year for local authorities.

My question is for Sandy Cameron. How will we factor this new burden into the general local authority settlement? It may have been unfair to ask you that question, but how does the mechanism work in general? We know the broad figures, but how can the resource requirements that you have identified in relation to the bill be incorporated into the local authority settlement in a way that is transparent and is not seen as a simple juggling of figures by the Executive?

Sandy Cameron: Scottish Executive support to local authorities is assessed regularly in the spending rounds. As you can imagine, local authorities have to carry out a huge number of new obligations—although, to be fair, there are sometimes reductions in obligations too. Those changes are taken into account in the way in which the gross figure is assessed. Our colleagues in the Scottish Executive Finance and

Central Services Department are aware of the figures in the financial memorandum; the figures will be considered appropriately along with all other issues.

Ministers are saying that, in public sector decision making, we have not previously taken sufficient account of the environment. That applies across the board—not only in central Government but in all public bodies. We are paying the cost of that and ministers are saying that we need to change. A new standard is being established. That standard is already being implemented voluntarily by some local authorities, but it must become the standard for all local authorities.

Mr Brocklebank: I agree with Des McNulty's point. I want to be sure that the witnesses are fully aware of the depth of COSLA's reservations about the proposals. Have you had a chance to look at COSLA's submission?

Sandy Cameron: Yes, we have.

Mr Brocklebank: You will have noticed that COSLA feels that

"the margins of uncertainty offer little or no comfort especially since there can have been no anticipation on the part of local authorities, in the recent spending round, as to the need to allocate significant resources to the SEA process."

COSLA also believes

"that the Scottish Executive itself is hugely underestimating the scale of SEA."

That is fairly serious criticism.

Sandy Cameron: It is a strong statement. In response, we would say that, in preparing the financial memorandum, we have sought to follow guidance from this committee. We have been extremely careful and cautious in our estimates, and the figures given are at the upper end of those estimates. In a number of areas, we think that costs will be lower because of existing expertise and other considerations.

We believe that Scottish local authorities and other public bodies will become pretty good at producing policies, plans and programmes that take account of the environment as part of the process. That will result in greatly increased efficiency; lower figures than those in the financial memorandum; much better decision making; and a better environment for Scotland.

We understand COSLA's concerns but think that they are misplaced in this case.

The Convener: I thank the witnesses for their advice. The issues raised by COSLA have been the key elements of our questions. Our report will take account of those issues and of the responses that we have heard.

Cross-cutting Deprivation Inquiry

11:45

The Convener: The third item on our agenda is consideration of a paper by our budget adviser, Arthur Midwinter. The paper is the start of our cross-cutting inquiry into deprivation. Members will recall that we agreed that Arthur Midwinter would write this initial paper and that we would then issue an open call for evidence, with people being asked to use the paper as a basis for their submissions. If members agree, we will issue that call for evidence within the next week or so, setting the end of August 2005 as the deadline for receipt of submissions.

Towards the end of June, the committee will want to review the submissions that we have already received, at which point we may begin to decide from whom we want to take oral evidence. I will therefore include in our call for evidence a suggestion that the earlier the submissions arrive, the better. We will be taking oral evidence in September.

Arthur Midwinter's paper is in two parts. For background, part 1 gives an overview of deprivation policy and strategy. Part 2 analyses current Executive spend on deprivation. I hope that our inquiry will concentrate our attention on that aspect.

I remind members that we agreed to commission research into the Executive's new multiple deprivation index and that we have appointed Professor Glen Bramley to carry out that research. I believe that he has already started work.

I will ask Arthur Midwinter to speak briefly to his paper, after which we can, if necessary, seek clarification on any points that arise. The paper is excellent.

Professor Arthur Midwinter (Adviser): Thank you, convener. I will try to be brief, although the topic is complex.

The first part of the paper sets out the background to the development of a policy that has been around since the 1960s and has been continued and modified under Governments of different colours. As we heard this morning, the policy is now being reviewed again by the Executive.

One of my main concerns when considering the success of spending programmes is the lack of consistency in public discourse. As was said to the minister earlier this morning, differing definitions and concepts are used interchangeably. That is often confusing.

I have tried to focus on what was initially known as multiple or area deprivation. That was the approach taken to urban aid in the 1960s. It defined deprivation in terms of the spatial concentration of deprived households—households with poor housing, poor health, poor diet and so on. Spatial concentration means that such households are concentrated in small geographic communities.

