

# **FINANCE COMMITTEE**

Monday 6 November 2006

Session 2

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## FINANCE COMMITTEE

### 26th Meeting 2006, Session 2

#### CONVENER

\*Des McNulty (Clydebank and Milngavie) (Lab)

#### DEPUTY CONVENER

\*Mr John Swinney (North Tayside) (SNP)

#### COMMITTEE MEMBERS

Ms Wendy Alexander (Paisley North) (Lab)

\*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

\*Mark Ballard (Lothians) (Green)

\*Derek Brownlee (South of Scotland) (Con)

\*Jim Mather (Highlands and Islands) (SNP)

\*Mr Frank McAveety (Glasgow Shettleston) (Lab)

\*Dr Elaine Murray (Dumfries) (Lab)

#### COMMITTEE SUBSTITUTES

Shiona Baird (North East Scotland) (Green)

Janis Hughes (Glasgow Rutherglen) (Lab)

Alex Neil (Central Scotland) (SNP)

John Scott (Ayr) (Con)

Iain Smith (North East Fife) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Tony Fitzpatrick (Dumfries and Galloway Council)

Delia Holland (VisitScotland)

Gordon Mann (Dumfries & Galloway Chamber of Commerce)

Tom McCabe (Minister for Finance and Public Service Reform)

Alasdair Morgan (South of Scotland) (SNP)

David Stewart (Scottish Executive Finance and Central Services Department)

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

Rosalind Wheeler

#### ASSISTANT CLERK

Kristin Mitchell

#### LOCATION

Brown House, Crichton University Campus, Dumfries



# Scottish Parliament

## Finance Committee

*Monday 6 November 2006*

[THE CONVENER *opened the meeting at 11:35*]

### Budget Process 2007-08

**The Convener (Des McNulty):** I welcome committee members, the press and the public. We have received apologies from Wendy Alexander, who cannot be with us. I also welcome Alasdair Morgan to our meeting. He is a former deputy convener of the committee and is here as a regional member for the South of Scotland. I am delighted that he has come along to our meeting.

I thank all the people who were involved in our workshops, which have just concluded. Six years ago, the Finance Committee set out to hold regular meetings—it is an important event in our annual calendar—at which it would take evidence on the Scottish Executive's budget from the finance minister, which would be the culmination of the detailed investigation of the budget process. We decided to take those meetings out to different parts of Scotland and to hear evidence from people in the localities that we would visit before hearing from the minister. That practice ensures that the committee is as well informed as we can be about the issues that directly affect people before we examine the evidence on the Executive's expenditure proposals for the following year.

We are at stage 2 of the budget process, which involves scrutinising the Executive's draft budget. We want to gauge the impact of future and past spending plans on various areas.

It is important that the committee has come to Dumfries. This is the first time the committee has visited the south of Scotland in this parliamentary session and we are pleased to be here. I register the committee's thanks to Liz Forsyth for all her hard work in organising the meeting and helping the clerks to co-ordinate it.

With those preliminaries completed, I invite the nominated MSP from the workshops to report in turn. If a non-MSP workshop member wants to supplement a contribution, I will provide the opportunity for that. However, we will have time for probably only one or at the most two individuals from each workshop to do that.

We begin with workshop 1, which involved Andrew Arbuckle, Jim Mather and Elaine Murray. I presume that they have appointed one of their number to be the reporter.

**Dr Elaine Murray (Dumfries) (Lab):** My colleagues appointed me reporter because I am the local member.

We had an interesting workshop from which several themes emerged. We had a wide variety of participants, but they raised common themes and experiences. We started by considering the issues in the budget. The cross-cutting themes were welcomed, but questions were asked about the balance between top-down Government-led policy and the bottom-up approach from communities, and about how that approach could be encouraged.

We talked about the need in rural areas, such as the south of Scotland, not just for jobs but for good-quality jobs with reasonable pay—jobs that bring people into the area. To an extent, we have a demographics problem in that younger people are leaving the area and older retired people are coming to live here because it is attractive. That has led to an imbalance in the proportions of age groups, so strategies are needed to deal with that.

It was pointed out that, because of the accounting mechanisms, it is difficult to track how structural funds are used and how effective they are. There are also concerns about the future of structural funds. For 2007 to 2013, the south of Scotland will be included with the central belt, so there could be problems with getting support for projects such as we are used to. In the previous period, the south of Scotland was a separate area for structural funding, so there are major concerns about the change.

We touched on the different remits of Scottish Enterprise and Highlands and Islands Enterprise. We discussed whether the fact that they have different social remits disadvantages rural areas in the south of Scotland. The point was made that it is difficult to get funding for the initial stages of rural business development. To help small businesses to develop, they often need practical assistance from people who have business acumen.

One participant said that there is not always enough detail in the budget. It is difficult to find the right balance, but it was argued that there is not enough detail in individual budget lines for us to understand what they are trying to achieve. That participant would like more information on outcomes rather than just information on the money that is put in. The participant also said that there is not enough detail on the cross-cutting themes; for example, because energy for waste falls between two portfolios, it is difficult to see how policy developments in that area are funded and followed through.

The point was made that the theme town projects in the area, such as the food town project

in Castle Douglas, are often run by volunteers, who make a huge contribution. It is felt that far too much paperwork and bureaucracy are involved in applying for funding—we have heard that theme in other discussions. People also said that money that is given by the public sector is often taken away by another hand, so people do not necessarily get the funding that they seek. An important point was made about the development of theme towns and the proposals to develop a trail to bring small businesses together into a larger critical mass so that it is easier to develop their potential.

In the final half hour, we went on to consider solutions. We heard that there is a need to improve access to learning, particularly in the higher education sector, so that young people stay in the area rather than move away and not come back. There is potential for investment and connectivity. A major announcement was made on Friday about investment in broadband throughout the area. That carries great potential for people who work from home and for relocation of businesses to the area, so we should build on that.

There was comment to the effect that the relocation policy has not worked well for Dumfries and Galloway—it has brought only 17 jobs so far and there is frustration that we have not managed to achieve more. Inverness and Dumfries are similar towns, but Inverness has achieved much greater success in the past few years. It was felt that the south of Scotland could learn from the success of Inverness. The point was made that public sector employment is dominant. A lot of the better-paid jobs are in the public sector and there is a question over whether that is squeezing out the private sector. That debate is also held elsewhere. We also have a large proportion of microbusinesses that have fewer than 10 employees.

We discussed Scottish Enterprise's metropolitan regions agenda. It is important to recognise that, in this part of the world, there are five cities: Edinburgh and Glasgow, which are in Scotland; Newcastle and Carlisle, which are in England; and Belfast, which is in Northern Ireland. Any metropolitan region strategy for the South of Scotland will have to cross the borders between different parts of the United Kingdom. That is a big difference for us and it needs to be borne in mind.

We wondered whether integrated rural development is happening as well as it should. Much of the rural development that is funded is still about what happens behind the farm gate. There might not be sufficient understanding of how a broader rural development agenda can be taken forward.

11:45

We also considered competitiveness and we listened to the views of participants on how the area could become more competitive. One suggestion was about access to capital for new entrants to agriculture in order to bring younger people into farming. We also agreed that we need to take advantage of the fact that some people may not want to live in an urban environment, but appropriate support is needed if we are to promote the advantages of living in a rural area, so there must also be educational opportunities.

We recognised the need to diversify the economy. That ties in with the question about whether integrated rural development is really happening. There is a need to improve the capacity for higher education opportunities, and we touched on the current funding structure for the Crichton campus. If students come here or to Galashiels because of a link with the University of Glasgow or the University of Paisley, those institutions have to take a place away from their central locations, which constrains the development of the university campuses here and in Galashiels.

We touched on the need for tourism as a big employer in the area. Affordable housing is also an issue in keeping younger people here, because houses are being sold for holiday and retirement homes in many communities, so the problem of how to provide housing for younger people must be addressed. We felt, in general, that a broader approach to rural development is needed for the future.

**The Convener:** Thank you. Do Jim Mather and Andrew Arbuckle want to add anything to what Elaine Murray has said?

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** I have nothing to add.

**The Convener:** Would other non-MSP members of that workshop like to make a brief contribution? Don't be shy.

**Tony Fitzpatrick (Dumfries and Galloway Council):** I am head of economic regeneration for Dumfries and Galloway Council. The issue of economic development and rural development that Elaine Murray mentioned is interesting. The feeling is that what we call rural development and what the Scottish Executive Environment and Rural Affairs Department does are largely about operations behind the farm gate. I do not deny the importance of that, because land management and agri-environment issues are fundamental for rural areas such as Dumfries and Galloway, but when we consider how that money can be stretched beyond the farm gate we start to see some gaps. There are many issues to consider in relation to the rural economy.

Elaine Murray mentioned theme towns—that approach was discussed quite a bit this morning. Smaller towns in Dumfries and Galloway have badged themselves as, for example, the book town, the artists' town or the food town. We are also trying to package events through an events strategy. Such activities seem to fall between hard economic development and wider rural development, so we are finding it quite difficult to resource such initiatives. The issue that emerged this morning is that there is a gap in policy, as a result of which there is a gap in resourcing such bottom-up rural economic development or wider integrated rural development. We hit on a fundamental set of issues this morning: the local authority, the local enterprise company and voluntary organisations are doing their bit, but there is a gap in structural funding of the interventions, which the committee might want to consider.

**The Convener:** One of the themes that emerged in the transport workshop—which was picked up by Elaine Murray in the economic workshop—was the apparent similarity of circumstances in the south of Scotland and the Highlands despite the different institutional arrangements, particularly with regard to Highlands and Islands Enterprise's having a social as well as an economic remit. Is that something that bears on your experience?

**Tony Fitzpatrick:** It is. Over the past 10 years or so, we have heard discussions at policy and political level about the wider remit of Highlands and Islands Enterprise. The issue is not an institutional one about who does what—in rural areas, we tend to connect public agencies quite effectively—so much as it is an issue about a policy and resourcing gap. That relates to an issue that we focused on during the workshop: there seems to be a policy gap outwith the Highlands and Islands, which may be because of the portfolios of the institutions, although the issue is not so much about who does the work but about the apparent policy or funding gap. I do not think that we would have any difficulty in spending money if it were to come to the area. The issue is not the agency but the resourcing.

**Jim Mather (Highlands and Islands) (SNP):** A message that came through at our workshop was that although the cross-cutting approach in the draft budget is welcome, it would make a lot of sense to have a unifying cross-cutting objective, which would give everyone a focus as they worked towards that objective. The perennial problem of trying to maximise the number of working-age people in work is seen as a problem that might provide such a focus.

All the contributions at the workshop highlighted the desire to make the area more competitive:

everyone said that that would be the most important step to take in order to achieve positive outcomes.

**Mr John Swinney (North Tayside) (SNP):** I do not want to pre-empt what Mark Ballard will say on behalf of our workshop, but a key theme to come out of the contribution that Elaine Murray has just mentioned is the sense that budgets must be more effectively brought together to ensure that they have a greater impact. Our group considered tourism: people feel that we should put all the different funds for tourism, visitor attractions and artistic and cultural development into one pot to maximise their impact. That idea is strikingly similar to the committee's conclusions on deprivation spending—that the proliferation of different sources of funding has resulted in the impact actually being less than it might have been had all the funds been brought together. If they were brought together and spent more effectively, there would be a greater punch.

I suspect that such a conclusion will be reached by more and more people after their analysis of public expenditure. The public see that lots of money is being spent, but are they convinced that it is having the maximum effect, when they see it coming from this silo, that silo and the next silo? That question raises important protocol issues for the committee as it considers this morning's issues, just as it did when the committee considered deprivation spending.

**Mr Arbuckle:** I want to pick up briefly on a point that was made by Tony Fitzpatrick. One of the largest sources of money for rural areas is the single farm payments, which do not go towards developing rural areas, but to individual farmers. They also go to former farmers who may no longer live in rural areas but have retired to a town. To me, that is not a very sensible use of money.

**Dr Murray:** When our group talked about competitiveness, the feeling was that a Scotland-wide agenda on growth and competitiveness might lead to the agenda being urban. However, what develops competitiveness in rural areas is slightly different. We are not talking about large inward investments that bring in lots of jobs from elsewhere; we are talking about developing small businesses and bringing them together. It was felt that there might be a slight danger that the national policy agenda might not fit with the way in which economic development functions in rural areas.

**The Convener:** Let us now move on to the second workshop. Once we have heard a report back from each of the workshops, we can move into a more general discussion. Mark Ballard, Frank McAveety and John Swinney participated in the second workshop. I understand that Mark Ballard is to report back.

**Mark Ballard (Lothians) (Green):** As might be expected, because tourism is in many ways central to economic and rural development in Dumfries and Galloway, many of the points that were made in our workshop were similar to those that Elaine Murray has made.

From our discussions, it is clear that tourism in this part of the world lacks a Loch Ness or similarly iconic world-class tourist attraction, but that is not to say that there is not lots to see and do here. The area's strength is the variety and diversity of its attractions rather than a single iconic feature. That means, however, that events are crucial to attracting people to the area.

Members of the group referred to the benefits that have come through EventScotland and the local authority events strategy. That strategy currently focuses on three beacon events: the Wigtown book festival, the Wickerman festival and GaelForce, which is a general catch-all arts promotion for the south-west. The many smaller town festivals that go on are part of the diversity of events that is key to attracting people to the area. In particular, we heard about the range of festivities that take place over the summer in Kirkcudbright, where diverse events combine to draw huge numbers of people to the town.

We also heard about the increasing growth of outdoor projects and events, such as the 7stanes mountain biking project, walking and the year of homecoming. We were told that the local tourism industry needs to focus on those areas if it is to be successful.

Another point that was put to us clearly—this relates to the Finance Committee's scrutiny of local government finance—was that, in years of potentially tough local government settlements, such as the years ahead, any cuts to education budgets usually affect museums first. For example, councils will force museums to restrict their opening hours rather than cut back on repairs to schools. When pressures arise, support for culture and leisure services and for the voluntary sector is cut first even though that support may be key to many events and festivals.

The voluntary sector relies on a huge amount of enthusiasm for all the voluntary work that is done. When raising funds becomes increasingly difficult, sustaining that enthusiasm also becomes more and more difficult, especially in the context of growing cost pressures from insurance, licensing costs and the need to comply with a huge variety of different grant conditions. When the extent of that is such that voluntary organisations need to employ someone just to assess total visitor numbers, the objective behind the conditions starts to become self-defeating.

