



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Tuesday 11 May 2010

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FINANCE COMMITTEE
13th Meeting 2010, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Malcolm Chisholm (Edinburgh North and Leith) (Lab)
*Linda Fabiani (Central Scotland) (SNP)
*Joe FitzPatrick (Dundee West) (SNP)
*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)
Lewis Macdonald (Aberdeen Central) (Lab)
Stewart Maxwell (West of Scotland) (SNP)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Mark Batho (Scottish Further and Higher Education Funding Council)
Robert Calderwood (NHS Greater Glasgow and Clyde)
Gary Gillespie (Scottish Government Strategy and Ministerial Support Directorate)
Dr Andrew Goudie (Scottish Government Director General Economy and Chief Economic Adviser)
Ronnie Hinds (Society of Local Authority Chief Executives and Senior Managers)
Murdo Maciver (Association of Directors of Education in Scotland)
David Middleton (Transport Scotland)
John Stodter (Association of Directors of Education in Scotland)
Lena Wilson (Scottish Enterprise)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 11 May 2010

[The Convener *opened the meeting at 13:34*]

Budget Strategy Phase 2011-12

The Convener (Andrew Welsh): Good afternoon, and welcome to the 13th meeting of the Finance Committee in 2010, in the third session of the Scottish Parliament. I ask everyone to turn off any mobile phones and pagers.

The only item on today's agenda is to continue the evidence taking on our inquiry into efficient public services. We have three panels of witnesses today. First, I welcome to the Finance Committee Dr Andrew Goudie, the Scottish Government's chief economic adviser and director general economy; and Gary Gillespie, deputy director in Dr Goudie's office. The committee has invited Dr Goudie to give evidence on his recent report, "Outlook for Scottish Government Expenditure", which provides an analysis of the medium to long-term outlook for United Kingdom public finances and the implications for public expenditure in Scotland.

I invite Dr Goudie to make an opening statement. I ask you to set the context by confirming the size and timescale of the likely budget cuts facing Scotland.

Dr Andrew Goudie (Scottish Government Director General Economy and Chief Economic Adviser): It might be helpful if, by way of introduction, I comment on three elements to do with the paper. Obviously, we are happy to talk about the detail as much as you would like us to, but it might be helpful if I say a little bit about the purpose of the paper, a little about the methodology and the key assumptions—I will not labour that too much—and something about the key conclusions. As I said, I am happy to come back on any of that.

The key driver for the work was that, without knowing the definite detail, we know that there will certainly be a major adjustment in the UK public finances. The starting point was that we in Scotland need to engage fairly rapidly to consider how we will most effectively handle that adjustment. The starting point was also that we need a very clear financial basis for medium and long-term strategic planning at the level of the Government as a whole and for the detailed work of all parts of the Government.

I should say straight away that this work is not focused on identifying very precise estimates. I am

not really interested in the decimal points of the work at all. It is much more to do with identifying the fundamental shapes of the expenditure profile that we might face and the key contexts for expenditure planning. The numbers are helpful in illustrating the arguments. The other driver of the work was that we were asked a while ago by ministers to make the analysis available to the independent budget review panel, which, as you will know, is undertaking some work.

The other key point of context is that we felt that there were limitations in the information that was provided in the pre-budget report in 2009 and the budget in 2010. As you will know, there was a lot of detail about 2010-11 but very little detail beyond that. In the documents that were published for the period 2011-12 to 2014-15, there was longer-term information only really about current expenditure, which it was said would grow at 0.8 per cent per year in real terms, and public sector net investment, which it was said would fall from 3.6 per cent of gross domestic product to 1.25 per cent of GDP by 2013-14. There was nothing beyond the current financial year, but from that it was implied that the outcome for total managed expenditure—TME—would be flat in real terms over the four years from 2011-12 to 2014-15. However, beyond that, there was no discussion in detail in the document about annually managed expenditure or departmental expenditure limits. As a result, unsurprisingly, there was nothing in the document about Scottish Government DEL beyond 2010-11.

Despite what is undeniably an incredibly complicated and uncertain economic picture at the moment, we need a basis for our planning. The paper is an attempt to provide insights on two things, the first of which is the detail that might underlie the UK fiscal adjustment process, particularly where UK AME and DEL might go, drawing heavily—I freely admit—on the approach of the Institute for Fiscal Studies. That is a necessary step to understanding what the implications for Scotland might be. However, my interest went well beyond the period that was covered by the Treasury in the UK budget and was very much in looking at the medium and long-term adjustment path. Ultimately, the primary focus of all the work was what we can say about the Scottish fiscal position regarding DEL, not just for the three years from 2011-12 but for the medium and long term, and what we can learn from that.

As I said, I will not say very much about the methodology. There is a fair bit in the paper, which I hope sets out most of what it would be useful to have. At UK level, for the period to 2014-15, we have taken the UK budget for 2010 as the starting point. We have used the pieces that I mentioned a moment ago, such as UK TME, and have derived

AME and DEL on that basis. Beyond 2014-15, we have leant on two things: the Fiscal Responsibility Act 2010, which the UK Parliament passed recently, which sets out a profile for debt and borrowing for the medium to long term; and other information that is provided in the budget document itself. Beyond 2017-18, we have used the assumption that UK growth returns to trend. That has been the basis for seeing the impact on Scotland.

It is worth drawing to your attention two key assumptions that we have used in the Scottish estimates. First, it is assumed—at least in the first scenario that we looked at, based on the UK budget—that all UK expenditure changes are spread proportionately across UK departments. Secondly and importantly, we have simply used the Barnett consequential of the changes to infer what the Scottish DEL position might look like. Those are two fairly key assumptions, which to some extent we vary in the paper—I will come back to that in a moment.

It is worth saying that we used the 2010 budget as a starting point not because it was our preferred assumption but purely because it is where a lot of people are coming from, so we felt that it was the sensible starting point. It is probably the scenario that has been best articulated over the past few months.

The sensitivity to the assumptions is very important. You will see that in the document we look at three alternative scenarios to try to draw out the fact that there is uncertainty and that there will obviously be variation around the assumptions.

The slower growth scenario was chosen because one of the criticisms that have been aired most widely by commentators is about whether the growth assumptions that are implicit in the budget report are reasonable. I am sure that you are aware that many of the independent forecasters feel that the growth assumptions in the budget are very much on the optimistic side.

In the second scenario, we looked at the effect of protecting some areas of UK departmental spend. You will recall that in the south over recent months—pre-election—there has been a lot of discussion about which areas might or might not be protected. The budget document lays out some broad indications of what might be protected.