At that time, the Scottish Office considered two alternative measures of deprivation—an area deprivation measure and a household deprivation measure. The latter referred to the people themselves. If a household scored on three or more indicators of deprivation, that household was regarded as being multiply deprived. The conclusion at the time was that we needed policies for areas and policies for people—although I cannot think of a single policy for people from that time. There was urban aid, but I cannot think of any particular programme that was targeted on deprived households—although Des McNulty looks as if he remembers one.

The Convener: There are people-focused policies, but they are often from Westminster. One could argue that some employment policies are people based.

Professor Midwinter: I was referring to people-focused policies that make particular use of the definition of a multiply deprived household. Such policies may be different from policies to do with poverty or unemployment.

From that period, a standard critique emerged in which area deprivation was identified as being only the worst manifestation of multiple deprivation; it was a simple critique in which most of the deprived households were ignored.

Post devolution, the position has moved on. We have talked before about absolute and relative poverty and it is fairly clear from the social justice statistics that considerable progress has been made with the definition of absolute poverty. Mr Swinburne will be pleased to hear that I will not use the words “relative poverty”; instead, I will use the word “inequality”, which is what relative poverty really means. I have to say that progress on the issue is minimal.

About two years ago, the Executive refocused its approach and reintroduced a number of indicators under its closing the opportunity gap strategy. The focus of that strategy is all on what are now described as the worst 15 per cent of disadvantaged communities. Most of the closing the opportunity gap targets attempt to narrow the gap in those 15 per cent of areas. As a result, the Executive’s policy on deprivation is now more clearly focused.

The funding strategy that resulted from that policy is based on the assumption that there is an

additional need for expenditure in deprived areas, which the Executive describes as filling the gaps in its core programmes. The Executive has tried to do that in three ways, the first of which is targeting spending. I am referring to the kind of programmes that target 15 per cent of all areas—those are the sorts of programme that the committee discussed earlier this morning, the latest of which is the community regeneration fund. By targeting spending in that way, people know that the money will be spent on those areas.

The second and much less successful way is what I call bending spending. I remember Frank McAveety’s successor as leader of Glasgow City Council arguing at great length about the need to bend the spend. Frankly, the sums of money that are being bent in the big health and local government programmes nowadays are small. The committee may want to look at that issue. If one were to take a strict definition of multiple deprivation, spend of that type on both those major spending programmes would amount to less than 1 per cent of a total that amounts to £20 billion. There are real difficulties in bending spending in the way that the Executive wants to do.

The third way is what I call supporting spending, which involves the programmes that benefit deprived households but which are not necessarily aimed solely at them. I am thinking of programmes such as the warm deal. The key assumption is that the allocation of additional resources to disadvantaged communities will help to close the opportunity gap in housing, health, education and so forth.

There are real problems in monitoring bending expenditure and supporting spend. As with the infrastructure investment plan, which the committee discussed with the minister this morning, the Executive continues to assert that it will give priority and allocate additional resources to disadvantaged communities. However, the way in which the information is provided does not allow people to see that that is what is happening.

It is easy to see what is happening with targeted funding, as one can see where the money is going. However, in most other areas of the spending review, it is difficult to see how the bending takes place. In relation to health and local government, that is partly because the money is not earmarked for those areas—for example, it goes to the local authorities and what happens to it depends on the local authorities. The paper also highlights the monitoring problems arising from the fact that the different Executive departments use different measures. That returns us to the point that was made earlier about the way in which departments adapt and use in-house measures.

The Health Department uses six indicators under closing the opportunity gap, another

measure under Arbutnott and a third deprivation measure in respect of the unmet needs pilots. That is three different measures in the Health Department alone. With the six closing the opportunity gap indicators, the department is measuring only the progress that is being made in the worst 15 per cent of areas. My reading of the strategy leads me to say that it is not comparing that progress to the change in the national average.

The lead area in relation to deprivation is communities. The Development Department is now using the new Scottish index of multiple deprivation as its measure of deprivation, whereas the Enterprise and Lifelong Learning Department is using unemployment rates and the Environment and Rural Affairs Department is using a measure that it calls rural disadvantage. Most other Executive programmes, including the finance and public service reform programme, have no area-based targets for the worst 15 per cent of areas. Tackling deprivation may be held up as a priority, but it is difficult to see what progress is being made on the ground.

The committee asked whether Glen Bramley could determine if the new index could be used in a way that would give the committee a strategic target that would allow it to see whether overall progress is being made. It should be possible to do that. The examples that the minister gave earlier in a response to a question from Frank McAveety were project-specific output measures. The Executive does not have a measure that allows it to say, "Overall, we have made progress."