As John Swinney said, a common theme is that the wide range of different funding bodies' employing different conditions, different ways of working and different objectives is felt not to be helpful overall, especially for the smaller voluntary festivals.

A key element in all the funding issues is the relationships among Scottish Enterprise Dumfries and Galloway, VisitScotland and Dumfries and Galloway Council. With the restructuring of the tourism network and the ending of area tourist boards, the key stakeholders within the industry should be brought together in the new area tourism partnerships. However, problems remain. As Elaine Murray pointed out in her report, SEDG does not have the same objectives as Highlands and Islands Enterprise, despite the similarities in the problems that they face. There is disconnection between the objectives of the local authority, VisitScotland and SEDG. Particular concerns were expressed, as Elaine Murray also mentioned, about the metropolitan strategy. There is a feeling that many of the tourism services, festivals and events would get more support through the kind of cultural support that Highlands and Islands Enterprise is able to give, and that matters will become problematic without that.

12:00

There is also an issue about the quality of the tourism product. Tourism is a key part of the economy but there is a lack of training and a lack of interest in getting training. The industry is also perceived to be lacking in status. Until those problems and some of the basic infrastructure and transport problems are sorted out, it will always be difficult for the tourism sector to develop to its full potential.

We covered a lot of ground and I could go on much longer, but I hope that the rest of the committee and the people who provided us with such valuable insights will feel that that was a broad representation of our discussions. We are privileged to hear from people who are working very hard to promote tourism in the area.

**The Convener:** Thank you. I do not know whether Frank McAveety or John Swinney want to add anything just now.

**Mr Frank McAveety (Glasgow Shettleston) (Lab):** The group was quite positive about some issues. People have flagged up the connections between the different agencies and how decisions that are made at the national level impact and are managed locally.

Among the key issues are the big VisitScotland transition over the past couple of years and the sustainability of core funding from the industry and local authorities. There is real concern that



reduction or withdrawal of that funding will have a major impact on the product.

We touched on three big issues and tried to make them into a theme. First, we should see funding of tourism as an investment rather than as a drain. Much Government money is spent on sorting things out, but this is an opportunity to use Government money at national and local levels, through the budget process, to invest in something sustainable that can help with jobs and opportunities in the wider community and local economies.

The second big challenge we considered was training. That is about the indigenous community and encouraging youngsters particularly to consider tourism as an industry in which they can find opportunities and employment, although we have also to consider the shortage of labour. When we are recruiting from other parts of the United Kingdom and, increasingly, from eastern Europe, how do we ensure that our recruitment strategy is sustainable? We need to improve the broad quality of the visitor attractions, the way people interact with tourists, and the quality of hotels and other accommodation.

The third point that I have to mention is the incredible commitment of the voluntary sector and individuals in the wider south-west of Scotland who, in spite of the structural obstacles, want to continue because they know that an events strategy matters for their small village or town.

My final point is about the message that we ought to take back to ministers and others about how to use the year of homecoming imaginatively in order to drive new initiatives and build on existing festivals, as well as to find one or two other ways in which we can use the region's attractions more effectively.

The discussion was positive. I know that there are problems around infrastructure, and I have been speaking to Derek Brownlee so I know that there are still concerns about the relationship between VisitScotland and its partner agencies. That was mentioned in our group but it did not dominate the discussion.

**Mr Swinney:** I have two points to make that will contrast with Frank McAveety's positive tone. I accept that the discussion was positive, but two concerns about policy emerged. One is about the impact that changes in European funding will have on a range of projects. Parliament debated that last Wednesday during the debate on the European and External Relations Committee's report. There is a lot of concern about the impact on projects.

The second point also came out of the discussion on which Elaine Murray reported and is about the impact of Scottish Enterprise's

metropolitan strategy. Numerous cities could be the centre of activities that would have an affect on the south and on Dumfries and Galloway in particular. That concern is replicated in the rural area that I represent. People fear that such areas will be disregarded, excluded from or ignored in the metropolitan strategy. Several major issues must be wrestled with there.

**The Convener:** I invite any of the participants in workshop 2 to comment if there is a point that has not been made, has not been given quite the right stress from their point of view or which would assist the committee in its deliberations.

**Delia Holland (VisitScotland):** I am the area director for VisitScotland in Dumfries and Galloway. Between them, the three members have probably covered most of the points, but I want to emphasise the opportunities that exist in the area and focus on the contribution that the voluntary sector makes. A key issue that we must consider is how, in the new VisitScotland structure, we continue to support the voluntary sector, regardless of our commercial side, which we will obviously have to develop.

We have already started our thinking on the homecoming in Dumfries and Galloway. We want a co-ordinated approach across the area so that we can take the opportunities provided by the major project in 2009. I think that £12 million was put into the Highlands for the year of Highland culture in 2007. The homecoming project could probably benefit the whole of Scotland, but it will certainly benefit the south of Scotland. We make a plea to the Executive to look favourably on the homecoming project in the south of Scotland and to give it a similar level of investment.

**The Convener:** The one issue that concerns me a wee bit about the homecoming is the lead-in time that is necessary to make such events succeed. Frank McAveety will be aware that I was heavily involved in the year of architecture and design in Glasgow. The forward planning for it was done three years ahead of the event but, even so, we were pressed for time. I want the lead-in time for the homecoming to be used well and the work that is being done now to ensure that it is successful. If you do not get the planning done early enough, you are always chasing your tail to get the benefit from the event.

**Delia Holland:** We can build on infrastructure that we already have for our events and festivals. Projects such as Burnsong are already under way.

**The Convener:** Perhaps we can now move on to workshop 3, which was on transport. It involved me, Alasdair Morgan and Derek Brownlee. Derek volunteered to report back.

**Derek Brownlee (South of Scotland) (Con):** It was a useful session. It is interesting to hear how

many common themes seem to have come out of the three groups, but perhaps that should not be too surprising.

The main thrust of the discussion in the transport workshop was the importance of transport to the area. It is probably credible to argue that if you do not get transport right, everything else falls. Getting transport in the area right is fundamental.

There was a lot of comment on the problems we face down here. It is probably useful to mention them, to give other committee members a bit of background. The sense is that public transport, including rail transport, but also other forms of public transport, is limited. There is, therefore, much greater dependency on the car than there is in other parts of Scotland. That drives different policy issues. The problem caused by the volume of freight traffic, particularly on the A75, is perhaps not something that surprises anyone down here, but I wonder whether it gets the same degree of national attention as other transport issues. There is also recognition that there is a growing problem of congestion, particularly around Dumfries. The volume of commuter traffic is increasing, particularly at peak times, which drives some real issues.

People's dependency on cars leads to economic problems because petrol prices in the region tend to be higher than those in other parts of the country. The relatively low level of average earnings and the relatively high level of car ownership in the area were discussed and a statistic was given in that context, although I am not sure how up-to-date it was. We can see the economic problems that arise if we add to that mix the relatively high cost of fuel.

There was a feeling that recognising the transport problems in the area is easy and that they have been recognised for a long time, but that nothing substantive seems to be changing. People have no sense that there has been a great change in the problems that exist. Someone usefully commented that the priority the budget gives public transport—particularly rail—does not help in areas where people do not have many public transport facilities. Perhaps we should consider the relevance of such prioritisation to such areas.

Workshop 1 discussed demographics. The demography of an area influences its transport needs. A point was made about the availability of bus passes. The bus pass initiative is excellent, but if there are no buses on which to use them, what benefit are they? Follow-up points that seem to be well worth pursuing were made about the availability of buses on dial-a-ride schemes.

I mentioned congestion around Dumfries, but did not mention the need for a southern bypass. People are wondering what is happening about that and how proposals are being driven forward.

Strong comments were made about the regional transport partnership, particularly the need to protect the rural community transport initiative from any lack of sensitivity that there might be by that partnership. Given that Dumfries and Galloway has the most localised regional transport partnership in the country, we should consider any concerns that exist here as being of broader national importance.

The contrast and the similarities between Dumfries and Galloway and the Highlands and Islands were mentioned. The areas have similar challenges, but there is a contrast between what they can deliver. There seems to be consensus that the south of Scotland and south-west Scotland are missing out and not influencing the Government. People feel that they are not getting problems across to those who take decisions.

An interesting point was made about the impact of the shortage of affordable housing on transport needs, which I must admit I had not quite worked through before today. A mismatch between where jobs are and where affordable housing is will cause all sorts of pressures, particularly if people work unsociable hours and public transport cannot fill the gaps. Again, that feeds into the issues relating to people's dependency on cars.

Someone made the valid point that public transport can be improved, but people's access to employment must also be improved, which might mean that they should be given the opportunity to learn to drive and access to cars so that they can plug into the local economy.

We discussed issues and concerns relating to European funding. We probably focused more on problems than on solutions. Identifying the problems was easy; identifying solutions was rather more difficult. There was a feeling that the targets in the budget document do not seem to relate very well to what we might expect the priorities to be. Perhaps there is a problem with the selection of targets. How well the underlying spending links to the targets is, of course, an on-going issue.

I mentioned the Highlands and Islands. I do not think that there was a feeling that there should be special treatment for Dumfries and Galloway. Rather, there was a feeling that there should be parity with the Highlands and Islands and recognition that the areas' problems are similar in some respects. It was felt that there should be more parity with other areas of Scotland that face similar challenges. That was a key issue.

The workshop was useful and an awful lot of problems were thrown up. I wish that we could wave a magic wand—or have any confidence that the Government is about to wave a magic wand—but we had a useful discussion about the problems.

12:15

**Alasdair Morgan (South of Scotland) (SNP):** I would like to make two extra points, one of which was raised slightly during our discussion. I want to emphasise how important transport is for all aspects of life in a region such as Dumfries and Galloway, especially considering the use of public or private transport to get to and from health facilities. With the elderly population in the area increasing both absolutely and proportionally, and with the increasing specialisation and centralisation of health services, transport to and from the place of treatment is a growing problem for a lot of people. For some parts of the region, we are talking about a round trip of 180 miles just to get to Dumfries and Galloway royal infirmary, which is far closer than hospitals in Edinburgh or Glasgow where many specialists are now located. There is a real issue about the availability of transport to enable people to make those journeys in a sensible way.

My second point is about the concessionary fare scheme, which Derek Brownlee mentioned. After the latest budget revision, the cost is now up to £188 million in the current year. Given that the budget is demand led and that demand exists where there are bus services, I suspect that that £188 million is being spent disproportionately in areas where there are good bus services. Although it is national expenditure, it is expenditure on which people in this region lose out.

**The Convener:** I extend the same invitation as I did previously: if a point has not been sufficiently articulated or any of the participants want to make an additional point, there is an opportunity to do that just now.

**Gordon Mann (Dumfries & Galloway Chamber of Commerce):** I am representing Dumfries and Galloway Chamber of Commerce, although my day job is managing director of the Crichton Development Company—I say that for a reason. We made a number of points about the success stories, and Derek Brownlee's summary was very good. For example, increased use of the Nith valley railway line for coal has underpinned and created investment in the line, which is welcome.

However, there are issues about Dumfries itself. The southern bypass is not just about congestion; it would also help to build on one of the region's

big success stories, which is the development of a university campus with the universities of Glasgow and Paisley and Bell College. We also have Dumfries and Galloway College, with some £30 million from the Scottish Further and Higher Education Funding Council. We will have the first tertiary education campus in the country, and the southern bypass would help to provide access and allow the investment to go ahead. It would also free up space in the town centre to allow sustainable transport initiatives to take place.

That example illustrates my final point, which is that cross-fertilisation between objectives and budgets is important. It seems a paradox that, to achieve better sustainable transport in Dumfries, we have to start by building another road, but that is the case and it has been found to be the case in other parts of the country.

**The Convener:** Are there any other points? One theme that I have picked up is a need to identify more clearly the most important strategic objectives. That perhaps follows on from the point that has just been made. There are lots of potential transport projects in the region, but there is perhaps a need to focus on one or two projects that are the most crucial for economic development and to link them with other objectives.

Very often, the temptation in these sessions is to identify the problems rather than the opportunities around which success can be built. Gordon Mann made the point about the Crichton campus and the opportunities that that development has created in terms of higher education. If that were linked to a road project, it could help to validate that success and enable people in the area to move on and build a core together. Perhaps Elaine Murray wants to comment on that.

**Dr Murray:** The argument is a good one. The southern access road is not only about relieving pressures in the town centre but about developing the Crichton campus.

When we are asked to identify projects, the problem that arises is that so many projects spring to mind. Whereas some people would argue for upgrading the A75, others would prefer a new link into the motorway. It all comes down to the way in which an assessment of the importance of projects to the economic development of a region is made. To a certain extent, this is where the appraisal process comes in; it allows projects to be ranked either by way of achievability or the community's desire for achievement. We need to know which projects are the most important in taking forward the region.

**The Convener:** The point relates to the situation in the Highlands and Islands. The issue at stake is partly about resource and access to resource. The

Highlands and Islands have access to structural funds, for example, but they also have a strategic framework for taking forward development plans. It has not always been altogether successful, but the numbers show the marked improvement that has been made over the past 10 years. To some extent, there must be a link to a relatively clear strategy, a process of prioritisation and a local agency that is involved in that undertaking.

If the matter is left to the Scottish Executive, things are more difficult as it does not have the regional focus, responsibility or knowledge of what is happening on the ground. Instead of everybody pushing separately for a variety of different things, regional organisations should get together, decide on their key priorities and push for them. In my experience, everyone pushing separately serves only to reduce an area's chance of getting what it wants.

**Jim Mather:** I hear exactly what you are saying, convener, but we have to be cautious that the south of Scotland does not fall into the trap that the Highlands have fallen into, which is the tendency to publicise false positives. Although the population of the Highlands is increasing marginally and unemployment is relatively low compared with the rest of Scotland, one has only to scratch the surface of the numbers to find some disturbing data. I refer to the markedly increasing demographic skew towards older people in the Highlands. When one analyses where former sixth years of schools such as Lochaber high school and Dunoon grammar school are now, one finds that we have exported our unemployment, as well as our best and brightest. The metropolitan region policy approach could further drag out the best and brightest.

In terms of objectives, the case can be made for looking simultaneously at the totality and components of Scotland. We need to know how we are doing in terms of growing the population and increasing the working-age population. We also need to know what is happening to average earnings and how the comparative playing field is changing over time.

**Dr Murray:** As the convener said, the Finance Committee has moved around the country over the years. It is interesting to note the similarities between the issues people have brought before us. In Dumfries and Galloway, we often think that we always lose out to the Highlands and Islands, but when the committee met in Elgin, many of the issues that people told us about were not dissimilar to the issues for people in the south of Scotland.