In the third scenario, we varied another one of the assumptions to see what the sensitivity was. We have assumed that, broadly speaking, the fiscal adjustment is spread 50:50 between expenditure changes and taxation changes. Clearly, for some later years, that split is unknown. We have adjusted that to see how sensitive the projections are to those assumptions.

As I said, the assumptions are important. It is clear that the adjustment path that is now adopted awaits the outcome of the UK election—like everything else just now. Presumably another adjustment path will be set out on the basis of that. However, the most important conclusion is probably not changed fundamentally by the assumptions. The fiscal adjustment challenge for Scotland is substantial and it requires a fundamentally different approach from the one taken in the years of rapid real-terms growth. Varying the assumptions makes the challenge more or slightly less serious, but it is difficult to envisage a UK programme that will take away the basic seriousness of that challenge. We are still talking about a very serious challenge.

I will mention quickly the four or five conclusions from the paper, which draw together the conclusions from each of the scenarios to try to form a single picture.

13:45

The first is that Scottish expenditure is likely to experience five consecutive years of real-terms cuts, from 2010-11 to 2014-15, and it is possible that there could be another two years of contraction or very slow growth in Scottish expenditure. Secondly, real-terms reductions of, on average, 3 per cent a year are likely over the four years from 2011-12 to 2014-15. Thirdly, as a result of that, by 2014-15 the Scottish DEL could be between £3.5 billion and £4 billion lower in real terms compared with the previous peak in 2009-10. Fourthly—this is an important conclusion of the work and a reason for looking at the medium to long term—the recovery period here will be protracted, and the period of sustained adjustment will probably last 12 to 15 years; it will certainly be a long time before the previous levels of expenditure are reached. Another way of looking at the issue is to say that, over that period, Scottish expenditure could forgo, cumulatively, between £25 billion and £35 billion in comparison with peak expenditure in 2009-10. If that were to remain constant, we would lose in the order of £25 billion to £35 billion.

I think that I will stop there, as I have probably said enough by way of introduction. I will be happy to provide more detail on any of the issues that I have raised.

The Convener: Even if we allow for the assumptions, the trend is obviously clear.

It has been stated in evidence to us that the Scottish Government, and politicians more generally, should provide greater leadership by communicating openly to the public the scale and impact of likely budget reductions. In Ireland, there have been cuts in wages across the public sector.

In Canada, a set of criteria for reducing the budget deficit was agreed by politicians in the 1990s and acted on. How is Scotland preparing to meet the financial deficit that you have just described?

Dr Goudie: Openness is an extremely important issue. We have been working on our report since around the time of the PBR, and we have had the sense that there is a longer-term issue that is worth looking at, which runs well beyond the normal timeframe. The fact that the adjustment period is long tends to suggest that there is a different sort of solution to the problem.

The committee will be aware that, some time ago, as part of the process of being open, ministers asked us to make our analysis available to the independent budget review panel, to which I think that you may have spoken, with the intention of setting the longer-term context for it to conduct its work in. More broadly, it is intended that the report will contribute to the debate by setting out one possible shape of the public finances over that longer period of time.

The Convener: No one should be in any doubt that we are entering a very different environment.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I would like to concentrate on the next spending review period. I will leave capital aside, as others will ask about that.

At the time of the budget, it seemed, superficially, that there would still be real-terms growth in current expenditure in the next spending review period, but I presume from your analysis and other, related analyses, such as that by the Institute for Fiscal Studies, that the main additional factor of which account needs to be taken is annually managed expenditure. I thought, simplistically, that that apparent increase would be negated by a disproportionate increase in AME. How do we know with any confidence what that figure will be? I think that you say in your report that there will be a 3.4 per cent real-terms increase in AME each year. It would seem to be central to your analysis to be able to justify that figure and the assumption that underlies it.

Dr Goudie: That is indeed a critical assumption. The Fiscal Responsibility Act 2010 sets out the basic framework for the rate of adjustment of the flow of debt—the borrowing each year—and for the adjustment in the stock of debt as a proportion of gross domestic product. From that, it flows in the budget report that total managed expenditure will, basically, be flat over the next four or five years. AME is therefore critical to the definition of what DEL will be. DEL is fundamentally a residual in that calculation—that is true.

The two key components of AME that underlie the work by the IFS that we drew on are debt servicing and social security payments. Basically,

the work that we drew on involved taking estimates of what the labour market will look like over the next four or five years and deriving estimates for the key components of social security. It also involved taking the profile of debt over that period and assumptions about the rates of interest, and inferring from those what the debt service payments will be over the period. The IFS's work is credible; in general, it tries to take a neutral, balanced approach in its assessments. Its work suggests that AME will rise by around 3.4 per cent per year in real terms over the period. Given the flat real-terms TME, that implies that, as a residual, DEL will fall by around 3 per cent per year over the period. I agree that the AME assumptions are critical.

Malcolm Chisholm: I do not know whether the IFS gives upper and lower limits. Unemployment is not as high as some people expected it to be a year ago, for example. If unemployment is not as bad as people expect it to be, how much difference could that make to the estimate?

Dr Goudie: I cannot give you a number for that, unfortunately. To my knowledge, the IFS gives a single estimate, but unemployment and claimant count assumptions for the next few years are set out in the budget document. The assumption that the Treasury uses is that a claimant count of 1.75 million in 2010 at the UK level will decline to 1 million in 2014. I am sure that you are aware that it tests its assumptions with the National Audit Office, which is comfortable with the assumption of a flat figure of 1.74 million throughout that period. Therefore, there is quite a discrepancy between the figures by 2014. To my knowledge, the IFS has not translated that into AME numbers, but the obvious conclusion is that, if the economic growth assumptions in the budget are towards the optimistic end of the spectrum and the labour market figures are also, as a result, towards the optimistic end of the spectrum, one would expect the AME assumption also to be fairly optimistic. I cannot give you precise numbers, but you are absolutely right. If growth is more subdued than expected, one would expect AME to be higher. Therefore, if total managed expenditure is constrained by the Fiscal Responsibility Act 2010, which it currently is, DEL will obviously either contract more or grow more slowly.

Malcolm Chisholm: How much of the 3.4 per cent figure is accounted for by things such as unemployment benefit and social security payments, and how much is accounted for by debt?

Dr Goudie: I wonder whether Gary Gillespie knows the balance.

Gary Gillespie (Scottish Government Strategy and Ministerial Support Directorate): I will come back to the balance. The other point to

remember about AME is that it is counter-cyclical. We would expect it to rise in a downturn when social security payments, unemployment, the net debt and net debt interest increase. The figures from the budget show net debt interest repayments in 2010-11 of £42.5 billion. It has been projected that those repayments will increase to £66 billion in 2014-15, in 2010-11 prices. They will move from 2.9 per cent of GDP to more than 4 per cent of GDP. Obviously, that is a key component.