As a result, the research that the committee wants to have undertaken and the evidence that members want to take needs to be absolutely precise in relation to the information that Executive departments are asked to produce. If the Executive does not give proper answers in its written evidence, we will need to pursue the issues in oral evidence-taking sessions. We will need to ask which programmes the Executive is using to target deprivation, how it allocates resources in order to ensure that they get through to disadvantaged communities and how it measures performance. Although, in theory, a set of documents exists that should allow us to do that, in practice, it is not possible to do so.

I have one final thing to say, which does not appear in the paper. I spoke to the Minister for Finance and Public Service Reform outside the committee room after his appearance before the committee. I understand that, following Labour group discussions, the Executive plans to bring forward its regeneration rehash—or "refresh", to use the language of "The Framework for Economic Development in Scotland"—in about six to eight weeks. The refreshed version of FEDS will

be out before the committee begins to take evidence and we may want to think about what that means—if anything—in terms of the present exercise. In other words, the Executive may decide to change the definitions just when the committee is about to gather evidence on the subject. Perhaps the convener can shed some light on the matter.

The Convener: I cannot, as the Labour group has not had discussions of that kind. Certainly, the committee will need to be clear about what the Executive means about some of its suggestions. Regeneration is a case in point: some people are saying that it means one thing and others that it means something else. It is difficult for the committee to assess the reality of the situation unless there is a shared understanding of the definitions.

I have three or four points to fling into the discussion, the first of which is how the Executive arrived at the 15 per cent target. An interesting set of issues is involved in the decision. I understand that, if the Executive had gone for 10 per cent, all the money would have gone to Glasgow. By settling on 15 per cent, the Executive has ended up with a Glasgow-plus target; if it had gone for 20 per cent, it would have ended up with yet another set of criteria.

One of the tasks that we should ask not you, Arthur, but Glen Bramley to undertake is a modelling process to see what would happen if a 10 per cent, 15 per cent or 20 per cent target were to be factored in. That would allow us to be clear about the nature of the choice that faces the Executive.

Professor Midwinter: From memory, I recollect that the figures that were discussed in previous documents were 10 per cent or 20 per cent. I have no idea how the 15 per cent emerged, but Glen Bramley could look into the issue.

The Convener: That leads to a related issue. My experience, which goes back a long time, tells me that the way in which areas are classified—or misclassified—can have a profound effect on their eligibility. Having represented an area that everybody agreed was misclassified under the Strathclyde system, I am anxious to ensure that the Executive uses a robust method of classification, if that is to be the basis on which funding is allowed.

There is also a mechanism for dealing with anomalies—or at least for dealing with the obvious ones. Linked to the issue of percentages is the issue of the size of the areas that the Executive is looking at. For example, if small postcode areas were to be used, a patchwork quilt of eligibility would result. It would not be obvious to somebody who was walking in one of those areas why street

X was included and street Y was not. Perhaps there should be some kind of blurring of eligibility, yet the strict application of small postcode areas in the process does not allow for that.

A third issue that I want to—

Professor Midwinter: It is the fourth issue.

12:00

The Convener: Sorry. A fourth issue that I want us to consider is the efficiency or otherwise of the mechanisms for allocating funding. One issue that arose with urban aid and which has never really been dealt with subsequently is that funding is given for a relatively short period. People spend two years working out what funding they want and then spend it for two years, after which the money is removed or reallocated for some other purpose. There is no consistent application of resource to meet the need. That is not really an allocation issue; it is to do with inflexibilities in the system or method of allocation, which produce certain patterns in the use of resources.

That brings me to the sixth issue.

Professor Midwinter: I am still on four.

The Convener: Okay. The fifth issue is the lack of fit between eligibility for different kinds of support. For example, in education, resources are often distributed to schools in poor areas based on the number of children who qualify for free school meals, but area-based and unemployment-based systems are also used. That can produce a complex pattern in which the same school or area can qualify or not qualify, depending on the system that is used. That might not apply in some parts of Frank McAveety's constituency, but it applies in many other parts of Scotland. Given that people are not clear how the system works, we need to analyse how complicated it is and consider how we can simplify it.

Professor Midwinter: The Education Department is in the "other" category of departments; although it talks about additional funding for deprivation as central to its strategy, it uses an authority-wide poverty measure.