Perhaps there is a need for more communication between people in the south of Scotland and people in the Highlands and Islands, so that they learn from each other. We in the south

of Scotland may think that people in the Highlands get everything, but they do not think so. We could learn from each other's experiences—our successes and our difficulties.

**Derek Brownlee:** There is definitely a need to learn from the success of the Highlands and Islands. Although I agree in part with what Elaine Murray says, I do not think that there is anyone in Elgin who is complaining about losing out to Dumfries and Galloway. That is the key issue.

**Alasdair Morgan:** It might be helpful to point out that Elgin is not in the Highlands.

**Dr Murray:** It is in the far north.

**Alasdair Morgan:** It is in Grampian.

**Mr Swinney:** Let me intrude on this private grief about the geography of Scotland to make a general point about the feedback from the discussions. I am struck by the unease that all the groups expressed about Scottish Enterprise and its metropolitan strategy, which happens to coincide with the concern about the matter that exists in my constituency.

Given that the issue does not fall directly within our remit, I encourage the committee to consider communicating with the Enterprise and Culture Committee to raise with it the concern that has been expressed to us about Scottish Enterprise's strategy, which is properly an issue for that committee to consider. It will be helpful to the participants in our workshop sessions to know that their views have been passed on to the Enterprise and Culture Committee. It will have to judge whether it can fit consideration of the issue into its forward work programme; I am not sure where it is on such matters. The possible consequences of the application of Scottish Enterprise's strategy are certainly worthy of detailed scrutiny.

**Mark Ballard:** When I reported back, I probably did not mention enough the feeling, which was shared by some of the people around the table, that national targets are often inappropriate to local circumstances. That came up in Elgin, where it was felt that there is disconnection between the budget document with its figures in the millions and billions and local circumstances. There was a sense that communities do not have enough flexibility to tackle the issues they face and that however well meant national targets are, they do not have a strong enough relationship with local needs.

We need to reflect on the extent to which we can scrutinise a budget effectively, such that we address the concerns that have been expressed by community groups and local and voluntary groups. The same applies to Scottish Enterprise, because concern has been expressed that although it might be effective at delivering national

strategies and projects, it is thought to be weak in supporting local and community enterprises. That ties in with John Swinney's point.

**Alasdair Morgan:** The point was made in our group that national targets on transport are either general and do not seem to be applicable here or are specific but relate only to other parts of the country. Dumfries and Galloway seems to lose out on both counts.

**Mr Arbuckle:** It is important that we follow up John Swinney's point about Scottish Enterprise. We all know about the problems it had with its expenditure last year, as a result of which it is having to cut back. I have no proof, but I fear that most of the cuts will be felt in local enterprise companies rather than at the centre.

**The Convener:** There seem to be no more points that members want to pick up. I hope that we have managed to capture all the main issues that were raised in the workshop sessions. The discussion that we have just had will form part of the *Official Report* of the Finance Committee. In that way, the matters that have been raised will appear on the record. Over lunch, I hope to discuss with colleagues how we can raise some of these issues with the Minister for Finance and Public Service Reform, who will appear before us this afternoon to answer questions on the budget. I hope that the workshop participants feel that they have been listened to and that some of their points will be translated into questions that can be addressed today and on subsequent occasions when we probe the Executive's budget.

I thank participants and committee members, especially those who summarised the outcomes of the various sessions. Lunch will be available in about 10 or 15 minutes' time and the afternoon part of the meeting will open at roughly 1.45.

12:30

*Meeting suspended.*

13:54

*On resuming—*

**The Convener:** Agenda item 2 concerns further formal consultation on the budget process. I welcome the Minister for Finance and Public Service Reform, Tom McCabe. With him are David Stewart, the head of the finance expenditure policy division, and John Nicholson, from the finance co-ordination division. Both are from the Scottish Executive Finance and Central Services Department.

Today's session gives us an opportunity to raise with the minister issues that we have identified in the draft budget and also any issues that arose in

this morning's workshops, which involved people from various agencies in the Dumfries and Galloway area.

Given where we are, it is entirely appropriate to invite Elaine Murray to start us off.

**Dr Murray:** I was involved in the session on economic and rural development—

**The Convener:** I have just realised that I should have asked the minister to make an opening statement. I apologise, minister.

**The Minister for Finance and Public Service Reform (Mr Tom McCabe):** Thanks.

We are here today to discuss the draft budget 2007-08 and the annexed document that contains the progress report on the 2002 spending review targets. I understand that, in September, the committee had preliminary discussions on the 2007-08 budget process.

The committee will be aware that this year's budget process is, again, a two-stage process, as this is a non-spending review year, which means that the draft budget gives people their first opportunity to scrutinise the Executive's proposed budget for 2007-08. Of course, it is firmly based on the spending plans that we set out in the 2004 spending review.

Members might find it helpful if I begin by highlighting the main changes that are included in this year's draft budget. The Executive's total planned budget for 2007-08 is £31.28 billion—£596 million higher than the previously published draft budget figure for 2007-08. To look at it another way, the budget is £1.5 billion more, in cash terms, than it was in 2006-07, or £725 million more, in real terms. Members will see those revised figures in table 0.01 and 0.02 on pages 2 and 3 of the draft budget document.

The £596 million increase comprises two separate elements of the budget: an increase of £427 million in the departmental expenditure limit; and an increase of £169 million in annually managed expenditure.

The main factors that account for the increase in the DEL are: an increase in the transport budget of around £360 million from the Department for Transport to fund Network Rail; and a £200 million increase in revenue support grant, which reflects the equalisation of business rates and revisions to the non-domestic rates income forecasts. That has been offset by a £150 million decrease in the budget as a result of the classification change to European structural funds that was proposed by Her Majesty's Treasury and which means that the receipts now score in the DEL.

The increase in annually managed expenditure is made up of four main changes. The first change

is the reclassification of European structural funds, which has seen the £386 million common agricultural policy budgets move out of AME into the DEL. The second change is the Treasury's reclassification of the £183 million student loans net new lending from outside total managed expenditure into AME. The third change is the increase of £571 million in the teachers' and national health service pensions schemes. The fourth change involves that increase being offset by the corresponding reduction in the non-domestic rates income forecast of £200 million as a result of the increase to the revenue support grant that I previously mentioned.

It has been suggested that the local government aggregate external finance budget for 2007-08 is a standstill budget, as it grows by only 0.2 per cent in real terms. However, as the committee is aware, AEF is not the overall funding picture for local authorities; funding for local government from grants outwith the settlement also contributes substantially to total local government funding.

It is also inappropriate to look at simply the line of figures for capital support—the figures need to be looked at in context. Total capital support will be at least £1.6 billion over this year and next year. In any event, capital expenditure is, by its nature, uneven. That can be seen by the inclusion in this year's figures of a one-off sum for e-voting.

I have said several times to the Parliament and in wider discussions that I was prepared to re-examine local government funding for 2007-08. That remains the position.

14:00

The "Draft Budget 2007-08: Final Report on Spending Review 2002 Targets", which accompanies this year's draft budget document, shows that of the 162 targets that were originally set in 2002, the Executive has met or expects to meet 83 per cent, or 135, of them. A further 7 per cent, or 11 targets, were replaced in the spending review 2004. Progress has been made on many of the remaining 16 targets but completion of several of them has been delayed by factors that are outwith the Executive's control. One example is spending on flooding initiatives, which are often delayed by local objections to schemes.

The report underlines the fact that we have made real progress against the targets that we set as part of the 2002 spending review. Genuine achievements have been made on all matters and particularly on our key priorities. The report highlights great progress on delivering the transport infrastructure that the business community expects and the highly skilled workforce that it needs. It also underlines the progress that we have made on increasing the

availability and quality of affordable housing in Scotland.

Nonetheless, it is important to recognise that the targets were drawn up four years ago. We have made significant progress across the board since many of the original SR2002 targets were set. Many of them were superseded or replaced following a recommendation in June 2004 from the committee to drop 64 of the original targets. We took account of that recommendation in setting a smaller number of targets in spending review 2004, but the spending review targets for 2002 had already been published, so our final report on them reports—rightly—against all the original targets.

Some criticisms have been offered. The committee adviser's briefing note on the draft budget notes the absence of targets on the cross-cutting themes of sustainable development and closing the opportunity gap while acknowledging that some sustainable development targets are in the portfolio chapters. The Executive believes that the cross-cutting themes are approaches that should inform the policy and delivery work of all portfolios, so it was decided in the 2002 spending review that in the spending review document targets that contribute to sustainable development and closing the opportunity gap should sit with the portfolios that are principally responsible for delivering them rather than separately. However, targets that contributed to promoting social justice were extracted and published in "Closing the Opportunity Gap: Scottish Budget for 2003-2006", which accompanied the main spending review 2002 document.

The budget adviser's briefing paper also highlights that there are no comparative data or targets on the Executive's number 1 priority of growing the Scottish economy. The Executive's "Framework for Economic Development in Scotland" does not set targets for particular elements of the Executive's economic vision; rather, it provides the context in which the decisions that face the Executive should be considered. We focus on the fundamental conditions and objectives that are needed to create a responsive and flexible economy. The outcome objectives in the "Framework for Economic Development in Scotland" encompass growth and sustainability objectives.

I hope that that information will assist the committee in its scrutiny of the draft budget for 2007-08. I know that members may wish to raise a range of issues and I will do my best to answer any questions. Given the range of issues that could be covered, we might require to write to the committee on several points to provide further information.

**The Convener:** I am sure that we will return to several issues in your opening statement. However, as I said, we held useful workshops this morning and it might be useful for initial questioning to reflect some of the issues that people raised with us in the workshops.

**Dr Murray:** I appreciate that some questions that arose from this morning's workshops do not necessarily fall principally within the minister's responsibility; they might be issues for some of his Executive colleagues.

I was involved in the economic and rural development workshop. There is significant concern in Dumfries and Galloway and the Scottish Borders about future European structural funds arrangements from 2007 onwards. We had considerable success with the previous arrangements in the south of Scotland and I understand that our partnership arrangements have been widely recognised and praised in the European Parliament for their success in bringing together the various players. However, there is concern not only that the amount of money available throughout Scotland will reduce, but that the arrangement whereby the south of Scotland is grouped with Edinburgh, Glasgow and the central belt could result in a much more urban focus on structural funding that might not reflect the kind of projects that have been so successful in Dumfries and Galloway and the rest of the south of Scotland.

Although I appreciate that the new arrangements are a fait accompli, perhaps we could have a reassurance that the approaches that have been successful in my area can continue during the next period of the operation of European structural funds so that we do not lose out totally.

**Mr McCabe:** I can be helpful only to a degree, partly because of what Elaine Murray mentioned at the start of her question—the detailed information is the responsibility of my portfolio colleagues.

This sounds obvious, but we have to start from the understanding that the totality of European structural funds is reducing. Although that will cause particular difficulties right across the board, it might be felt more acutely in areas such as Dumfries and Galloway. The Executive is interested in making the absolute best use of the funding that is available to us and in concentrating on the match funding that went along with previous levels of funding, because how we apply that funding is also very important.

I understand the anxieties in different parts of Scotland, but we have all known for some time that a consequence of European Union enlargement would be an impact on the

distribution of finances across the board. Part of that impact is the reduction in the level of structural funds.

**Dr Murray:** I appreciate that you cannot offer an easy solution to the problem, but I ask you for assurances about the advantages that we have had. We accept the 45 per cent reduction in structural funds throughout Scotland; we also accept that our current position is better than when Scotland got absolutely nothing. Although we acknowledge that a lot of work has been done by colleagues in different legislatures to try to ensure that Scotland has a share of the funding, we still have concerns that the current arrangements might impinge more deleteriously on the south of Scotland than on certain other areas.

In the workshop this morning, we spoke about the Scottish Executive's metropolitan strategy. Although everybody recognised that it could have advantages for Scotland as a whole, we in Dumfries and Galloway and the Borders have some concerns about it because we do not link to one particular city. It has been said that five cities influence the south of Scotland—Edinburgh and Glasgow in Scotland, Carlisle and Newcastle in the north of England and Belfast in Northern Ireland. We want to ensure that the metropolitan strategy takes account of cross-border issues. The strategy will have to be negotiated differently in the south of Scotland to take advantage of the different cities. We need to form partnerships across the boundaries of the component nations that exert influence on the south of Scotland.

**Mr McCabe:** I do not disagree with anything that you said. We are committed to consulting as much as possible to try to make sure that we achieve the right shape for the application of future funds. We want to ensure that people feel that they have had maximum opportunity to have an input into the final shape of any programmes and to express their view about any opportunities that they feel are being missed.

**Alasdair Morgan:** I was in the group that discussed transport. Again, I realise that that is not your specific responsibility, but Dumfries and Galloway is a large area and there are significant distances between its local centres and between the area and the metropolis. There is limited access to private transport because it is an area of low wages, but there is also limited availability of public transport.

The participants in my group, who were given the budget documents before the discussion, were struck by the fact that two of the 10 targets on transport relate specifically to the Highlands and Islands and that the others are fairly general. The participants felt that some of the general targets have limited applicability to Dumfries and Galloway. They are worried that that generality,

together with the specificity of the targets for the Highlands and Islands, shows that the Highlands and Islands are often seen not just as the exemplar but as the only example of all that is rural and remote in Scotland. Will you take that concern back to the Minister for Transport? There are other areas of Scotland that have significant transport issues in relation to their rurality and their remoteness from the main urban centres.

**Mr McCabe:** I am more than happy to do that. It is extremely important, from the Scottish Executive's perspective, that we say the same things to different people in different parts of Scotland. There is always a danger that people are given the impression that particular areas are favoured. We should be looking to grow the economy by putting in place the appropriate physical infrastructure and other infrastructure to benefit communities throughout Scotland. I would be concerned if there was a feeling in the south of Scotland that that is not happening and that greater emphasis is placed on other areas that are flagged up as the most challenged rural areas. My colleague the Minister for Transport would be equally concerned about that. I will make sure that he is aware of the concerns that were expressed to you this morning.

**Derek Brownlee:** I, too, was in the group that discussed transport. It is fair to say that there was a consensus that, unless you sort out transport in Dumfries and Galloway, many of the other problems cannot be resolved. Transport is a key strategic issue for the area.