I think that the composition of total managed expenditure is roughly 55 per cent DEL and 45 per cent AME. I do not have the precise breakdown between social security and net debt payments, but social security will be the largest element. Obviously, the DEL and AME split is different in the Scottish budget; I think that it is around 85 per cent DEL and 15 per cent AME.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I would like to start by asking process questions for background to the report. Did you decide to publish the report when it was published?

Dr Goudie: I think that I understand the question. I first got into this particular work around the time of the PBR in December. At the time of the March budget, we revisited it to see what changes had been made in that budget and what impact they might have on our thinking. In practice, the impact of the budget in March was relatively small compared with that of the PBR but, on the back of it, we updated the report and we were keen to publish it—the permanent secretary was keen that we publish it—in time for it to form part of the context of the work of the independent budget review. Therefore, we updated the report following the budget and published it as soon as we could after that.

Jeremy Purvis: The committee received the report on 22 April. When was it published?

Gary Gillespie: The report was submitted to the independent budget review on Monday 19 April.

Jeremy Purvis: I have just refreshed my knowledge of the guidance that is issued to civil servants on publications, analytical work and commentary on UK policies during a general election campaign. The report comes under all three headings—did you check the guidance on the publication of materials?

Dr Goudie: We had some discussion, as we did with all the work that we were doing during that period, about the correctness of publishing something during a UK general election campaign. In collaboration with the permanent secretary, we reached the view that it was appropriate to do that under the guidance and that, given the work of and timescale for the IBR, it was important for the report to come into the public domain at that time.

It was our view that that decision was in accord with the guidelines to which we work.

Gary Gillespie: It is probably worth adding that the summary report states that it passes no judgment on the wisdom or otherwise of UK Government plans. Looking at the UK Government part is a first step to getting the Scottish numbers, and the focus of the report is the Scottish budget outlook.

Jeremy Purvis: I am well aware that the foreword says that the report passes no judgment, but it makes a number of assumptions on policy decisions taken outwith the Scottish Government. There is inevitably a fine line between the two, given that Dr Goudie said that the report shows one possible picture.

Dr Goudie: As I think I said in my introduction, we were keen to base the report on a picture that people would recognise, and people are familiar with the UK budget. Irrespective of our value judgment on it, which is irrelevant, we felt that that budget was a sensible starting point on which to base the discussion.

Jeremy Purvis: Was a draft provided to ministers?

Dr Goudie: I think that the document was provided to ministers on the Friday before we submitted it to the independent budget review. I am not sure what the date was, but it was on that Friday.

Jeremy Purvis: And there were no comments back.

Dr Goudie: The work was conducted entirely by me and the office, which is independent of ministerial judgments.

Jeremy Purvis: Who took the decision to use the 2009-10 DEL, with the accelerated capital included, as the peak year on which to base all future projections?

Dr Goudie: That was fundamentally my judgment.

Jeremy Purvis: Why is that the most accurate baseline in considering what DEL is provided?

Dr Goudie: We used 2009-10 as the base partly because it is the year from which we have just come and for which a comparison is most suitable. If you are asking me why we included accelerated capital in the figure for the base, the answer is that it was absolutely in line with the way in which the UK budget documents are prepared. You will be familiar with a table at the back of the budget document that sets out expenditure by departments across the UK. The basis for that table, which is basically what we followed, is defined as expenditure including accelerated capital.

Jeremy Purvis: Does including accelerated capital not skew any of the forward figures?

Dr Goudie: I do not think that it skews figures in any great sense. The difference between including and excluding accelerated capital obviously has a small effect, but I would be very surprised if it affected the general shape of the arguments. I guess that we could work either way; we simply tried, for consistency, to go along with how the UK Treasury put its work together.

Jeremy Purvis: Does it follow that housing associations and local authorities should similarly use the money that they had in 2009-10 as the baseline for their forward funding from the Scottish Government?

14:00

Dr Goudie: It depends what question we are trying to answer. If we are trying to answer the question, "What is the appropriate baseline for their expenditure?" that is a rather different question and I am not sure that it is within my remit to answer it.

Jeremy Purvis: As you said, you prepare your reports independently, so I think that it is an appropriate question. From a further panel of witnesses this afternoon, the committee will learn about education funding—college and university funding—and we have heard about funding for housing and health. When we consider growth or non-growth in those areas, we have to take a baseline. The baseline that you have taken in your report, which ministers have approved, is the peak of 2009-10, including all the accelerated money. Should future housing association, council and health budgets be considered in a comparable way?

Dr Goudie: That is a complicated question because—I do not wish to be disrespectful—the acceleration of capital necessarily means that, in a later year, there will be a deceleration as items are offset. When we deliberately accelerate, the acceleration is followed by a dip in the series, so the year in which we accelerate will tend to be above the previous trend.

Jeremy Purvis: Is that context outlined in your report?

Dr Goudie: No, I do not know what specific comment we make about the acceleration of capital, but I suspect that we say little about it because the fundamental question is the extent to which the size of the accelerated capital is relevant and material to the basic picture that we are trying to paint. As I said earlier, in the report, I am not interested in plus or minus whatever but in the shapes. I would be happy to consider something like what you ask about but, given the

sensitivities to the accelerated capital—the long-term picture, the depth of the recession, the depth of the contraction of public expenditure and the duration for which we will be below the previous peak, however defined—I would be very surprised if the material argument changed at all. I do not dispute that we could do it differently, but I suggest that it would not fundamentally change the picture.

Jeremy Purvis: I am just asking why it was done in that way.

Dr Goudie: If you look at page 209 of the Treasury budget documents, you will find that the departmental expenditure limits—which are set out for the resource and capital budgets for 2009-10 and 2010-11—include capital acceleration. Therefore, for the rest of the report, we tried to define our assessment tightly alongside the UK budget. We have adhered to the same convention as the UK Treasury.

Jeremy Purvis: I understand that and I heard it in your previous answer. In the budget debates, my colleague Malcolm Chisholm highlighted the way that ministers use the information. Any UK Government figures taken from the peak year highlight the reduction. However, in considering its forward budgets, a housing association is not allowed to say that the reduction is higher because it has accelerated capital. I am trying to find a comparable way of presenting information on such budgets. Do you wish to comment on that?

Dr Goudie: No.