The Convener: The other issue that I want us to consider is that of identifiable funding for deprivation. Such funding goes through in different ways, but we need systematically to examine the funding allocation model for local government, to find out the extent to which the existing population-based model is justifiable, bearing in mind that many of the services that are linked to deprivation and poverty are supported through mainstream, not additional, funding. In other words, we should consider how the funding allocation model operates in the context of the wider issue of deprivation. That would perhaps widen out the issue quite a bit.

Professor Midwinter: That is a huge piece of work.

The Convener: If we are to move away from a strictly population-based model—I think that we should—the committee needs to have a sense of how far we can go in mapping out what needs to be included, perhaps by considering other existing models. We should certainly ask that question in our evidence gathering, because, if we do not do so, people will question whether we are tackling the core or fundamental issue.

John Swinburne: Arthur Midwinter's paper is lucid, clear and to the point and should be required reading for all MSPs. Paragraph 24 is the only one on which I will take him to task—it takes a bit of believing that the proportion of low-income pensioners has fallen from 29 per cent to 8 per cent. In 1997, our good Chancellor of the Exchequer gave us a 75p increase in our pensioned income—I do not know how that relates to an improvement in low-income pensions. Could the figure for the reduction between 1997 and 2003 be broken down year by year?

Professor Midwinter: From memory, I am fairly certain that we can do that. Those are the Executive's data, from the social justice milestones. The issue arises because Mr Swinburne is thinking about the general level of pensions, whereas the pensioners who are helped are those who apply for the benefit supplements that are available. Low-income pensioners are defined almost wholly as those who are dependent on additional benefit from the state, whereas somebody who is just above the benefit level—whom Mr Swinburne might regard as having a low income—is not a low-income pensioner under the Executive's definition. However, we can get the data for each year.

Mr McAveety: To be fair, I point out to John Swinburne that the chancellor was generous the following year.

I have two or three points that follow on from Des McNulty's comments. A fundamental issue for us to explore is that, when one drills down into grant-aided expenditure, one sees that it is driven by the historic record of where spend has been plus population. There is only ever a 1 per cent or 1.5 per cent shift. Exploring that issue would be a massive piece of work, but I know of no individual who is more capable of doing it than Arthur Midwinter is.

Mr Brocklebank: Did he buy you lunch last week?

Mr McAveety: Some folk have done work on the issue behind the scenes at various times in ministerial office. Although the debate will become complex, difficult and challenging, it would be helpful to explore the issue.

I am not too worried about whether, on the median levels, an inequality gap has been emerging, although I might have been obsessed with that issue when I was a bit younger; I am more interested in what is happening for the low-income pensioner or family. I would like to get a sense of the effect of strategic decisions by the Executive, local government and Westminster, which are interchangeable, in a sense. To give a perfect example, in the Gorbals in my constituency, money is available from the Department for Work and Pensions and Reed in Partnership to expand the availability of child care and to create five jobs, but it has been hard to get information on that into a paragraph in the local newsletter without breaking the Trade Descriptions Act 1968, because eligible people must live within postcodes X, Y and Z, depending on the criteria that the DWP uses. However, the money will, I hope, benefit the wider area. I would like to get a sense of how we are helping the most disadvantaged and poorest people in Scotland and whether we have a strategic grasp of the issue.

A third central issue that Des McNulty mentioned relates to the experience of the urban aid programmes over the years. In a sense, although we reinvent the language, 90 per cent of the objectives are similar—different trends or social change impact on the other 10 per cent. We need to get a sense of which areas are eligible. The issue is not just about resources—they are sometimes not that great, but, because the infrastructure of local government and other agencies kicks in when an area is eligible, that gives confidence to navigate the wider system. A number of members who represent disadvantaged communities—obviously, I include myself—are frustrated because, when areas miss out on structural support, people become disillusioned and think that they are not on the train. Those who have worked in local government know that it is easy to criticise the system, but the issue is how we change the culture.

My final point is about evidence sessions. The paper makes a passing reference to the social inclusion partnerships, but I have a partisan interest in that issue. I would like the committee to hear voices from some of the most challenging areas, in which I include the triangle that I talked about earlier with the Minister for Finance and Public Service Reform. All the deprivation indicators point to three or four local government wards, all of which are at the centre of my constituency. The real challenge is to shift and change the situation in the next five to 10 years. It might be useful to hear voices from individuals from those areas, or from people who are charged with responsibility in them. That would give us a greater sense of how the inquiry connects. We can

do wee things such as give small allocations to SIPs or community regeneration projects, but the real test is whether the big spends have a coherent impact. The Executive's evidence this morning troubled me, because it did not really answer the questions of what the investment should be, how we should track it and how we can achieve outcomes that make a real difference. At the end of the day, we will all be held culpable for the outcomes.