Alasdair Morgan mentioned people's belief that Dumfries and Galloway does not get its fair share. I ask you to comment on—or to take up with the Minister for Transport—the prioritisation of projects. How can that be done in a way that is fair to areas that have sparse populations and do not have the level of advocacy that other areas have? I do not expect you to be able to provide the information now, but will you come back to us with information on the relative share of the transport budget that has come to Dumfries and Galloway and the Borders since devolution?

**Mr McCabe:** I expect people in any particular area to pursue specific transport projects that they regard as projects that will contribute to the economic development of the area. In addition, with regard to transport, we need to think about the wider impact of the infrastructure that is put in place. A piece of infrastructure might not immediately relate to a geographic area but it can bring benefits to that area and to many others too.

I agree that physical infrastructure is critical to growing our economy here in Scotland. That is an easy statement to make but it is sometimes a hard statement to put into practice, as you well know. We had to jump many hurdles to try to complete

the M74 motorway. According to some people, we were bringing the world to an end, yet I know that, for example, Frank McAveety's constituents will be drawn into economic activities because that road has been completed.

Of course we need to be aware of our impact on the environment, but if I understand your comments correctly, people in Dumfries and Galloway are saying that they recognise that physical infrastructure is important because it is a key determinant of economic development. They are right about that. We need to strike the right balance in our approach and make sure that we do all that we can to assist with the right physical infrastructure programmes and with the economic development not only of Dumfries and Galloway but of Scotland as a whole.

14:15

**The Convener:** Is it perhaps the case that areas that have access to particular types of expertise—often embedded in organisations such as Highlands and Islands Enterprise or the big city councils, where there are specialist staff with good skills in developing infrastructure projects—are advantaged because they have the resources to develop projects to the point at which they can be brought to the table? Are areas that do not have such resources to build up and mount projects relatively disadvantaged, so that the available resource is not necessarily allocated totally on the basis of need but rather on the basis of which areas of the country have the resources to propose the best project, which is a different thing? Is that something that the Scottish Executive needs to examine? Ultimately, that approach will skew the allocation of projects to areas of Scotland that are already getting projects.

**Mr McCabe:** I suppose that you are suggesting that the people who can shout the loudest get the resources. Some people shout in a more acceptable fashion than others, but it is probably a rule in life that the people who can make the strongest case are the people who get the resources. It is undoubtedly the case that, given the public services that some of our larger urban areas have to operate and the population numbers that they oversee, they have a set of skills that can be used to expand their thinking and to consider projects that could give them the competitive advantages that other areas also seek.

I do not think that the disadvantage is necessarily as big as it might seem at first. I am quite convinced that there will be people in the Dumfries and Galloway area, as there are all over Scotland, who are absolutely committed to the development of their area and who have the capacity to develop the forward plans and regeneration plans that would have a dramatic



impact. I have not noticed any particular deficit in this area's ability to lobby the Scottish Executive in comparison with any other area's ability to do so, and I am sure that there is an equal determination in this part of the country to put forward imaginative plans that will benefit the community here.

**Mr Arbuckle:** A point was made in the morning workshop sessions about the number of funding sources that exist and about the fact that it is difficult to maximise them. Will your cross-cutting expenditure review improve the situation by reducing the number of sources to which areas have to apply?

**Mr McCabe:** I see a great case for streamlining the funding mechanisms that are currently in place. I have often said that I would like us to move further towards an outcome-focused approach that rationalises funding streams and spends less time asking people to work up complicated business cases for relatively small amounts of money. There is a great case for ending that level of complication if the sums that are sought are relatively small, but there is also a strong case for ensuring that the general public are getting the most that they can get for the expenditure, given that we are expending pretty substantial amounts of public money. We have to balance the equation. At the moment, we spend too much time trying to subdivide funding streams, and perhaps we spend too much time trying to monitor things in a way that is difficult to sustain.

**Mr Swinney:** How is that work being progressed within the Executive? A common refrain from the participants in this morning's tourism workshop was that there are numerous funding streams and that it is difficult for individual organisations, particularly those in the voluntary sector, to navigate them. It might help if people were informed about how the Executive is working to achieve a rationalised range of funding streams.

**Mr McCabe:** As you know, we are engaged in dialogue around public service reform. One of the things that we have said is that the process does not apply only to the delivery agents that deliver policy for us or to public sector organisations outwith the Scottish Executive; the Scottish Executive has to be an integral part of the process. We are therefore conducting an internal review of the number of funding streams and are examining ways in which funding streams could be collapsed together. We are spending a lot of time stressing the point to various parts of the Executive that it is important that we seriously consider how we operate and engage with other public service organisations if we are to maximise the opportunities that come from public service reform.

I hope that the various strands of work that are going on in the Executive will form part of our conclusions on the wider public service reform agenda.

**Mr Swinney:** The final concern that was raised this morning related to the metropolitan agenda that is being pursued by Scottish Enterprise—I appreciate that that is not in your portfolio, but I hope that the Executive will reflect on this point. In this part of the world, there is a feeling that the increasing focus on city regions will have adverse consequences for areas that might be peripheral to that agenda. Has the Executive looked in any detail at such questions or put in place any initiatives that might address the concern that has been expressed?

**Mr McCabe:** We have said on many occasions that our cities are engines of economic growth. We want to ensure that our cities can compete with the best European cities. There are examples that show that we are making good progress in that regard. For example, Edinburgh and Glasgow are showing signs of standing out among some of the major European cities. However, it would be impossible for me to disagree with the conclusion that it would be a disaster if, in attempting to improve the performance of our cities and maximise the ways in which they can drive economic growth, we abandoned other parts of Scotland. That would be totally contradictory and inconceivable.

I can understand that, perhaps as a consequence of the fact that some of our cities are becoming extremely successful, people in rural areas see themselves as becoming progressively disadvantaged. If that is the case, it is important that we correct that misconception with some speed.

**The Convener:** I think that we have dealt with a number of the issues that have arisen from the workshops this morning. If there are any outstanding issues, we can deal with them in correspondence. We should now turn our attention to the budget documents.

**Derek Brownlee:** We have a useful breakdown of the additional £725 million and some of the factors that have driven that change. Could you sketch the allocation process in broad terms? How do you balance the priorities within that £725 million?

**Mr McCabe:** About £680 million of that money was allocated to portfolios during the spending review of 2004 and has been sitting there since. At the request of the committee, we have tried to add a narrative around the component parts on a year-on-year basis. Clearly, during any spending review, various portfolios make bids and do their best to justify those bids, a good example of which

is the bid on waste. We set tough targets to try to improve our recycling performance and it seems to me that we are making substantial progress. The most recent report, from autumn 2005, showed that we had recycled 22 or 23 per cent of waste collected by local authorities, which is getting towards our target of recycling 25 per cent of such waste in 2006. We are making good progress towards our target for 2008, which is to recycle 30 per cent of that waste. Obviously, any portfolio can present a business case for increased investment in that area if it regards the target as worth while.

**Derek Brownlee:** If roughly £600 million has been driven by the previous spending review, is your room for discretion pretty limited? Would there be more room for discretion if you decided to change some of your priorities?

**Mr McCabe:** I do not think that our discretion is limited. It was to everyone's advantage that we brought in a process so that, over a spending review period, we could allocate the budgets at the start and therefore allow people to plan with certainty.

Sometimes, a particular portfolio will not require the increases that were originally intended for it. As I mentioned earlier, some of the money that was made available for flood schemes was not taken up. We now have the facility to put that money into the central unallocated provision so that, when schemes do come through, the money is there for them.

If a pressing case arose, it would always be possible to reprioritise. That would involve the kind of discussions that took place right at the start of the spending review process. We would have to explain to portfolios why some priorities were changing slightly. If the reason was good enough, I am sure that people would understand it, even if they did not necessarily happily accept it.

**Derek Brownlee:** Two thirds of the £725 million has gone to health. Obviously, health is a major spending portfolio, so it is inevitable that in any revision a significant proportion will move towards health. Was it a strategic decision to spend more on health? How much of the change was driven by other on-going projects? Of the £483 million increase, how much has gone to cover additional pay?

**Mr McCabe:** I do not have a precise figure. The £483 million was designed to improve the performance and aid the redesign of services within the health service. The figure reflects the priority that we afforded to health and we make no apologies for it. Not all the recipients of money from the Scottish budget were happy. The health service was quite happy, but not everyone was. However, we felt that there was a good case for making health a priority.

I do not have an exact figure for how much of the £483 million has gone on pay, and I do not even know whether that could be worked out in the short term.

**David Stewart (Scottish Executive Finance and Central Services Department):** The amounts in the health budget for each of the three years of the spending review reflected the agreed pay deals following on from agenda for change. The pay deals were appropriately funded from within the total amounts.

**Derek Brownlee:** It must be feasible to identify, if you were so minded, how much of the £483 million relates to pay.

**Mr McCabe:** The key phrase there was "if you were so minded". I could not necessarily drill down into the figure today, but I am sure that, if we decided to spend taxpayers' money on setting somebody that task, we could come up with an answer.

**Derek Brownlee:** It would be useful to know the answer. I would not expect you, minister, to be able to tell me today the proportion that goes on pay, but it seems to me that you ought to be able to ascertain the figure pretty readily.

You have said, and it is in the draft budget, that the rationale behind the £483 million is to improve performance and to reform and redefine service delivery. What measures have you put in place to track the performance of the additional £483 million?

**Mr McCabe:** At the start of the spending review process, we set a range of targets. The £483 million makes its annual contribution to the achievement of those targets.

**Derek Brownlee:** So there are no specific targets to help us identify whether the £483 million is, of itself, contributing. It is in with a larger pot.

**Mr McCabe:** No, targets were set when the overall expenditure over the spending review period was announced. The expenditure is allocated annually, and this year's proportion is the allocation for 2007-08.

14:30

**The Convener:** Since 2003, we have had a significant settlement for general practitioners and primary care and a significant refunding package for hospital doctors. You have said that you are interested in the outcomes from the resources that are being expended. Is it possible to ask the Minister for Health and Community Care for an assessment of what we are getting for the additional money? I remember the first financial memorandum that the committee looked at in 2003, when there was uncertainty about what the

funding package meant and how much cash would be involved. Two years on from implementation of the agreement, it should be possible to identify how much it has cost across Scotland and the timetable for the delivery of the increased outputs and outcomes that were promised. Could you take that up with your ministerial colleague?

**Mr McCabe:** Yes, I can certainly pass on that request. From my previous experience, I know that there will be information. For instance, certain remuneration for general practitioners comes from the awarding of quality customer care points. A number of aspects should be measurable, given the amount of money that has been allocated against the points that are generated. There must be an on-going analysis, and I can put the question to the minister and see what information is available.

**The Convener:** I am concerned that £483 million out of £725 million is a huge share of the total growth. There is a question about how long that scale of growth can be sustained in the longer term. Also, ministers may have different spending priorities in the future, so I am interested in the extent to which we are locked into the growth in public expenditure being pushed in the direction of health. Is it just that we are going through a period of significant uplift because of salary issues, service changes or demographics? Are there any figures that look two or three years ahead to show what increases will be required as a result of either known financial commitments from pay deals and so on or long-term trends in care? That would be useful to us in the context of the spending review; I presume that the Executive is already engaged in such work.

**Mr McCabe:** There are a number of reasons for the emphasis on health across the spending review, and you rightly alluded to some of them. You missed one or two, including previous neglect, and the health service requiring substantial investment.

Health is dynamic. The demands on the service increase constantly, sometimes because of advances in medical science or technology and always because people's expectations and aspirations rightly increase. It is a service that will always require substantial investment because it reflects the society that we want to create. Our health is arguably the most important thing in our lives and people want recourse to a health service. They want to go through their lives with the assurance that the service will exist and respond appropriately to them at the right time.

I make the point that there has been substantial investment in the restructuring and redesign of the health service. In itself, that not only will produce improved services that are closer to people and more convenient, but will deliver sustainable

services for the future. People will feel the benefits of that investment for some time to come, perhaps one of the best examples of which is the substantial move from secondary to primary care. The number of procedures that people can now access locally has increased and people no longer have to attend a large general hospital, for example. The investment is also reflected in the kinds of procedures that are available to people in Scotland. What would have been a pretty complicated procedure a few years ago can now be done using the day-patient system or during a short time in hospital. It can also be done in a way that gets the patient back to full mobility and health much faster than in the past. Those are all advantages of our investment in the health service, the nature of which ensures that those advantages will be there in the future.

The Executive is doing joint future work to examine demographic trends and to assess the kind of services that our society will require. We are also examining the impact that those demographic trends will have on our national health service in terms of the conditions that will have to be treated and the availability of staff to treat those patients who will require the service. Substantial work is being done and we all know that the health service faces the challenges of keeping pace with people's expectations and of changing to reflect the demography of this country and the different nature of the demands that will be placed upon it.

**Derek Brownlee:** I am not convinced that the people of Jedburgh or Coldstream would entirely agree with you on that point.

In your opening statement, you mentioned that the Executive is seeking to focus on economic growth within the budget and the incremental £725 million. Where is the emphasis on growing the economy as opposed to any of the other competing priorities?

**Mr McCabe:** Many things contribute to growing the economy, such as a successful and responsive health service. At the risk of sounding facetious, it might help a country with demographic challenges if we keep people alive a bit longer. There are some areas of the country where the average life expectancy for males is 63 years. A health service that is focused not only on treating diseases, but on preventing them, will produce economic benefits for the country. That is just one example; examples of investments that will contribute to our economic development are laced all the way through the budget document.

It would be superficial, to say the least, if we simply allocated a block of money and badged it for economic development; things do not happen that way. We all know that a variety of actions throughout life contribute to our economic

development. We discussed physical infrastructure, which makes an important contribution to our economic development. I have also referred to health. Several areas contribute to our economic development and it is with that in mind that we make the investments that we do.

**Derek Brownlee:** The draft budget refers to the importance of health in the growth of the economy. The main direct contributor to growth is employment, but you were unable to tell me how much of the health budget increase will be used for the pay element. The other contributor is improved productivity, but you did not seem to be able to explain what would drive improvements in performance and productivity. I understand your general point, but where is the specific evidence that something is going on beyond the mere spending of money to achieve a quite different objective?

**Mr McCabe:** I do not really understand the link that you make between employment and pay—the suggestion that the fact that we could not give you figures on pay in the national health service was somehow linked to not being able to explain how we are growing our economy or affecting our employment levels.

If you are looking for evidence, the fact is that more people are economically active in Scotland than at any time in our history. You can look at the way in which, in the past eight quarters, our growth rate has exceeded its trend. You can look at the unemployment rate, which is at its lowest ever level and is better than that anywhere else in the United Kingdom. There is plenty of economic evidence if you look for it, but whether you do that is a matter for you.