Jeremy Purvis: You make points on the impact on taxation. When you put your report together, was there any consideration of what the Scottish Government is currently doing with taxation and the impact that that might have? I did not see that within the report and wondered why.

Dr Goudie: The most important point is that the document was fundamentally designed to inform the debate about the nature and scale of the challenge. We have explicitly not gone into the potential ways of reducing the scale of the challenge that is laid out in the paper. Among the ways in which you might respond to that challenge, you could change expenditure or taxes. However, we have not gone into that territory in the document.

Gary Gillespie: I had one other point on taxation. Implicit in the analysis from the central budget is a fiscal tightening of £57 billion, two thirds of which comes from expenditure. That is what we have modelled—£38 billion from expenditure and £19 billion from taxation. That is on the assumption that you can vary, depending on your outlook, and it has an impact on the results. It is one of the things that we change in the later scenario.

Jeremy Purvis: I understand that but, as far as the public—anyone reading this—is concerned, all of the taxation that is being referred to is from the UK Government. I understand that relating to this is an assessment of what may well be the UK picture but, as far as readers are concerned, the cost this year in Scotland of the council tax freeze and the small business bonus is £700 million. There is a Scottish devolved context, which is absent from an assessment by the Scottish Government.

Dr Goudie: It is absent from this document. We were not trying to get into a discussion of the policy options. Apart from anything else, I did not feel that it was my place to do that. That is a discussion that ministers will no doubt take up with you as you wish. As far as the Scottish Government and the Scottish Parliament are concerned, there is a range of policy responses to the document, some of which revolve around the expenditure side and some of which revolve around the taxation side. The areas that you are picking out, such as income tax variation and council tax variation, are areas in which options could be derived that address that issue. However, we did not go into that set of choices in the document.

David Whitton (Strathkelvin and Bearsden) (Lab): Just so that I am clear, you are saying that you were sufficiently aware of the sensitivity of the document that you discussed it with the permanent secretary, whose view was that, even in a period of purdah during a general election, it was okay to publish.

Dr Goudie: Yes.

David Whitton: The work is to inform the independent budget review. Given that the review is not due to report until July, would it not have been better to have waited until after the outcome of the general election, when you knew what the make-up of the new Government was and what its spending proposals were?

Dr Goudie: The judgment that we reached was that the implications of this piece of work were sufficiently useful that it was important to get it into the hands of the independent budget review team as quickly as possible after the UK budget. The first phase of the team's work has been fundamentally to try to define the challenge that it faces and the way in which to address that challenge. As we set out in the document, we were not looking at a three or four-year period of contraction and then a sudden bounce back to some kind of normality; instead, it was a picture of significant contraction for many years, followed by a relatively slow recovery and a long period of time when expenditures were well below their previous peak, however you might want to define that.

David Whitton: You said in your opening remarks that there are no definite details and no precise estimates. By your own admission, a lot of the work is based on IFS forecasts. You will have seen the work from the Centre for Public Policy for Regions and others, all of which informs the independent budget review. I would have thought that it was incumbent on you as the Government's chief economic adviser to give a factual outcome rather than a series of estimates.

Dr Goudie: To my knowledge, the key difference between the piece of work that we presented and the work of the IFS and the CPPR is that they have not considered the long-term horizon. What distinguishes our work is the fact that the longer-term analysis throws up some important contexts about the length of time that the adjustment path will take. There was a strong argument that that added something to the debate that was not provided by the other pieces of work, although I agree that they were very important.

David Whitton: Just to be clear, it is you who is forecasting that cuts of £3.5 billion to £4 billion will occur. That is your assessment.

Dr Goudie: All the numbers in the document are generated by the work that I have done. However, as before, I stress that our starting point—reflecting no preference on my part whatsoever, and chosen simply because it seemed logical to do so—is the UK budget, and we have made fairly reasonable assumptions about how that would translate into a Scottish picture. We end up with numbers that are illustrative of what that implies, but the intention of the paper is not to get stuck on the precise numbers but—this is much more important—to address the key messages that flow from that piece of analysis.

David Whitton: Are the data that are set out in chart 2—the projections for DEL and AME—your estimates or the Treasury's estimates?

Dr Goudie: As I said earlier, the 2010-11 numbers are taken straight from the budget document. The AME figures are, broadly speaking, based on the IFS approach and the work that has been done in that regard, and the DEL numbers are the residuals that flow from that.

David Whitton: In response to questions from Mr Purvis, you talked about the accelerated capital. On page 28, you say

“Scottish Government DEL expenditure will be 1.3% lower in 2010/11 than in 2009/10”.

That is not exactly true, is it? If you include accelerated capital, there is an increase of 0.9 per cent. We have had debates in this committee about that with the director of finance, and had to get a letter from her to confirm that that was the

case. I am surprised, therefore, to find that statement in the document.

Dr Goudie: I refer you to the point that I made earlier. We have picked up on what is in the Treasury documents. There are two different ways in which you can present the data.

David Whitton: We are well aware that there are two different ways in which you can present the numbers.

Dr Goudie: Depending on what you are trying to argue or demonstrate, both sets of numbers have a place. As I said before, we have simply followed what is in the Treasury documents. That reflects no judgment about whether, in that particular year, it is preferable to record the data with or without the accelerated capital. The question depends on the use to which you are putting the data.

David Whitton: You are the chief economic adviser to the Government. You know full well the way in which these bits of numbers are interpreted. Saying that DEL expenditure will be lower in 2010-11 than it was in 2009-10 is not factually correct. You could just as easily have put in a caveat that said that, if accelerated capital is included, there is an increase of 0.9 per cent.

Dr Goudie: We have noted the point that capital acceleration is included—in fairness, the document sets that out. I can say no more than I have said. We were keen to align the contents of the document with what was being published by the UK Treasury and, as far as possible, we have tried not to vary from that starting point.

David Whitton: I realise that you, as a senior civil servant, have no say in how ministers use the information, but I suppose that it might have been disconcerting for you to hear the First Minister trumpeting it so much and using it to partisan advantage during the election campaign.

Dr Goudie: As you would imagine, I neither control nor comment on the way in which cabinet secretaries and the First Minister use the material that the Government economic service produces. All I can say is that that work has always been and always will be conducted in a professional way, with no intention of reflecting any political bias whatsoever. I assure you that the content of the document, of which this issue is one relatively small piece, is fundamentally designed to set out a picture that is intended to inform a debate as best as it possibly can. Broadly speaking, I think that it has been effective in enlightening the debate around the long-term implications of the fiscal adjustment programme in the UK.