The Convener: I will let members comment before I invite Arthur Midwinter to respond.

Mr Brocklebank: The paper asks interesting questions about what poverty is, where it is found and what it really means. I was interested in the split between urban and rural poverty and in identifying what poverty is in a rural situation as distinct from an urban situation. I was particularly interested in paragraph 26. Perhaps I should know this, Arthur, but you refer to the difference between average incomes and median incomes and state:

"To be officially poor was to live on less than 60% of median income".

What do you mean by "income"? Are you talking about all the resources that go into a family—including social security and tax credits—added together?

Professor Midwinter: I mean household income. The median means the mid-point of people's incomes, rather than the average income, because the average income is dragged up by the top earners.

Mr Brocklebank: That leads to a further question, although I am not sure whether it is proper to raise it in this discussion. When I have spoken to people in my constituency who took out student loans, I have been exercised by the fact that the requirement to pay back those loans means that it is not in their interest to get a job that pays more than a particular amount a year—they are better off being in a poverty trap. That is just one example of people who find it difficult to escape from poverty. However, that is a wide area and I do not know whether it is possible to address it in this context.

The Convener: It is probably not within the committee's remit.

Professor Midwinter: It is beyond the committee's remit. It also deals with reserved matters. I recognise why, in the short term, those people might adopt that position, although I cannot see staying poor for ever as a long-term strategy.

Mr Arbuckle: If we are to take an overview of deprivation, we need to identify where the gaps are. I would like to hear from grass-roots people who are working in deprived areas and who can

tell us where the gaps are. In my area, there is a rural group working on that issue. I do not know whether similar bodies are working in urban areas—I am sure that they are. I would like to tap into their experience and take evidence from them.

The Convener: We are not at the stage of deciding what evidence to take; we will take a view on it in June.

Ms Alexander: The paper is very good and gives us a clear basis on which to proceed. We should pursue it.

The Convener: As requested.

Ms Alexander: Exactly.

John Swinburne: To return to Ted Brocklebank's point, paragraph 26 says that median income is a better benchmark than average income. Surely—if I am mathematically competent—30 per cent of average income should be the same as 60 per cent of median income.

Mr Brocklebank: You are a better mathematician than I am.

John Swinburne: I am just asking the question. Am I right or wrong, Arthur?

Professor Midwinter: Median income is different from average income. I cannot see the connection in the way that you pose it.

John Swinburne: Average income—

Professor Midwinter: That is simple.

John Swinburne: Median income is 60 per cent of—

Professor Midwinter: Yes, but median income will be different from average income. It is definitely not the same thing. I will sit down with you outside the committee and take you through the issue. That is probably the best way of dealing with it.

The convener's first three points can all be competently dealt with by Glen Bramley in reviewing the index. We need to think about the convener's fourth and fifth points, on the efficiency of funding mechanisms, when we draft the letter calling for evidence.

I realise why Frank McAveety wants to do it, but examining the whole local government funding formula is a high price to pay for the loan of a book from him on the history of rock. I would not like it to be known that I was prepared to work for such fees.

We need to think about how we handle the issue in the context of the evidence. It is pretty clear from the current indicators that, on the narrow area measure, we are talking about just 0.6 per cent of the total. The matter has become even

more complicated. Since we first spoke about it, I have had a look at the new version of GAE. A lot of the money is now just allocated and frozen around the share that it was in 2000. The Executive is not even using the population figure any more; it has just frozen the authorities' shares and in some cases there are no changes.

12:15

Ms Alexander: As I said, I think that the paper is very good. It does not propose calls for evidence; it focuses on the role of the Finance Committee and does not encourage us to trespass into what are properly policy areas. We learned a hard lesson from our economic growth inquiry, in which witnesses came and gave us their views of the world, which was deeply frustrating for committee members. If we rush to evidence taking in this inquiry, we will run the same risk.

I like the fact that the paper gives us a clear analysis of how different bits of the Executive take a totally different approach, both in percentage terms and on indicators. Let us get clarity on that matter and consider the policy issue that emerges around it. We might then want to talk to people on the ground. If we try to talk to people on the ground before it is clear to us what the Executive is trying to do in terms of coverage, we will give ourselves an awful lot more work and it will be less clear what we are trying to do. I am in favour of the approach that is outlined in the paper, which is to pursue the issues with the Executive and to report back before making calls for evidence from external parties. At that point, it will be a bit clearer to us where we want to drive the next stage to.