**Derek Brownlee:** Of course, statistics other than those on unemployment exist, such as those on the proportion of people who receive disability living allowance and incapacity benefit, which might also be relevant.

The link that I was trying to make to employment comes from page 122 of your draft budget, which says that employment is a major contributor to the Scottish economy. As a result of that, I thought that if NHS spending was driving that major contribution, you would have more of a handle on how much of that spending was on pay. That was the simple link that I was trying to make.

You said explicitly that you did not want to set a target for economic growth and we could disagree about whether that was the right decision. However, even without setting a target, should you not be able to measure the contribution that you make to economic growth?

**Mr McCabe:** Within the different actions and budgets in the documents, bodies set internal targets. Scottish Enterprise sets several targets,

as do other bodies. Other factors have an impact on the economy, such as the macroeconomic situation. Thankfully, the stable macroeconomic situation in the past few years has made a positive contribution.

I am not entirely sure what your point is. If you could say, “Here are six major economic indicators that are all negative, so your investments are not producing a result,” I could see some merit in your proposition. However, you cannot do that. I can say to you that a range of significant indicators are positive. That is not happening through osmosis. I suggest that the investments that the Executive is making, combined with the macroeconomic situation that the Government in Westminster has created, all lead to an economy in Scotland that is in better fettle than it has been for a long time.

**Derek Brownlee:** Perhaps I was a little too subtle. I was trying to suggest that you could measure economic growth without setting a target for it. You could measure the contribution that was being made without targeting a 2 per cent rate rather than a 3 per cent rate. However, rather than getting wound up about that, we should move on.

The helpful analysis that was provided to the committee of the resources that are held at the Treasury was current as of 4 October 2006. Has the position changed significantly since then? Does the contribution that is described in your letter still stand substantially as an accurate representation?

**Mr McCabe:** I am not quite sure about that. Will you repeat your point? We have an autumn budget revision coming up, which we will discuss in a few minutes.

**Derek Brownlee:** I was simply trying to work out whether the figures that were presented to us on 4 October had changed materially or whether we could use them as a starting point.

**Mr McCabe:** The figures can be used as a starting point, but with the caveat that we are discussing a draft budget, which was presented initially in the first week of September—about six months before the start of the financial year. It would be strange if the document did not evolve.

**Derek Brownlee:** I was not seeking to challenge the figures; I just wanted to be clear that they were still what we thought they were.

In your letter of 4 October, you say:

“As a result of the continually evolving financial picture, it is simply not possible or sensible to badge individual pounds against individual projects”—

that is the point that you were trying to make. In the letter, you give a broad outline of spending intentions. I understand what you say, but is it

sufficiently rigorous to be able to say that, of £780 million, it is

“not possible or sensible to badge ... pounds against ... projects”?

**Mr McCabe:** Yes.

**Derek Brownlee:** Where is the rigour in that process?

**Mr McCabe:** We have said that we would draw down money, but the situation is not set—elements may change and evolve. There is rigour in the process—I have no doubt whatever about that. Why do you think that the process is not rigorous?

14:45

**Derek Brownlee:** More than £440 million of the £780 million covers such things as

“potential portfolio CUP drawdown and other emerging pressures.”

Are not the headings rather vague? How can we be sufficiently confident that the moneys will be spent? Is that all that you know about them? That seems rather odd.

**Mr McCabe:** Let us consider what have been described as potential draw-downs from the CUP. There can be a range of reasons for delaying capital expenditure. If it had been up to the Executive, cars would be rolling along the M74 extension at the moment. Although people have intervened, cars will eventually roll along it. We are not in complete control of that process, so it is difficult to say that we should be rigorous in it. There is also a substantial building programme in the education sector, which might be delayed if heavy snow falls this winter. Therefore, it is impossible to be precise about what the exact pattern of that expenditure will be.

**Derek Brownlee:** Obviously, we are talking about a large sum of money. Last week, we considered evidence from the permanent secretary to the Scottish Executive. We were told that the Executive was unable to tell us how much money had been spent on any of the legislation that it has introduced since 1999. There seems to be an awful lot of vagueness around and a lack of detail on a significant amount of taxpayers' money, whether in the budget or in what we considered last week. The rigour that we might expect does not seem to exist, which strikes me as unusual. Do you agree with the permanent secretary? Should we not be able to identify how much each piece of legislation has cost the taxpayer?

**Mr McCabe:** When we were at school, we sometimes saw the world in black-and-white terms, but in the real world, we find that things are seldom as black and white as we thought they

were. I have tried to explain why a precise pattern of expenditure cannot be given, particularly with regard to the draw-down from the CUP, and that there can be delays in major capital projects. I have done enough to try to make my point.

**Derek Brownlee:** I left school some time ago and have some experience of financial matters.

**Mr McCabe:** At school?

**Derek Brownlee:** Subsequent to school, Mr McCabe. I would like a clear answer. Is it acceptable that the Government cannot tell us how much taxpayers' money has been spent as a result of the legislation that has been introduced? Is that a sign of a Government that has a handle on taxpayers' money and is delivering value for money?

**Mr McCabe:** There are more than enough signs that the Government is delivering value for money, that the investments that it has made and the legislation that the Parliament has passed—the Executive is not solely responsible for passing legislation; the Parliament must vote it through—are improving life in Scotland, and that the expenditure has been appropriate. People will always try to diminish those achievements, but I am confident that the case that our legislation and expenditure are improving this country's economic well-being is sound.

**Derek Brownlee:** So it does not worry you that you cannot tell us how much any of the legislation that has been passed has cost the taxpayer.

**Mr McCabe:** All bills are accompanied by a financial memorandum, but those documents are not designed to give the costs of bills ad infinitum.

**Derek Brownlee:** Or indeed what the costs will be at any point afterwards.

**Mr Swinney:** Mr Brownlee asked Mr McCabe about his letter of 4 October, which included the table entitled “Proposed drawdown from HM Treasury in 2006-07 & 2007-08”. The table gives a total figure of £350 million in 2006-07 and specifies in a fair amount of detail how £212 million of that will be spent, in a series of project lines, which are followed by a more general figure of £138 million. The table replicates that format for 2007-08, for which the general figure is £309 million. If it was possible to specify expenditure of £212 million on individual programmes in 2006-07, why did you not provide a similar breakdown for the £138 million in 2006-07 and the £309 million in 2007-08?

**Mr McCabe:** One explanation is that what you call the general figures include money in the central unallocated provision. We do not specify every project that is included in the figures, because that might be commercially sensitive information. We try to give as much indication as

possible, but we will not impinge on negotiations that might need to take place by being overly explicit about what is contained in the figures.

**Mr Swinney:** Are you saying that projects that might involve commercially sensitive matters account for all the £138 million in 2006-07 and all the £309 million in 2007-08?

**Mr McCabe:** No, I did not say that, but such projects could account for a substantial proportion of those figures.

**Mr Swinney:** Can you tell us what proportion of the figure for each financial year falls into that category?

**Mr McCabe:** I do not have that information to hand.

**Mr Swinney:** May we have that information? If it is possible to provide a financial breakdown for £212 million out of a total of £350 million in 2006-07 and for £121 million out of a total of £430 million in 2007-08, the committee would like a further breakdown, so that we have as much detail as possible. I accept that some projects are commercially sensitive, but I think that a line in the table that told us that such projects would account for £80 million, for example, would be acceptable to the committee. You anticipate spending pressures of £138 million in 2006-07 and £309 million in 2007-08, but your failure to specify how those figures might alter budgets generates a lack of clarity in the material that you have supplied to the committee.

**Mr McCabe:** We do our best to improve information if doing so is helpful to the committee. I do not know to what extent I will be able to do so in this context, but I will investigate the matter. The figures reflect not just projects that might be subject to negotiation but a range of transactions, perhaps including underspends that have emerged. There is a rolling programme, which can be difficult to define, but we will do our best.

**Mr Swinney:** As I understand it, the table shows the money that the Executive proposes to draw down from the Treasury. You have provided adequate and helpful detail at the top of the table, but I am interested in getting as much detail as possible about the total figures of £350 million in 2006-07 and £430 million in 2007-08.

Does the figure of £309 million in 2007-08 include allocation for additional grant in aid for local authority expenditure?

**Mr McCabe:** It includes provision for expenditure that might emerge, but no specific amount is bagged for local government.

**Mr Swinney:** Finally, what is the total amount of money that is held on behalf of the Executive at HM Treasury?

**Mr McCabe:** It is £1.4 billion.

**The Convener:** I have a couple of questions on the figures on which you can give us information. Does the allocation for Scottish Enterprise capital charges deal with the problem of Scottish Enterprise having no money in its resource accounting and budgeting allocation? Is that a mechanism for sorting out the problem in advance of the spending review, at which time it can be dealt with more systematically?

**Mr McCabe:** Yes.

**The Convener:** That is useful to know.

The other issue relates to the broadband pathfinder projects, one of which I understand is the south of Scotland pathfinder project that was announced a few days ago. What is the figure for the project?

**Mr McCabe:** I cannot give you that figure at the moment. I will get it for you.

**Dr Murray:** I think that it is £38 million.

**The Convener:** So that may be the figure for 2007-08.

**Mr McCabe:** We will confirm that to the committee.

**The Convener:** That would be useful. Obviously, it is good news for the south of Scotland.

**Dr Murray:** I seek clarification on the additional funding for tourism, culture and sport, although the portfolio minister may have to clarify the point. On page 14 of the document tabulating the increases in spending, I note that the increase for 2007-08 is £12 million and that the £20 million for the Cultural Commission is offset by other reallocations. The explanation seems to suggest that some of the offset comes from the removal of

“the presumption of continuing baselined funding from a range of organisations who are performing less well.”

Recently, there have been high-profile reductions in funding for various theatre companies. On page 9, in the “Proposed drawdown from HM Treasury in 2006-07 & 2007-08” table, I note that the “Response to Cultural Commission” line for 2007-08 is the whole £20 million.

**Mr McCabe:** Which page 9?

**Dr Murray:** It is your letter of 4 October, but I am not sure whether we have the same numbering as you have. We discussed the table earlier.

**Mr McCabe:** I see it now. I am sorry.

**Dr Murray:** The table on page 9 shows the entire £20 million being drawn down. I am not sure how to reconcile that with the other table, which suggests that £8 million of the funding for the

Cultural Commission is being found from within the portfolio.

**Mr McCabe:** The document is giving you the net addition. It is saying that £20 million is going in but that other reductions are being made within the portfolio. We are indicating a net addition.

**Dr Murray:** I may be being rather simple-minded but, if £20 million is being drawn down from the Treasury for the Cultural Commission in 2007-08, and not all of the money is going into tourism, culture and sport, what is happening to the rest of the money? It may be small beer in terms of the overall budget, but it seems that £8 million of the money that is being drawn down from the Treasury is not going to that budget.

**The Convener:** That is maybe an issue of reconciliation.

**Dr Murray:** Yes. Perhaps the portfolio minister can explain it.

**Mr McCabe:** We will get the committee clarification on that. The question is a detailed one.

15:00

**Mark Ballard:** In the "Draft Budget 2007-08: Final Report on Spending Review 2002 Targets", the four key challenges of the partnership agreement are shown—growing the economy; delivering excellent public services; building stronger, safer communities; and revitalising our democratic frameworks. In your foreword to the "Draft Budget 2007-08", you set out five key priority areas—growing the economy; reforming criminal justice and promoting respect; improving the nation's health; improving educational attainment; and safeguarding the environment. Later in that document, you report on progress towards the cross-cutting themes. There were three of those, but there are now four—growing the economy, closing the opportunity gap, promoting equality and sustainable development. Growing the economy is common to the four challenges, the five priority areas and the four cross-cutting themes. Are you confident that, within those challenges, priority areas and cross-cutting themes, you have a coherent set of priorities to drive the budget?

**Mr McCabe:** The short answer is yes. We have a coherent set of priorities to drive the budget and to achieve the aims that we set out in the partnership agreement at the start of our Administration.

**Mark Ballard:** Do you not have any concern that the key challenges, key priority areas and cross-cutting themes are so different and include different elements?

**Mr McCabe:** No. At different stages of the document, we clearly express the things that we regard as necessary to achieve our overall objectives. I do not see any contradiction between them.

**Mark Ballard:** Which are the overall objectives? Are they the key challenges, the key priority areas or the cross-cutting themes?

**Mr McCabe:** They all relate to one another. If we set six targets, there could be 60 challenges in achieving them. We have identified some of the challenges that are involved in achieving the targets that we set.

**Mark Ballard:** But, for example, revitalising our democratic framework does not appear as one of your key priority areas or as a cross-cutting theme. The environment appears as a key priority but not as a key challenge. Does it not concern you that there are such differences between the different frameworks that you set out in the budget documents?

**Mr McCabe:** In short, no. It does not concern me at all.

**Mark Ballard:** Well, I find it concerning.

I am interested, as ever, in how the cross-cutting themes relate to the decisions that you make. I pick up Derek Brownlee's points about the cross-cutting themes—particularly growing the economy, which you highlight as the only common factor between the themes, the priorities and the challenges. How did that theme influence your decision on the additional moneys in the budget?

**Mr McCabe:** As I said earlier, the budget reflects the priorities that were set and the portfolio allocations that were made in the spending review 2004. The budget simply allocates on an annual basis the amount of money that was flagged up at the time of SR 2004.

**Mark Ballard:** Derek Brownlee mentioned the £483 million increase in the health budget, which is part of the total of £725 million of extra money. When you considered how the additional £725 million should be divided up, did you consider the cross-cutting themes as part of the process? In particular, did that lead you to spend such a high proportion of the £725 million—that is, £483 million—on the health budget?

**Mr McCabe:** The short answer is yes.

**Mark Ballard:** Growing the Scottish economy is your top priority. Is spending such a high proportion of the increase on health the best way to grow the Scottish economy?

**Mr McCabe:** I would not say that it is the best way to grow the Scottish economy. I concede that our number 1 priority, which we have stated on too many occasions to count, is growing the Scottish

economy, but we have also said that our health service requires significant investment and that we are determined to meet the major health challenges, including the three killer diseases that have a particular impact on people throughout Scotland. By doing so, we will enable our health service to make a significant impact on our economic growth and quality of life.

**Mark Ballard:** My concern is that, having identified growing the economy as the key priority in this web of challenges, priorities and cross-cutting themes, you do not appear to have made growing the economy your key priority when you came to allocate the £725 million. The health challenges were identified as the key priority.