14:15

David Whitton: Given that there is such a high degree of fiscal uncertainty at present, I dare say that the document adds to the debate, like every other economic forecast that we have seen so far. Is it the intention—I hope that it is—to update the document when a Government is in place and we see whatever budget it comes up with and what that means for Scotland?

Dr Goudie: I imagine that that will almost certainly be the case. We updated it as a result of the March budget, following the piece of work that I initiated and following the PBR in 2009. We will almost certainly do that again. As I said, the primary driver of the work is that, in terms of planning and managing government, it seems to me essential to note that good government depends on having medium-term knowledge of the financial arrangements and the financial settlement that we have to work with over the period. In the absence of clarity from the UK about what that settlement will be, it is important that we do our best to try to set a framework within which the Government can work.

I hope that the next budget that appears from the UK sets out in detail the DEL settlement for each UK department and that we can derive, or indeed are given, the consequentials for the Scottish Government so that we can work on a firm basis. As far as that time horizon is concerned, I would much prefer not to make up any numbers at all, but in the absence of the provision of numbers from the south, the answer to your question is almost certainly yes. I will make an attempt to do what we have done this time, which is to provide—albeit that this is based on the set of assumptions that I happily concede are embedded in the work—a set of numbers that people can use for planning and thinking purposes and, perhaps most fundamentally, to give them a mindset as they think about how to handle the adjustment in the public finances in a way that is appropriate to the current scale of adjustment as opposed to a much more modest one. That is the fundamental purpose of the work.

The Convener: I am sure that the committee will look forward to those updates.

David Whitton: I have one final question. Dr Goudie, you have been in the civil service for a long time. Have you ever seen a fiscal situation such as the one that we are in just now?

Dr Goudie: I do not think that I have, no. I am afraid that I have not. I remember 1974, but I do not remember quite the picture that we have at the moment.

David Whitton: Thank you.

Linda Fabiani (Central Scotland) (SNP): Andrew Goudie must have been the office junior that far back.

I want to go back to what our inquiry is about, which is efficient public services. We are considering the background against which Government decisions are taken. Quite a few of the witnesses who have given evidence said that any strengthening of efficiency measures will not be nearly enough to address the shortfall, ergo we need to have cuts in public services. I know that policy options are the preserve of the politicians, but what work is being done at the level of your office that will inform the decisions that are taken?

Dr Goudie: On your primary point, notwithstanding the conversation that we have just had and my happily conceding to you that there is a softness about it because we have no other basis on which to work, I am confident that the scale of the contraction that we are likely to see will be substantial.

On the sums of money that we are talking about, you will see that, in the report, I set out a figure of some £3.7 billion below the previous peak—that is, the peak that I have been using for these purposes. That is the order of magnitude that we might anticipate. If we look at the way in which the issue is being addressed, efficiency savings are a fairly obvious route. An inescapable fact that flows from the analysis is that, if the inputs, or the resources that are available to Government, decline sharply and we wish to maintain the outputs and outcomes that the Government is producing, the productivity of the public sector has to increase. That is a purely mathematical fact. The question then is about the extent to which Government efficiency savings can contribute to that.

As I am sure you know from your other work, efficiency savings can cover a range, from relatively simple sets of policies within an institution to more complex and complicated policies that are to do with service delivery and design and joint working between organisations and parts of the public sector. In addressing the problem, the framework within which it is almost inevitable we will need to work will involve our looking at where efficiencies can be gained to start with and then looking right across the spectrum, from the relatively easy to the much more complex. The question whether, in the short to medium term, efficiency savings can compensate for the size of the fall in real DEL is a difficult one to answer. You will be aware that the Auditor General for Scotland has suggested that that is very unlikely. I think that most people think that that is where we are at.

Linda Fabiani: What work is your department doing to address some of those issues? Does it

include scenario planning, for example? How detailed is your work on which public services are absolutely necessary and cannot be compromised and which are softer areas?

Dr Goudie: Obviously, you would not expect me to go into the detail of what we are doing with ministers. We are looking at the scope for efficiency right across the public sector in the different ways that I have described, from the more simplistic areas, if I may call them that, to the more complex, which are to do with public service provision.

The other dimension, which I have no trouble relating to the committee, is that, as you will rapidly understand, many efficiency savings can be generated relatively quickly, whereas others are much more complex in nature and take time to generate. If I may generalise, just as some savings are relatively simple and others are cross-organisational, it is fair to say that the cross-organisational savings tend to be more complex and take longer to generate. At the moment, the task involves considering the speed at which efficiency savings can be generated, the fact that real resources are declining and the way in which those two trends sit beside each other.

Linda Fabiani: Many witnesses have told us that we need to take a completely new look at public services, that we have allowed them to be delivered in a way that does not suit the end user or client particularly well, that it is time for a great rethink, and that we should take that opportunity. I agree with that in theory—it sounds wonderful. However, does the work that you have done, including your work on the document that is before us, lead you to believe that we have the time to take such a new look? Should that work be done in tandem with the cuts that will be necessary to get us through this difficult period?

Dr Goudie: Work is, of course, on-going on that basis. You will know that, through the remit of the independent budget review group, the Government asked the group to look at many of those issues. In my judgment, areas of service redesign need to be addressed urgently, irrespective of whether they are likely to produce savings in the next year or whether they will not come through for several years. If the savings have a long gestation period, it is important that the process starts now. It would be a mistake to imply that no work has gone on in the past. We have to continue that work over the next few months, but we must do so more intensively if we are to be able to manage the contractions in 2011-12 and handle the necessary savings that we will need further out. That work has to happen very rapidly.

Linda Fabiani: In response to David Whitton, you said that you will revise the paper that is

before us once the new Government is in place. Will you constantly monitor and revise this piece of work as times change and things vary?

Dr Goudie: Assuming that there is a budget sometime in the next few months—a subject into which I have no greater insight than you do—we would aim to update the document at that point. As a matter of principle, around the time of the PBR and at budget time, we would always look to see whether there was a case for updating it.

The important point is that I would be happy to provide an update on the longer-term scenario to help the debate and to help ministers and the Parliament to consider the issues. I very much hope that, because we will get more detail, that will mean that I will not need to estimate what will happen in the next three to four years. However, without passing any judgment on what is going on in the south at present, the issue is partly whether we are looking at the announcement at some point of a one-year expenditure programme for 2011-12 or whether there will be a three-year spending review of the sort that we might have anticipated. At the moment, that is completely uncertain as far as I am aware. In the absence of specific numbers from the Treasury, it is important to keep an eye on the longer-term programme because it has fundamental implications for decision making in the short term.