The Convener: I agree with you, Wendy. If we start going round the country at this point, that will not be a good use of our time. The paper throws up a number of issues on which we need a clearer sense of the Executive's thinking. Some of those issues will be at least embarrassing to the Executive, if it wishes to be considered intellectually consistent.

We should argue that there are several issues around deprivation. Perhaps we could take evidence from some of the technical people at the appropriate point—the people who put forward the multiple deprivation index, the people who are responsible for its application or the people who are involved in looking at the Arbutnott formula. That might be a good use of our committee time in the shorter term. We can then progress from there, as you say.

There is another important dimension. In our anxiety to track the way in which allocations are made and their consistency or otherwise, we should also be open to submissions from people who want to argue that things could be done in a

different way with greater effectiveness. There are an awful lot of people out there who have an interest in the issue and who probably have an agenda; we need to take evidence from them, although in the careful way that has been suggested. We do not want to get tied up in policy issues; we want to hear how, practically, the funding could have come in a different way and how, if it was allocated differently, it could be made to work better. We also need to hear about the current problems with the funding formulae.

Ms Alexander: The big conceptual question that emerges from the paper is whether it is right, as a first principle, for different departments to have different criteria for allocating resources on the basis of deprivation. Is it right that the allocation in the enterprise and lifelong learning budget is 10 per cent? Is it right that the allocation in the communities budget is made using one formula whereas the allocation in the health budget is made using the Arbutnott formula? Stage 1 of our inquiry should answer that question. We must interrogate whether it is right, in principle, for each department to use a different measure of deprivation.

When we have answered that question, it will be possible to move to the second stage, which will be to consider how things might be done better. That will involve getting the Executive to engage with the question whether it is right for each department to have a different formula for deprivation or whether we need, in principle, to move to a common measure of deprivation irrespective of department. That would set a different policy agenda for calls for evidence and, indeed, for what we will invite people to do. I would like us to try to reach a common view on that question. I do not have a completely fixed view. The question seems interesting but in some ways quite straightforward and I believe that we should try to answer it in the first stage of the review with technical officials and perhaps ultimately with ministers.

John Swinburne: That is very academic. If you are poor, you know that you are poor. It is all right to talk about definitions and lay down certain criteria, but there are some things that one just cannot put down in black and white. Deprivation can be illustrated, but to define it as a common factor across various diverse areas is exceptionally difficult.

The Convener: These are difficult issues, which have been wrestled with since the 1970s—to my certain knowledge—in considerable depth and detail. My point is that we need to focus on the consistency or otherwise of the allocation mechanism. I suggest that we seek written evidence from the Executive as planned and that early in June—we might need a couple of

sessions—we assess what we have got from the process and decide at that point how to proceed. Arthur Midwinter has heard what we have to say.

There is an argument that, as well as considering the technical aspects, we should be interested in improved performance for the expenditure that is made. Where it is demonstrable that resource has produced outcome or that there are positive mechanisms as opposed to negative mechanisms for the allocation and co-ordination of money, we want to get at that as well. We seek not just a technical assessment of how the system works, but a focus on where it is working well and where it is not. I believe that that could be a useful debate for us and a productive route for our inquiry. I am still keen to do the work on GAE; in that context, we can discuss whether Arthur Midwinter goes beyond borrowing a book from Frank McAveety.

Professor Midwinter: It is a fascinating read.

Mr McAveety: Seminal.

The Convener: In the context of the Burt inquiry into the future of council tax and mechanisms for determining how council services should be paid for, a piece of work that examines the formula through which resources are disbursed, its appropriateness and its likely impacts will be an important contribution. Perhaps we need to think about that and consider what can be done. We will report back to the committee on how that work might be taken forward and whether it can be achieved. Is that agreeable?

Members indicated agreement.

The Convener: I thank Arthur Midwinter for his paper. I ask members to agree that we make a call for evidence on the committee's website, giving a link to Arthur's paper. We will discuss the timing of that, work out what we need to get from the Executive and consider how we should collect evidence.

Item in Private*Meeting closed at 12:24.*

12:24

The Convener: Agenda item 4 is to ask the committee to agree to consider its draft report on the financial memorandum to the Management of Offenders etc (Scotland) Bill in private at our next meeting. Do members agree to that?

Members *indicated agreement.*

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