**The Convener:** With respect, I think that we are getting into a rather circular debate. In my view, which may not be the minister's view, saying that something is the top priority does not necessarily mean that most of the budget should be spent on it. Given the Scottish Executive's responsibilities, health will always be the biggest area of expenditure in the budget. The argument that there should be a read across does not apply.

**Mark Ballard:** With respect, convener, we are talking not about total expenditure but about the increase in expenditure. As the briefing from the Scottish Parliament information centre makes clear, the health portfolio receives not only the biggest absolute increase but an increase of 5.1 per cent. In percentage terms, only two other portfolios have been given increases that are significantly above the average across-the-board increase of 2.4 per cent. That is why I am asking about the Executive's priorities.

**The Convener:** That is a fair point, but Derek Brownlee has already asked those questions. I think that we are getting stuck on the same issue.

**Mark Ballard:** Let me move on to the targets—

**Mr McCabe:** It might be helpful to draw the committee's attention to the "Economic Impact of the Scottish Budget" report, which the Finance Committee commissioned from Experian. The report acknowledges that

"Improving the health of the Scottish population is ... an important driver of economic growth."

A report that the committee commissioned from Experian concludes that investment in health is an important component of driving economic growth.

**Jim Mather:** Does the minister accept all the findings of the Experian report?

**Mr McCabe:** No, I accept the bits that suit me.

**Mr Swinney:** That says it all.

**Mr McCabe:** In that, I am just like Mr Mather. He does that with most reports that pronounce about such matters.

**Mr Swinney:** Mr Mather has broader shoulders.

**Mark Ballard:** Moving on, I want to ask about the final report on the spending review 2002 targets. In the document, many of the targets are described as "replaced". I was particularly struck by some of the replaced targets. For example, the original target 3 for the education and young people portfolio was:

"Increase the number of children in Gaelic-medium education by at least 5% each year on the 2003-04 figure."

I refer the minister to page 20 of the document.

**Mr McCabe:** Which document is that?

**Mark Ballard:** The name of the document is "Draft Budget 2007-08: Final Report on Spending Review 2002 Targets".

**Mr McCabe:** I did not realise that we had moved on to the 2002 targets document.

**The Convener:** It is fine to deal with the targets document. The document that we have not moved on to is the budget revision.

**Mr McCabe:** I had thought that we would deal with the issues in three stages, but that is fine.

**Mark Ballard:** The original spending review 2002 target was to increase the number of children in Gaelic-medium education by 5 per cent each year on the 2003 figures. However, that target was replaced and became:

"Increase the number of children in Gaelic-medium education year on year, and by 20% by December 2009."

On that new target, the final report on the spending review 2002 targets states:

"Progress towards this new target is on track, with participation rising from 1,972 in 2003-04 to 2,052 in 2005-06."

By my figures, the increase is slightly over 2 per cent per year, which is about 40 per cent of the original target. However, the document states that you are "on track" for the revised target. The original target is described as having been "replaced", whereas in fact you failed to meet it. Is there an issue to do with how the document refers to targets that have not been met? The new target, which was set in 2005, is lower than the original target, which was not met.

**Mr McCabe:** We have learned lessons and there is evidence that we are making progress and the number of children in Gaelic-medium education is increasing. We continue to invest in the area.

**Mark Ballard:** There is a general trend in the report of describing targets that were not met as



“replaced”. On page 25, for example, you say that the target to

“increase the numbers ... taking part in sport to 70% of adults”,

has been replaced, but you go on to say that

“adult participation in sport has declined by 1%”.

It is clear that the target was not met. Are you concerned that the report describes the target as “replaced”, rather than “not met”?

**Mr McCabe:** The fact that we say that the target has been replaced does not concern me—it has been replaced. We are quite happy to say that the original target was aspirational and too ambitious, given the current circumstances in society. We have therefore tried to refocus the target in a way that gives us a greater chance of achieving it. As is the case in every country in the western world, we face increasing challenges to do with people's levels of physical activity. We are doing our best to reverse the trend and get Scotland into a better position, which is a substantial task.

**Mark Ballard:** In the interests of transparency, should the budget documents not say that the ambitious targets that you had set were not met?

**Mr McCabe:** I do not agree with you and I think that you are dancing on the head of a pin. By saying that a target has been replaced, we indicate that we remain committed to the objective, we think that it is necessary and we are determined to continue to drive it through.

**The Convener:** We move on to local government.

**Mr McAveety:** The committee has had a number of discussions about the settlement for 2007-08, which I think that most folk accept is very tight. In early February, the minister said that he would be willing to reconsider the settlement, depending on how local authorities responded to the efficient government initiative. What is the current situation?

**Mr McCabe:** We continue to discuss the situation with local government representatives—I say that against a background of, on one hand, believing that the committee encourages such activity but, on the other, having been accused of offering a bribe. My job as Minister for Finance and Public Service Reform is to cut through all that and continue to discuss the matter with local government, to try to ensure that if there is additional investment there will be an adequate return for the Scottish taxpayer. The discussions are very positive.

**Mr McAveety:** Local authorities are probably undertaking the early stages of their budget process with conveners and senior administrators. Are you close to reaching an understanding? Will

negotiations be concluded in the next month or two, or will they continue for a long period before March?

**Mr McCabe:** There will not be a long period of negotiation. We normally announce the draft settlement in early December and I anticipate that that will happen this year. When I make the announcement, I will reflect on progress that has been made—if no progress has been made, I will say so. We are always conscious that we need to bring matters to a head as soon as possible. That is why we announce a draft in December. We then consult local government and allow it to comment on the contents of the announced provisional distribution, which is then usually confirmed sometime in early February.

15:00

**Mr McAveety:** I know that it is difficult to make specific comment, but press reports have indicated that £100 million could be found through the process. Are we close to any of the figures reported? I see those as incentivised opportunities for local government rather than bribes. How close are we to those figures?

**Mr McCabe:** I do not think we should draw any conclusions about our budgetary process from the speculative information contained in press reports. You might want to spend some time analysing the motivation behind those press reports, but whether that is useful or not is another matter.

It would be wrong of me to start giving ball-park figures at the moment. I am discussing with senior figures in local government what the potential is for next year's budget. An important part of those discussions is about what we can get back for any additional investment. I think that the public are looking for reassurance about service levels and stability, and those discussions are continuing in a very positive and cordial manner. It might compromise some people's position if I started to give indicative figures at this time. However, I believe that we are on track to make our announcement at the usual time in early December. I hope that I can say something about an enhanced figure for local government at that time, but I cannot guarantee that.

**Mr McAveety:** Do you expect the local authority leaders to apply the savings that are generated from greater efficiency to keeping council tax levels relatively stable? I say that because I am in a city that, since the emergence of the new Government in 1997 and the Executive in 1999, has managed to keep council tax increases down. That is certainly a great benefit to those who were previously suffering increases of 10 per cent, 15 per cent or 20 per cent. Is any sense of reality permeating your discussions with local authority

leaders about ensuring that much of the savings can be used for keeping down council tax?

**Mr McCabe:** Because of the first-class performance of local government, it is recognised that the local population highly desires stability in the levels of local taxes. Last year, increasing recognition was given to the fact that we delivered the lowest average council tax increases since devolution. That was a compliment to local government, although clearly some people misrepresented the position. My strong aim is to continue that trend.

**Mr McAveety:** That was my final point. You will want to get a strong message out that you want to continue that process.

**Mr McCabe:** Absolutely.

**Mr Arbuckle:** I have one question on the local authority settlement. In your discussions with council leaders, are you talking about the massive increase in the demand-led services, such as the social work service? Are you insisting on the councils not putting too much downwards pressure on their non-statutory obligations? It is the non-statutory services that get pushed out of existence in any squeeze on local government spending.

**Mr McCabe:** I hope that the committee will understand that it would be wrong of me to go into too much detail about the private discussions that are being held at the moment. Obviously I do not want to impinge on anything that might emerge from those discussions. However, I think that I am happy to say that I have stressed the view, which seems to have been accepted by our local government colleagues, that we need to introduce far more certainty into the existing and projected costs of care services in Scotland, whatever form those services take. We have discussed here and in other places the substantial demographic pressures under which we will come and how the nature of demand on those services will change. I also think that the volume of those services will change. It is therefore important that we try to get a lot more certainty about the cost of those services and that we examine seriously the best practice involved in delivering them, to ensure that we are not expending money unnecessarily in one area of the country if another method of service delivery could produce more satisfactory results with less expenditure.

**The Convener:** I would like to ask about funding for local government outside aggregate external finance. I know that issues have arisen in relation to what is being recorded and whether it is consistent on a like-for-like basis. Can you clarify the issues in relation to the comparability of information from one year to the next and the degree of inclusiveness of table 7.03?

**Mr McCabe:** First, as I said, we are dealing with a draft budget document that is produced pretty early in the process, and none of us should expect completeness in the figures. By the same token, I sometimes think that the more the people who comment on such things talk, the more they should be able to understand the context in which figures are presented. I do not say that to score any points, but when we speculate about what could look at face value like significant changes in the level of funding for certain services, it can cause a lot of anxiety, not just among professionals but among people who put their children forward to receive those services. Examples of that were discussed extensively in the press a few weeks ago. It is extremely unfortunate when such anxiety is generated unnecessarily.

The figures in some of the tables in the draft budget represent work in progress, and some ministerial colleagues were not in a position to conclude the final figures. In some cases, because of the demand-led nature of the funding, it was not possible to put a final figure in the draft budget. It was particularly unfortunate that, in some instances, where blocks of money were moved from grant into core local government funding—so that funding was consolidated and secured for the future—that was portrayed as a potential cut. That causes unnecessary anxiety.

The Executive has agreed that we need to think about including footnotes in the draft budget. Perhaps they are lacking because we expected, wrongly, that people would cross-reference the figures with different documents, such as previous draft budget documents and the previous budget itself. Lessons can be learned about such things, but an explanation has been given. I wrote to you to explain some of the figures, convener, and I hope that we can avoid such confusion in future, not just for my sake or for the sake of the committee, but for the benefit of people who depend on services.

**The Convener:** It would be useful to footnote the information in future, so that we can be clear about which numbers are in the document and which are not, and so that, where there is a shift from grant funding to core funding, it is identified appropriately.

I would like to ask about another issue. I have been told, not least by the leader of Dumfries and Galloway Council at lunch time, that the biggest problem facing local government remains single status agreements. As you will be aware, the Finance Committee produced a report earlier this year on progress—or rather, the lack of progress—towards single status agreements, and we have written to the Convention of Scottish

Local Authorities and individual local authorities to ask for an update.

The committee is concerned that the vast majority of local authorities still do not have agreements in place. I presume that you share the committee's concern and that you are anxious to ensure that local government throughout Scotland and the trade unions finalise agreements as quickly as possible.

**Mr McCabe:** There are a number of points to make. First, as I have said to you before, the Executive has never received a formal approach for additional finance in this area. Our strong view is that substantial amounts of money were added to the local government budget year on year in the years after agreements were signed, when people should have been making provision—and there is evidence that people were making provision. If you look at the balances, which grew considerably, you will see that some of them were earmarked for agreements, so people were making provision over those years and money was made available to enable them to do so.

Secondly, on a wider front, we have done our best where we can. I facilitated a useful meeting between COSLA and the trade unions that led to their entering into further discussions between themselves. I read a newspaper headline this morning—I did not have time to read the entire story—that said that the unions are now recommending that their members do not take up an offer. That makes me wonder how and when progress will be made on the issue. Undoubtedly, progress should be made; I do not deny that for one second. Unfortunately, the issue is becoming more complex and less clear by the minute.

**Mr Swinney:** How can you resolve a situation in which there has been active negotiation for some time between a local authority, trade unions and individual members but, at the end of the process, it has been recommended that an offer be rejected? It strikes me that there is a real danger of public finances being exposed to risk, especially if a local authority reaches an equal pay settlement, for example, but does not have a single status agreement. The merry-go-round will just start again, with the risk to public finances, if the two settlements are not reached at around the same time.

**Mr McCabe:** I have always been of the view that there is a direct connection between the two. I am not entirely sure how an equal pay settlement could be signed off without a single status agreement being negotiated, as the clock would start ticking again. However, the trade unions and local government wrestle with such issues every day and, sadly, they are not making the progress that we would have wished for. It seems to me that, if the trade unions strongly recommend that

their members do not accept an offer, the likelihood is that their members will not accept it.

There are also others in the field whom we have not mentioned yet—notably our learned friends, who are encouraging people to progress to another stage. They are strongly advising people that it would be more beneficial to them to take the issue to an industrial tribunal.

There seems to be a pretty substantial impasse. If I had an answer I would give it, but I do not, at the moment, and I do not encounter many people who do. I find it difficult to disagree with your assertion that there could be a danger to future finance

**The Convener:** It may be revealing to look at the issue in the context of a risk management approach. What will happen if the situation is not resolved in the next few months? We have talked about the possibility of a second round of equal pay pay-offs. I presume that there would also be increased uncertainty in industrial relations arising from the failure to reach an agreement on single status. I suspect that, in some local authorities, there would also be a bottom-line risk in terms of their financial exposure, which I presume you believe the Executive cannot be expected to cover. Is there not a case for Audit Scotland or other bodies, rather than you, setting parameters for local authorities to ensure that they operate within a reasonable risk-management framework?

15:30

**Mr McCabe:** As you know, convener, Audit Scotland is an independent body. It would be remiss of me to tell it how to do its work. I am sure that it will take cognisance of what you have said, and it may even be considering something along those lines. However, it would be improper of me to suggest that.

**Jim Mather:** Let us move on to efficiency savings. The Executive has reported that it has made a total of £441 million in cash and time efficiency savings. On previous occasions, I have asked whether that is net of the cost of achieving those savings. I repeat the question: is that net of the cost of achieving those savings?

**Mr McCabe:** No.

**Jim Mather:** How much is that saving of £90 per head of the Scottish population going to reduce by the time we get to a net figure?

**Mr McCabe:** I obviously do not know that.

**Jim Mather:** It would be wrong to call it an efficiency saving if that is a gross figure and nobody knows what the cost of the savings might be.

**Mr McCabe:** If I wanted to be pedantic, Mr Mather, I could say that, since nobody knows, we can say that there is no cost to those savings. However, that would not be helpful.

**Jim Mather:** So it could be zero or it could be £100.

**Mr McCabe:** We could cite those two extremes, but I do not know where that would get us. Undoubtedly, the savings have been generated and we are ahead of the target that we set ourselves. We will continue to try to exceed the targets that we have set.