Gary Gillespie: We also monitor other external work. The Institute for Fiscal Studies published work the week after we published ours. That work took the proposals from each of the three UK parties and estimated how far their expenditure changes were specified. We did some quick checks on that analysis. Compared with our central case, it shows little difference in real-terms change up until 2014-15. It shows the same shape.

Jeremy Purvis: Do any changes in the Scottish economy's performance—as distinct from that of the UK—impact on the assumptions in your report, given that it is predicated on AME expenditure in Scotland?

Dr Goudie: The answer is: indirectly. The Scottish economy's performance will have an impact on Scottish revenues that are generated by the economy and that will feed through into the UK figures and their buy-in to the Scottish figures. Similarly, the transfer payments recorded in AME will be affected in the same way. I do not immediately see any direct influences, although perhaps Gary Gillespie does.

Gary Gillespie: No.

Jeremy Purvis: When you answered Malcolm Chisholm's earlier question, you said that one of the biggest elements of AME is employment benefits, social security and UK pension

contributions, in this case for the Scottish demographic. I cannot see how such changes would not have a considerable impact if you are forecasting until 2021.

Dr Goudie: I agree absolutely that they will impact, but through UK AME and therefore into UK DEL—

Jeremy Purvis: What modelling did you do of potential changes? The Scottish Government has three top priorities in this regard: GDP, GDP growth compared with other European countries, and demographic change. Why were those not factored into your analysis?

Dr Goudie: The key point is that the analysis is rooted in the UK assumptions for UK growth and the UK fiscal adjustment path that is laid out in the budget. Within that there are implicit views about what will be happening in all parts of the United Kingdom, including Scotland, which will feed through in that way. However, there is not the direct link that you suggest simply because we used the UK framework as the base for our work.

Jeremy Purvis: You are saying that changes in the Scottish economy will have negligible impact and that it does not matter what happens to Scottish GDP, unemployment in Scotland or our demographic when it comes to social payments. Your report is called "Outlook for Scottish Government Expenditure"; I am taken aback that such changes were not modelled in, given that the number 1 purpose of the Scottish Government is to grow GDP and to have population growth. I cannot understand why that was not even figured in.

14:30

Dr Goudie: The answer, as I said in response to the earlier question, is that AME is indeed a crucial part of the logic in deriving our estimates. Fundamentally, the IFS estimates for AME are derived on the basis of its views on the UK growth forecast and on UK labour market projections, which are clearly a major driver of social security spending—

Jeremy Purvis: Perhaps I have misunderstood this, but it seems that your modelling and forecasting look at AME as a component of what is happening in the different parts of the UK economy. As I understand it, the IFS has taken a global picture of the UK economy, but I would have hoped that any data that were published by the Scottish Government would be based on work on Scotland's component of that. Have you simply taken the IFS assumptions about the UK economy, or have you modelled what you think will happen in the Scottish economy?

Dr Goudie: We have done the former, as is set out in the document. We have been very open about the fact that the 3.4 per cent per year figure that I quoted earlier is based on an analysis of the UK picture.

Jeremy Purvis: Given the fact that the UK picture is dependent on what happens in Scotland, England, Wales and Northern Ireland, why did the Scottish Government not do any modelling of the impact on Scottish AME, which is demand-led spending that will be determined by Scottish unemployment, demographics in Scotland and the rate of growth of economic activity within the Scottish economy? Why did the Scottish Government not do any modelling of the Scottish AME component?

Dr Goudie: I understand your line of questioning. Indeed, that is a feasible approach, but you probably underestimate the difficulties both of design and of resources that would be required to have a model that would pick up that information in a way that might answer the question—

Jeremy Purvis: But that information is needed for the Scottish Government's purpose.

Dr Goudie: As you know, we simply do not maintain a model of the type that you suggest we should have.

Gary Gillespie: I should perhaps add that that type of information is picked up in publications such as "Government Expenditure & Revenue Scotland 2007-2008", which sets out total public expenditure in Scotland against total public revenue. Basically, the expenditure shown in GERS includes AME components such as social security, debt interest and other stuff that apply or accrue to Scotland.

Jeremy Purvis: Why then was no forward modelling done of the GERS data, which the Scottish Government inevitably needs to do if it is to fulfil its purpose and intentions? Why was that not used as the base model, instead of the IFS projections for the UK simply being lifted?

Dr Goudie: Fundamentally, as I have said to the committee when I have given evidence on GERS, the answer is that we explicitly do not project GERS. Fundamental to such an approach would be the ability to project economic growth in Scotland and the impact of economic policies in Scotland. We simply do not have a model with the capability to do that. I accept your theoretical point, but practically we simply do not have the resources or the model to do that.

Jeremy Purvis: Why is there not a massive health warning on the "Outlook for Scottish Government Expenditure" paper? If you cannot accurately forecast or model the data in the

Scottish Government's GERS publication, there should be a big health warning not simply about the source of the information that has been taken from the IFS, but about the fact that the outlook's assumptions for the period to 2023 are made in the context that the Scottish Government has conducted no separate Scottish modelling of demand-led aspects of spending within the Scottish economy.

Dr Goudie: We might not have used that language, but we have certainly made it very clear that the document is based on an assessment of the UK budget, of the UK performance and of the UK public finances. We have made it abundantly clear in the document—we have been quite open about this fact—that we have rested on the IFS approach, which is fundamentally based on an understanding of the likely outcomes for the UK economy, of which the Scottish economy is a part. At no point have we suggested that we have done anything other than lean upon those two key pieces of work. For such time as we do not maintain a model, we will continue to do that. We have been completely and utterly open about that fact.

The Convener: You have been perfectly clear about the basis of your analysis, but no one should be in any doubt about the frightening aspect that faces all of us. No economy can lose between £25 billion and £35 billion in expenditure and not expect to have some rough, tough times. The committee's work is, first, to find out the facts, as far as we can, and secondly, to look forward to see how prepared and able we are to respond to the problems.

We have already seen from the evidence that we have taken that efficiency savings, increased productivity and service redressing will be totally inadequate. You have given us a frightening glimpse of a possible future. We would like to be assured that the Scottish Government has the tools available for analysis and to think through how best we can come through a tough financial time in a shape that will allow us to benefit from the future. No one should be in any doubt about what this country faces. We can deal with the situation only by all working together. I hope that you will give us further evidence as things emerge. I thank you for your evidence and offer you the opportunity to make any last-minute comments, if you wish.