**Jim Mather:** Okay. So we have gross savings of £441 million but we do not know what the net figure is. Do you have any indication of the difference that that has made to front-line services?

**Mr McCabe:** There are examples, yes. Local government has provided examples of savings being recycled into front-line services.

**Jim Mather:** Forgive me, minister, but when the figure is gross and we do not know what the net figure is, it is difficult to apply the term "savings" to it.

I am concerned that, in the preamble to the 2005-06 outturn report, there is a question about the challenges that arise in the context of identifying appropriate baselines. If we do not know whether that £441 million is going to be eroded—partially or totally—by the cost of the savings and we do not have a baseline measure to start from, how are we going to be able to convince the people of Scotland that public services are improving? How are we going to persuade public service professionals that there is proof of their achievement, which they should be given credit for, and that more support should be given to them to achieve further improvements?

**Mr McCabe:** I understand that Audit Scotland will publish its report on the matter in the reasonably near future.

**Jim Mather:** Will it include baseline data?

**Mr McCabe:** It is not for me to answer for Audit Scotland. As I said a moment ago, it is an independent body. It intends to produce a report, and I am sure that it will make the report as robust as it can.

**Jim Mather:** If anybody in the private sector claimed to shareholders or the board that they had delivered £441 million in savings, either they would want to see that dropping straight to the bottom line as moneys that could be put to dividends, banked or reinvested, or they would want to see some tangible evidence of mammoth increased customer satisfaction. It seems to me that we are being presented with neither.

**Mr McCabe:** I disagree. There are people in the public sector who have worked very hard not only to meet but to exceed the target that we set. What you have just said seems to pay less than proper regard to the efforts that people in the public sector have made to meet the target.

I understand why you may wish to find out what the costs of the changes are and deduct them from the eventual savings. Aside from that, what are you saying? Are you saying that you do not think that the programme is worth while?

**Jim Mather:** No. The programme is admirable in its aspiration. What I am saying is that, if we are going to spend large amounts of Government effort, civil servant effort and public sector effort in other areas to meet the Executive's targets, everyone deserves some certainty. We should have the gross figure and the cost of savings, hence the net figure. We should also have baseline figures saying what we were getting before we started the programme and baseline figures saying what we are getting after it. Furthermore, those baseline figures should show an advance—the difference between them should be positive. In the absence of that, I must say—as I have said from the start—that the savings will be what the minister says they are. That is damaging to the morale of taxpayers and public service workers, who are trying to deliver greater efficiency.

**Mr McCabe:** I do not think that we are damaging people's morale. At the public service reform dialogue events that we hold, I encounter strong enthusiasm for any approach that makes public services more efficient and effective, because the people whom I encounter in the public services are highly committed and very interested in what they do. People in local government are proud of the savings that they have managed to effect and would take exception to the suggestion that they are anything less than real savings.

**Jim Mather:** I am loth to contradict you, but when we last discussed the matter in detail Colin Mair was giving evidence. The meeting was reported quite eloquently a couple of days later by Peter McMahon in *The Scotsman*. Colin Mair missed pretty much every key criterion. He was not able to convince us that he was including all stakeholders in the process or that he had the process under accounting and statistical control. The net effect was that, after seeing his evidence reported in *The Scotsman*, a number of civil service staff contacted me to suggest that they wanted that level of certainty. People want to be able to be measured properly. In the absence of a proper set-up that indicates what gross costs, net costs, net savings and baselines before and after improvements are, across a range of measures,

this is a worthless exercise that is just rhetoric and risks damaging morale.

**Mr McCabe:** If I understand you correctly, you are saying that there is no value in the Improvement Service report on local government efficiency savings.

**Jim Mather:** I am sure that many good-hearted people are doing their best to achieve savings. A major disservice is being done to them by the fact that we cannot report net savings and baselines on before and after improvements.

**Mr McCabe:** Do you believe the report? Do you think that local government has generated the savings to which it refers?

**Jim Mather:** I believe that savings have been generated, but how can I believe the report when it does not meet the criteria that I have set out? You tell me that £441 million is the gross figure, and I accept your word on that, but you cannot tell me the net figure. In the absence of the net figure, the savings are not worth £441 million.

**Mr McCabe:** I want to be clear about the fact that you do not believe the Improvement Service's report. You just asked how you could believe it.

**Jim Mather:** I am willing to believe that people claim that gross savings of £441 million have been made, but I am looking for the net savings, and there is no net figure on which I can hang my hat. Worse than that, there are no baseline data that show any improvement over time.

**Mr McCabe:** Perhaps you do not intend to answer the question.

**Jim Mather:** There are enough questions that you do not answer.

**Mr McCabe:** If you are not prepared to indicate that you do not believe the report, will you at least say that you are highly sceptical of it?

**Jim Mather:** I am highly sceptical on the issue of the net output. How can I be otherwise when you are asking me to fly blind and to join a Government that seems to be willing to do so?

**Mr McCabe:** Thank you for that clarification—it is much appreciated.

**The Convener:** As members have no further questions on the budget process 2007-08, I thank the minister for his evidence.

## Subordinate Legislation

### Budget (Scotland) Act 2006 Amendment Order 2006 (draft)

15:38

**The Convener:** The next item on the agenda is consideration of a draft Scottish statutory instrument that seeks to amend the Budget (Scotland) Act 2006. The committee has before it the draft instrument, budget documents that set out the background to the proposed revision, a note of the main changes from the Executive and a note from the clerk. The clerk's note states that the Subordinate Legislation Committee considered the instrument on 31 October and had nothing to report.

Members will see that consideration of the instrument is split into two parts. I will begin by asking the minister whether he wishes to make some brief opening remarks. I will then give members the opportunity to ask any technical questions that they have. Officials may help the minister to deal with technical points. They are not permitted to speak during the second part of the session, which is a debate on the motion.

Once any technical questions have been asked, I will ask the minister to move motion S2M-5039, which will then be debated. This is an affirmative instrument, so it cannot come into force until it has been approved by the Parliament. The committee will, therefore, debate the motion, which asks the committee to recommend approval. If it does so, the Parliamentary Bureau will lodge a motion seeking parliamentary approval for the instrument. Under standing orders, the debate can last no more than 90 minutes. However, I hope that we will not need all that time. At the end of the debate, I will put the question on the motion.

I hope that everyone is clear about procedure. I invite the minister to make a brief opening statement, and remind him not to move the motion at this point.

**Mr McCabe:** As the committee is aware, this is a regular piece of Government business. Every year, there are two budget revisions. As members will know from previous years, we are required to authorise revisions in the autumn and in the spring, because the detail of our spending plans inevitably changes over time.

The autumn budget revision is usually the more significant. Because of the size of the proposed changes, it might be helpful if I briefly explain some of this revision's main features. This year, in addition to the types of change that are regularly made to our spending plans, there is a category that reflects the Treasury's reclassification of

European receipts income. At face value, this change is the most significant in the 2006-07 revision. However, it is merely presentational and has no monetary effect on the budget. In simple terms, the European funding that the Executive receives is now netted off against the relevant expenditure, which means that, although portfolios receive a similar amount of funding, the equivalent European Commission receipts shown in the budget documents now give the appearance of a reduced or zero budget. With that change, the budget documents now reflect the position in the accounts over the past few years. I point out that it affects only common agricultural policy support, European structural funds and forestry programmes.

As for the types of changes that are usually made in the autumn budget revision, there is additional funding, mainly from the Treasury, to cover increases in estimates for annually managed expenditure programmes such as roads, costs of capital and the housing support grant. There is also provision from the Treasury to cover the Western Isles housing stock transfer. The changes also include the take-up of resources by portfolios from money currently held at the Treasury. Examples of items in that category include, among other things, provision to further the affordable housing investment programme; further provision for the broadband pathfinder project that we discussed earlier; and additional resources to fund the schools estate.

Finally, there is the transfer of resources between portfolios and between the Executive and Whitehall departments. The most significant example is the £79 million transfer between the finance and public service reform and transport portfolios to reflect the fact that the concessionary fares scheme is now being funded directly by the new transport agency rather than via local authorities, and a £20 million transfer from the Department for Transport for rail services. No new announcements or initiatives appear in the figures before the committee today; the revisions reflect decisions or announcements that have already been made.

Finally, there are transfers to and from central unallocated provision which, by definition, are not voted until they are drawn down into portfolio budgets. However, it is important that the supporting documentation gives a full picture of the overall budget position that is set out in the introduction to the budget revision document.

Discounting the effect of the technical decrease resulting from the reclassification of European income, the changes sought in the autumn budget revision are equivalent to an increase of around £150 million. I hope that those remarks help to clarify matters. If members have any questions on

specific points, we will do our best to answer them. If we cannot do so, we will, of course, respond in writing as soon as we can.

**The Convener:** According to the budget revision document, £16.4 million is being transferred to Scottish Natural Heritage from Scottish Water's financial provision. How much of that covers arrangements for SNH's new headquarters and how much of it is for other service provision for the organisation?

**Mr McCabe:** Scottish Water savings are being used to help to fund the SNH relocation.

15:45

**The Convener:** So £16.4 million is coming out of the funding allocation that has been placed against Scottish Water. I hasten to add that we are talking not about customers' money but about the Scottish Executive's allocation.

**Mr McCabe:** Yes. It does not have an impact on the level of service that Scottish Water provides.

**The Convener:** Does the relevant minister have an explanation for why it is appropriate to move a funding allocation from Scottish Water to meet that SNH requirement?

**Mr McCabe:** I think that there is one. We can get it to the committee.

**Mr Swinney:** Obviously, I could have spent that £16.4 million on relieving development constraints in my constituency without passing it on to anyone else for a share. It seems absurd to pick up the SNH relocation tab using money from Scottish Water's budget when so many of the problems that inhibit economic development in so many of our communities arise from the lack of water and sewerage infrastructure. My constituency is not unique in that respect.

**Mr McCabe:** The budget was set before the final sign-off from the regulator and receipt of Scottish Water's capital plans. However, Scottish Water is in no way short of cash to deliver on its plans for this year.

**Mr Swinney:** My point is rather that, if Scottish Water had £16.4 million of money—

**The Convener:** Available to it.

**Mr Swinney:** Yes, thank you convener. If Scottish Water had had the money, it could have used it to speed up its work to address the development constraints in many parts of the country. I could think of a million different projects that the money could have supported without it having to become the primary candidate to pay for the relocation of SNH's headquarters to Inverness.

**Mr McCabe:** The point, Mr Swinney, is that Scottish Water is content that it has all the money that it needs to conclude its projects this year.

**Mr Swinney:** That might be Scottish Water's position, but the explanation is a bit unpalatable for a member of the Scottish Parliament whose constituency includes communities where new houses cannot be built because of development constraints arising from the lack of water and sewerage infrastructure.

**Mr McCabe:** I can say only that Scottish Water believes that it is working at capacity. For instance, if you are saying that Scottish Water will be able to operate only at 94 per cent capacity next year as a result of the transfer, I can assure you that that is not the case.

**Mr Swinney:** But we live in the 21<sup>st</sup> century. If Scottish Water were given a bit of extra flex in its system, it should be able to up its capacity from 100 per cent to 106 per cent. Surely that would help to tackle the serious inhibitor to the Government achieving its central objective of growing the Scottish economy, which is that houses or factories cannot be built where they need to be built in communities throughout the country because of a lack of infrastructure.

**Alasdair Morgan:** I echo Mr Swinney's concerns. As I am sure Elaine Murray will bear out, Dumfries and Galloway has significant problems with the delivery of water and sewerage infrastructure. You are telling us that Scottish Water cannot possibly spend any more money and that it is operating totally at the limit of its ability to hire contractors and progress capital works. That story is different to the one that we get from the company.

**Mr Swinney:** Exactly.

**Mr McCabe:** I can get more information for the committee from the relevant minister, but that is the information that I have been given.

**The Convener:** A number of members wish to come in—I am sure that many of them have rhetorical points to make.

I will deal with the facts of the situation. If Scottish Water had not had an apparent underspend of £136 million—

**Jim Mather:** It was £161 million.

**The Convener:** I am sorry. I took the CUP figure, which is £136 million, but I should have said £161 million, which is a substantial amount. If there had not been that apparent underspend, how would the process of relocating SNH have been funded?

**Mr McCabe:** The money would have been taken from the central unallocated provision, but there is

no point in drawing down money from the CUP if an underspend has been produced.

**The Convener:** The information relates to the current financial year. Have the final costs of the SNH relocation been met in this financial year? If not, how much money might need to be drawn down from the CUP or another source in the next financial year, to complete the process?

**Mr McCabe:** I understand that the final costs have been met.

**The Convener:** I think that the total cost of the relocation was about £32 million. Are you saying that that has been met and that half the cost was met from Scottish Water's budget allocation?

**Mr McCabe:** Yes. It was met from the underspend—if there had been no underspend, we would have paid for the relocation by drawing down money from the CUP. As I said, there is no point in doing that if underspends are being produced.

**The Convener:** I wanted to be clear about that. Will the £136 million that has been transferred to the CUP from the Scottish Water allocation remain in the CUP, to be drawn down by Scottish Water in future, or might that money go to other budget heads?

**Mr McCabe:** The money is for Scottish Water. Scottish Water would be loth to offer the money if it did not think that the money would be available when it needed it.

**The Convener:** The net loss from Scottish Water is £16 million; £8 million goes to the Forestry Commission; and nearly £5 million goes to the Scottish Executive Finance and Central Services Department, through transfers. Is all that money Scottish Water money that would otherwise have been spent on infrastructure projects?

**Mr McCabe:** Yes, but I stress that we are committed to ensuring that Scottish Water has enough money to meet the commitments that it thinks that it can deliver. The organisation tells us what it thinks it can deliver in a particular financial year and we ensure that it has enough money to do so.

**Dr Murray:** Like other members, I am a bit concerned, not just about SNH but about the underspend in Scottish Water's budget, which means that Scottish Water is still unable to take advantage of the money that is made available to it. During the quality and standards II period, there were significant issues to do with not spending money that was allocated, but I thought that the problem had been addressed and Scottish Water was getting on top of expenditure, particularly given that the minister with responsibility for Scottish Water at that time gave a commitment to address all the problems of planning constraints in

the Q and S III period. I appreciate that it is difficult for the minister to answer this, but are we no longer on course in that regard? Perhaps the current minister with responsibility for Scottish Water will write to us about the matter.