Dr Goudie: I have nothing to add to what we have said. We have had a good run through what underlies the piece of work, which is fundamentally important, and its purpose. Its key conclusion relates to why consideration of a 10 and 15-year horizon is valuable when we think about how to handle decision making in the short term. We face a scenario that differs from those

that we have seen before. There will be no automatic bounce back to resource levels in the recent past, but a prolonged period in which those levels will be lower than they were. That begs a critical question, as the response in such circumstances is very different from that in circumstances in which there is a relatively short-term contraction.

The Convener: We are looking for new thinking and new ideas. We need responses to address the situation. I hope that you will be able better to inform us about how the Government is equipping itself to face up to the problems and to help us all to overcome them. Thank you for appearing before the committee.

14:37

Meeting suspended.

14:40

On resuming—

The Convener: Our next two panels comprise witnesses from various sectors that are responsible for spending major sums of public money: local authorities, health, education, enterprise and transport. I welcome the first of those panels: Ronnie Hinds, from the Society of Local Authority Chief Executives and Senior Managers; Robert Calderwood, the chief executive of NHS Greater Glasgow and Clyde; and John Stodter and Murdo Maciver, from the Association of Directors of Education in Scotland.

I would be grateful if you could briefly set out the broad principles that should inform how your sectors will seek to identify and implement budgetary reductions. In doing so, please say whether you consider that there are any relevant lessons to be learned from previous economic recessions to inform your thinking. Who would like to start?

Ronnie Hinds (Society of Local Authority Chief Executives and Senior Managers): On your first question, from SOLACE's perspective, the solution is more of what we have done before—but only to some extent. In local government and elsewhere in the public sector, we have a strong track record in Scotland of delivering savings, particularly efficiency savings. We must continue to do that, although it gets more difficult with every year that passes. However, as I am sure that you have heard from other witnesses and in the written submissions that you have received, that will not be sufficient to address the situation that we now face.

We require a much more radical, innovative and imaginative approach to reducing the expenditure in our organisations, hopefully with no or minimal impact on the quality of services. That will require different approaches, which I am happy to talk

about if the committee would like. Part of that will be stronger collaboration between different parts of the public sector. We must explore that territory fully. With all that having been done, though, we will still be faced with difficult choices and we must become much clearer than we have been about the nature of the priorities within our organisations and sectors and within the Scottish public sector as a whole, as well as about how we will go about deciding, on the basis of those priorities, where reductions in the amount of expenditure will be applied and where they will not be applied or will be applied less than before.

On your second question, I do not profess to be an expert on previous recessions; a much better witness than me on that subject has just left the room. However, for previous experience of local government having to reduce expenditure in extremis, I would probably go back to the 1990s, when we went through local government reform. A number of us who went through that process learned quickly—and, in some cases, the hard way—what must be done to take significant amounts of expenditure out of a budget in a short time. That experience will stand us in reasonably good stead.

The Convener: Yes, indeed.

Murdo Maciver (Association of Directors of Education in Scotland): From an education perspective, it is easy to see an evolution in the savings agenda over the past few years. The efficiency strategy is well established in services throughout the country, and the level of efficiency savings varies across councils. However, as we have moved into 2009-10, looking to 2010-11, it is clear that the opportunistic approach to efficiency savings has been replaced by a more targeted, strategic approach with an increasing emphasis on downsizing, a concern about services in the future and a continuation of efficiencies. There is increased talk about the privatisation of services and their transformation with the efficiencies continuing.

14:45

Some thought has also been given to the criteria or factors that should guide prioritisation. Some of the current core provision has been hard won, as has some of the added value and the enrichment activities. Clearly, colleagues across councils, not to mention staff, youngsters and parents, would be very sad to see that disappear.

There are concerns about the capital situation. Leaving aside the ability of the centre to fund through the Scottish Futures Trust the odd new school that has been promised, there is what we see as the increasing inability of authorities to deliver from capital resources or revenue

prudential borrowing the 50 per cent or the third that each new school would require. Given the commitment to the estate and the number of new schools that are already in place, there are increasing concerns in communities about a two-tier system.

So far as lessons from earlier times are concerned, I am perhaps one of the oldest folks in the room and I remember how it was as a young teacher in the 1970s and 1980s, when there was year after year of spending cuts. Over recent months, I have been dusting down the old papers on savings and on where colleagues from those years gone by found their savings. No doubt some of them will appear on the agenda over the next four or five years.

The Convener: I wish you had not referred to the 1970s as days gone by.

Robert Calderwood (NHS Greater Glasgow and Clyde): From a national health service perspective, first and foremost we have continued to enjoy a year-on-year budget increase in real terms. However, throughout the current parliamentary session we have had to identify and enact a 2 per cent efficiency saving each year, which has given us the opportunity of investing that efficiency gain back into service development. That project over the past three years has seen us take forward significant service developments and new opportunities with regard to shorter waiting times, redesign services to meet the range of new demands placed on the service and, in the case of NHS Greater Glasgow and Clyde, bring forward estate modernisation and new health care build. That said, the opportunity to continue to find efficiency savings year on year, over an extended period, out of the status quo, is of course subject to the law of diminishing returns. We will therefore ultimately have to look over a wider range of issues to see how, over an extended period, we could continue to deal with diminishing public sector spend and year-on-year increasing demand on health care.

The areas of redesign that we have been taking forward break down into several categories. First, there has been the productivity gain, particularly in the acute sector, that has allowed us to make marginal investment to get a step increase in productivity around using some of the opportunities provided by the new consultant contract from agenda for change with regard to role redesign and our senior medical staff targeting their working time on areas such as theatres and outpatient clinics to make the maximum return. That has resulted, as we sit here today, in the NHS across Scotland having the shortest waiting times for elective services in our history, on which it is to be congratulated.

The second part of the convener's question was about what we did in the past to live within resources. About 85 per cent of NHS expenditure falls into two main categories—staff costs and the costs of treating individual patient episodes, be they for drugs, or for surgical appliances or implants—so the challenge for us is, first, how we deal with salary costs and total employment in the health care sector and, secondly, how we deal with demand.

Tactics that the health services used historically, from the 1970s, would be inappropriate. In the past, a number of approaches were taken. First, at a time of significant retrenchment of funds during the 1980s, we had compulsory competitive tendering. That era has gone by. We already have some of the most efficient facilities and support services, as a consequence of efficiency gains in recent years, so we would not take that opportunity. Secondly, in the past we could control expenditure through waiting times; we now have patient guarantees and patients' rights and we would not want to lose the gains that we have made in elective care and, in particular, cancer care. We have to deal with demand in real time, which is about shifting the balance of care and about shared care. Thirdly, in the past we centralised services to take account of economies of scale; currently we work on the basis of local need and local provision.