Some £136 million has gone to the CUP, but a further £26 million has gone elsewhere. If Scottish Water requires the money in future, will it be able to draw down not just the £136 million but the additional £26 million?

**Mr McCabe:** Yes. We are committed to giving Scottish Water what it tells us it needs. I hope that the organisation will reach a position in which it is investing and removing development constraints to such a degree that it needs its £136 million from the CUP. We would be more than happy to release that money.

**Dr Murray:** But will Scottish Water be able to get all its £162 million?

**Mr McCabe:** Yes.

**Jim Mather:** The figures on page 19 of the autumn budget revision document are interesting. I am looking not just at the release of £161.8 million but at the figure for Scottish Water net new borrowing, which is a mere £21 million. We know from Scottish Water that capital expenditure is running at £500 million a year, so we can conclude that 96p in every £1 of capital expenditure is paid by water charge payers.

I put it to you that that is *prima facie* evidence that the Cuthberts have been right all along and that Scottish Water has been massively overcharging businesses—primarily—thereby diminishing their competitiveness, increasing their costs and putting in development constraints that have prevented more business customers and households from opening up.

**Mr McCabe:** I do not determine the charges, nor does the Executive. The regulator determines the charges.

**Jim Mather:** I did not ask whether you determine the charges; I asked whether you agreed that there was *prima facie* evidence that the Cuthberts are right, given that 96p in every pound of capital expenditure is being paid by current water charge payers.

**Mr McCabe:** You are entitled to your view, but it is an awful big leap to say that that is *prima facie* evidence.

**Jim Mather:** What other sphere of Government, or even of the private sector, would fund major capital expenditure to that extent from current revenue streams?

**Mr McCabe:** I cannot answer that off the top of my head because I do not know. I do not have information on every revenue stream in every

aspect of Government. I hope you that do not expect me to have that information.

**The Convener:** We are probably getting into a—

**Mr McCabe:** We are getting diverted a wee bit, but that is not unusual.

**Jim Mather:** In that case, I have one further question. A further £161 million has now been added to the amount of money that is available for Scottish Water to claw back at some point in time. What is the current balance available to Scottish Water?

**Mr McCabe:** I will write to you with that figure.

**The Convener:** I have a linked question. Does the CUP really operate within a spending review period? If Scottish Water has a significant amount of resource banked in the CUP, will it be able to take that over into the next spending review period, or does it have to increase its spending substantially in the next financial year in order to use the resource that it has in the CUP?

**Mr McCabe:** No. The bank does not close at the end of a spending review period, if I can put it that way.

**The Convener:** Right. I will move on to a different issue.

Scottish Enterprise will transfer £34 million to the “other” enterprise and lifelong learning heading as repayment of the 2005-06 overspend. We have already seen that £25 million is going to be drawn down from the Treasury to deal with the RAB problem, and that will solve the issue of future overspends. What are the financial circumstances of Scottish Enterprise in dealing with that repayment? Does Scottish Enterprise have to find savings from its projects budget to meet that spending shortfall of £34 million? If that £34 million is being repaid to the enterprise and lifelong learning portfolio, I assume that the minister is making a decision on its allocation. Where does he intend to spend that money?

**Mr McCabe:** The best way to answer that is to say that we are providing the non-cash cover that Scottish Enterprise requires, but that we expect it to live within its budget.

**The Convener:** There is also the question of a repayment to the ELL portfolio. The non-cash cover will deal with this financial year if we look at the base budget level. However, as I understand the position, the information that you have given us flags up the fact that there is a repayment to the ELL portfolio of about £30 million, and you have identified that £34 million is being transferred out of Scottish Enterprise into the ELL portfolio under the “other” heading. Has that money been



taken from the Scottish Enterprise's projects spend? Where is it going?

**Mr McCabe:** Yes—are you referring to future repayments or repayments that have already been made?

**The Convener:** I am referring to the repayment in 2006-07 of the 2005-06 figure.

**Mr McCabe:** Yes. The £34 million was repaid this year.

**The Convener:** What is that money being spent on? If the repayment is being made to the ELL portfolio, where is the money going?

**Mr McCabe:** I cannot answer that specifically, but it will be used to address any other pressures that emerge in the ELL portfolio. Perhaps the Minister for Enterprise and Lifelong Learning will be better able to give you an indication of that.

16:00

**Mr Swinney:** Let me take you back to the budget for environmental protection. The autumn budget revision document shows that the proposed budget for the strategic waste fund is £71.3 million. In the draft budget for 2007-08, the strategic waste fund budget is shown in table 1.05 to be £120 million for 2006-07. Can you explain the discrepancy between those two figures?

**Mr McCabe:** I think that £24 million is going to the central unallocated provision because a number of projects did not come to fruition as quickly as had been expected.

**Mr Swinney:** But the gap is between £120 million and about £71 million, which is about £49 million if my school arithmetic has not let me down. That is more than £24 million. I just want to know why there is such a difference.

**Mr McCabe:** I think that there is an explanation for it. We will get back to you in writing on that.

**Mr Swinney:** If you would. There is a policy point that comes out of that. I see that there is a transfer to the central unallocated provision of £24 million. At the Environment and Rural Development Committee, I questioned the Deputy Minister for Environment and Rural Development about the fact that applications to the strategic waste fund from local authorities to improve their waste handling capability in order to meet targets and avoid EU fines for not reaching levels of recycling—such fines would have to be paid for out of council taxpayers' revenue in years to come—were being slowed up by the Executive's performance. The minister vigorously denied that. I was told that I had got the wrong end of the stick and had been misinformed by local authorities. However, £24 million is going to the central unallocated provision from the strategic waste

fund budget, despite the fact that I was told that the Executive was on top of the situation. Can you shed some light on that?

I would also like an explanation from the environment ministers. I still do not understand the gap between the £71 million and the £120 million. Unless we improve our recycling rates, local authorities will be hit with fines from the European Union because we have not met our targets, yet we are putting money for that into the CUP.

**Mr McCabe:** There are a couple of aspects to that. First, as I said earlier, we are making substantial progress towards meeting our original target of recycling 25 per cent of our waste. The last audit of that, last autumn, showed that we are not far away from 25 per cent, although we are not there yet. We are also confident that we are on track to reach the target of 30 per cent by 2008.

Secondly, I have said that I will get information for you on the gap that you have highlighted. We have the information here, but it is probably not in a format that is easily explained. It is quite a big leap to assume—as you have implied—that, because the expenditure has not been effected, that is somehow entirely the responsibility of the Executive.

It would be impossible for me to know the individual circumstances of exchanges between authorities and the Executive on individual projects. Some local authorities might not be timeous in submitting their applications, or some authorities' applications might not be comprehensive. Equally, there may be cases in which the Executive's performance could and should have been better. I hope that you will accept that it would be impossible for me to have that level of detail here. You have given the impression that, somehow, the entire responsibility for the situation is in the lap of the Scottish Executive. I do not think that we have any empirical evidence to say that that is necessarily the case.

**Mr Swinney:** Let me give you an example—I appreciate that it is only one example, but it may be illustrative of a trend. Perth and Kinross Council, which covers part of my constituency, has a very good record on recycling. It has reached and has exceeded the 25 per cent target. However, for the authority to avoid fines in respect of its own individual performance—not national performance—it must improve its ability to handle waste. Perth and Kinross Council's bid under the strategic waste fund was submitted to the Executive in January 2006, yet the council was advised that the earliest that it could expect to receive a response from the Executive was November 2006. I cite that as an example of the kind of lethargy that we tend to find with the Executive. We are told halfway through the year

that there is no issue and that we are all getting wound up about nothing; then £24 million haemorrhages into the CUP that should be spent on some of those projects.

I use that example to illustrate the frustration that exists. Local authorities are trying to do the right thing to protect council taxpayers from needlessly paying fines because the authorities have not reached recycling levels that they cannot reach with current technology and levels of investment, but they are being thwarted by the Executive.

**Mr McCabe:** It is not for me to doubt what you say, but I seldom come across situations that are as black and white as that. Nevertheless, I give you a commitment to pass on the situation that you have just relayed to the relevant minister.

**Mr Swinney:** I would appreciate that.

**Mr McCabe:** I will ask him to give you a very specific reply to the questions that you have raised. I hope that, if there are other circumstances that affect that situation, you will be big enough to recognise them.

**Mr Swinney:** Oh, you know I will be.

**The Convener:** I will move us on to ferry services in Scotland. The figure that we have been given shows a budget increase of £21.1 million—£11.6 million for operating costs and £9.5 million for capital costs—most of which is the outcome of the tendering exercise. Various statements were made by the Minister for Transport and Telecommunications at the time of the tendering exercise, which was precipitated by the need to adhere to a European directive, which was largely on the need to increase value for money and provide some kind of a market. I suspect that the funding total of £21.1 million means that the amount that the ferry service is costing us has gone up by 60 or 70 per cent. Is that correct? Are we paying far more for the ferry services than we paid previously as a result of the requirement to tender? Is that a one-off cost or is it part of a resource cost that might continue year on year? If so, is there any way of separating the one-off cost and the year-on-year costs?

**Mr McCabe:** First, it is a reflection of the full cost to the Executive of the NorthLink Ferries services. Secondly, I think that it is a one-off cost. The wider question of how much more it is costing us to fund ferries is one for the Minister for Transport. It is recognised that the ferry system in Scotland is pretty expensive. If members want to pass comment on the future financing of it, they are free to do so.

**The Convener:** Is the additional money primarily for NorthLink Ferries or is it also for Caledonian MacBrayne?

**Mr McCabe:** The additional funding is for NorthLink Ferries and the capital is for the two new CalMac boats.

**Jim Mather:** I understood that the £9.5 million capital funding was to do with the creation of the new asset-owning company that will be based in Port Glasgow.

**Mr McCabe:** It is to meet the cost of the purchase of two new boats. I take it that they will come under the auspices of that asset-owning company. I am not entirely up to speed with all the details, but I assume that they would have to come under the auspices of that company.

**The Convener:** What I am not clear about is why that needs to be in the autumn budget review. I presume that the planning for that was done in advance, early in the year. You are talking about a very substantial increase in that budget line coming through in the autumn budget review.

**Mr McCabe:** I am not entirely sure about the reasons for that. I think that it was connected to the fact that the tenders had not been returned. If we were to reveal a sum of money—even an indicative sum—in a budget, that might be seen as in some way subverting an on-going tendering process.

**Jim Mather:** I have one other question on ferries. A parliamentary group was recently in Northern Ireland, where we saw evidence of European money being made available to facilitate and promote cross-border co-operation between Northern Ireland and the Republic of Ireland. The view was that that funding could be extended to include Scotland and that it would be seemly to make efforts to get the money increased—I understand that €200 million is currently available for cross-border co-operation between Northern Ireland and the Republic of Ireland—and thereafter to make applications to facilitate economic connections between Northern Ireland and Scotland. One example of such a connection might be ferry services. Is the Scottish Executive Finance and Central Services Department prepared to engage in that process and to seek that objective?

**Mr McCabe:** We indicated as much in answer to a question in Parliament last week.

**The Convener:** Jim Mather might know more about this than any of us but, as far as I understand the situation, the Campbeltown to Ballycastle ferry does not operate.

**Jim Mather:** It does not operate.

**The Convener:** So why are we spending £700,000 on it?

**Jim Mather:** The money is on the table for a potential operator to come in. I should also point

out the typing error in the document. The correct spelling is not Campbelton but Campbeltown.

**Mr McCabe:** That is drawing down a wee bit too much, Mr Mather. Nevertheless, it is something of which we will take cognisance.

**Jim Mather:** It is an area of extreme sensitivity, so it had to be mentioned.

**Mr McCabe:** I shall do my best to answer your question, convener. The answer is that the budget is not spent each year. As everyone knows, there has been some difficulty in generating interest in that ferry route, but the budget exists and we wait for interest to manifest itself.

**The Convener:** Can it be kept on indefinitely as something that is awaiting interest? That is how it has been for a considerable time.

**Mr McCabe:** I do my best to answer many questions, but that one is beyond me. I would have to come back to you on that.

**Mr McAveety:** I am sure that George Lyon will know. Send him back into the field.

**Mr Swinney:** I am surprised to see that there does not appear to be any provision in the autumn revision—maybe I have missed it—for the reduction in business rates that the Government proposes for this financial year.

**Mr McCabe:** It is in the bill, Mr Swinney.

**Mr Swinney:** The bill?

**Mr McCabe:** The budget bill.

**Mr Swinney:** The budget bill?

**The Convener:** It is now an act.

**Mr McCabe:** You must remember that we discussed the matter this time last year, when the criticism was that it was not in the draft budget. We said that the policy decision had been taken and that provision would be made in the Budget (Scotland) Bill. Provision was made in the bill, which was passed.

**The Convener:** I would like to ask about concessionary fares, the budget for which will increase by nearly £80 million, according to the information on page 44. That is accompanied by a transfer from your department to the Enterprise, Transport and Lifelong Learning Department. Will you clarify the rationale for the increase? Is it a consequence of increased demand? How much of it is part of a unit-cost increase to the operators?

**Mr McCabe:** It is not an increase—I think it is just a transfer. The document indicates that the budget has transferred because there are now different responsibilities for that budget. It is just a matter of putting the budget in the right place. The local government moneys, as part of grant-aided

expenditure, have now been transferred to Transport Scotland, which is running the concessionary scheme.

**The Convener:** The costs of the concessionary scheme itself have increased, have they not?

**Mr McCabe:** They may have increased overall, but that is not in the figures in the document.

**Mr Arbuckle:** On page 47, the line for other transport grants to local authorities shows increased funding of £8.4 million for the Forth Estuary Transport Authority. That is not enough to build another crossing, but what is it for?

**Mr McCabe:** It is for the A8000. Sadly, it is not enough to build another crossing.

**The Convener:** There are no further questions from members, so I invite the minister to move motion S2M-5039.

*Motion moved,*

That the Finance Committee recommends that the Draft Budget (Scotland) Act 2006 Amendment Order 2006 be approved.—[Mr Tom McCabe.]

*Motion agreed to.*

**The Convener:** We are required to report our decision to Parliament. As such reports are usually brief, I propose that we seek to agree the text of our report by e-mail. Do members agree?

**Members indicated agreement.**

**The Convener:** I thank the minister and his officials for coming along to answer our questions. I also thank Crichton campus for the hospitality that we have been offered and for allowing us to hold our meeting here today. I thank members of the public who managed to last the course and everyone else who has come along to today's well-attended and helpful meeting.

*Meeting closed at 16:16.*



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