As the NHS goes forward, it is about redesign and utilising the skills that we have. We must use not only Scottish but UK and international comparators of service delivery to identify efficient models of delivery, and we must work with staff to redesign services so that we can deliver efficiently.

The Convener: Your past gives us a glimpse of everybody's future.

Joe FitzPatrick (Dundee West) (SNP): The public sector in Scotland has grown substantially in the past decade or so, and some people argue that there has not been a corresponding improvement in service. Robert Calderwood covered some of the issues in health, when he talked about changes in the health service, which mean that people are asking for more for their money. However, in other areas people feel that services have not improved, although money has been pumped in. If that is the case, does it mean that we can take money out without losing service?

John Stodter (Association of Directors of Education in Scotland): The difficulty with that argument is that we cannot know what would have happened had the investment not been made in the first place.

Many of the significant enhancements and developments in education have been targeted at

the people who are probably least able to defend themselves. Areas such as nursery education, early intervention and additional support needs are probably those in which there has been significant additional expenditure.

At the same time as we have experienced significant increase in expenditure, we have witnessed a significant increase in demand. Many of the budget problems that education will face will have as much to do with increased costs and increased demands—the push side of the equation—as they will have to do with budget reductions. I think that more than half of the problems will come from that side of the equation.

There have been general improvements in educational attainment. However, we have a different kind of service from the service that we had when the Scottish Parliament started. There are far more adults in schools. More adults from different professions are helping children. There is a different relationship between teachers and pupils. We can look at the situation in terms of hard outputs but we also need to ask what the baseline was and what the quality of service was, because there have been qualitative improvements in the service that is provided for children.

A principle that will be central to making reductions is the need to ensure that children are supported. We must ensure that the children who traditionally have the least success in the education system can be maintained and supported, because the longer-term costs of not supporting those children is very significant for the whole country.

Ronnie Hinds: The question was well put. Members are probably familiar with the recent work of the Centre for Public Policy for Regions on differential levels of expenditure north and south of the border, which are partly—but only partly—the result of the levels of growth in expenditure that we have experienced in Scotland since devolution. We have begun to do a little exploration of the point at which the CPPR left off, and our work is telling us that across the piece in public services we are spending about £1.20 in Scotland for every £1 that is spent south of the border. That gives rise to the possibility that significant reductions in expenditure might be achieved without necessarily reducing the quality of service to an unacceptable level—after all, the level seems to be acceptable elsewhere in the UK.

However, I take the point that my colleagues from education have made. Not only has the world moved on, but people's expectations are now very different, too. The climate in which you have to act is different. As a long-serving local government officer, I have to say—I am sure that this is true of other parts of the public service—that it is easier to

add service and expenditure than it is to take it out. There is bound to be a breaking effect, which would have to be dealt with as part of the solution.

I stick with the point about the differential levels of expenditure. Andrew Goudie's figures show that if you leave the demand growth out of it, we still face the possibility only of having to go back to levels of expenditure that we had in this country in 2005-06. You have to factor in the demand—let us not lose sight of that—but we are not being taken back to the dark ages. It is incumbent on people in the positions that we hold to ensure that we have strategies to get back to that level with the minimum impact as we go.

The Convener: You referred to £1.20 being spent in Scotland for every £1 that is spent in England. Will you explain that differential—is it about economies of scale, or what?

Ronnie Hinds: We have just begun to explore it, so I cannot give an authoritative answer to that question. However, we think that the issue merits further investigation. You might like to consider that. Some of it has to do with the same considerations that underpin the Barnett formula. There are differences in providing public services in a country such as Scotland compared with providing them in other parts of the UK, but it is still worth looking at the issue. What are the intrinsic differences in providing an education service and funding and running a school south of the border compared with north of the border that give rise to the fact that it seems to cost us £1.20 per pupil here compared with £1 per pupil in England?

The Convener: We would appreciate any information from you.

John Stodter: First, I sound a note of caution about using the CPPR report that was referred to as a reliable comparison of two very different systems. The assumptions made in the report were entirely different. There was no investigation into what was being compared north of the border and south of the border. The figures for education are something like £1.10 here as opposed to £1 in England. I reckon that a lot of the 10p difference can be explained by demography and geography. In the same way that Glasgow gets more money than Edinburgh, you will find that Scotland gets more money than England to provide an education system. That is the way that grant-aided expenditure works, and some of it is to do with rurality and demography. I can guarantee that the comparisons in the CPPR report were not like for like. However, as my colleague Mr Hinds said, it is worth investigating how those differences can be explained and whether certain things are more efficient south of the border.

One of the main reasons for the difference is that fewer teachers are employed in England. That is a significant factor. Someone asked about enhancements and improvements over the years. One of the big costs for improvement in education has been the teachers' terms and conditions under "A Teaching Profession for the 21st Century". Far fewer teachers are employed in England, which is a significant factor in the extra 10p in Scotland, along with some of the other demographical and geographical factors.

The Convener: Thank you for that explanation.

15:00

Derek Brownlee (South of Scotland) (Con):

My question is addressed mainly to Mr Hinds, but if anyone else has an answer, I would be interested to hear it. The Scottish Government will have to take decisions later this year—not much later this year—to deal with spending reductions. I was taken by what Mr Hinds said in his opening statement about joint working, which I think everyone accepts is important. If I picked him up correctly, he said that the scope for efficiency savings was variable and that they get progressively harder to make the longer one goes on, which sounds plausible and sensible.

On the interaction between the Scottish Government and local government, as we know, local government proudly defends its independence and there is a pretty big issue about whether the Scottish Government simply says to councils, "You get a third of the budget, so you will get a third of the cut and you will have to deal with the fallout from that and face your electorate in due course". Alternatively, it could try to work out whether local government is working more efficiently than other parts of the public sector and therefore has less scope to absorb reductions; whether local government is working less efficiently and therefore has more scope to absorb reductions; or whether there is a need to reconfigure the boundary between what is done by central Government and what is done by local government, which would have consequences for where funding goes.

What is the best approach to handling reductions? Is it to tell local government to deal with the matter locally, as it sees fit, or should central Government take a more strategic overview and go into places where it has been fearful of treading in the past? What is the best way of achieving a distribution of spending reductions that is seen to be more fair and which minimises the impact on the users of public services?

Ronnie Hinds: For me, it is not an either/or proposition. There has to be a mixture of both approaches.

Earlier, I spoke about the need for prioritisation, and that applies at every level. I am conscious that I am seated between representatives of the two highest-spending public services in Scotland—health and education. Given the spectrum of services that the public sector provides, there is a role for national Government to give an indication of where priorities lie, cast in very wide terms. That must be complemented by local decision making; I represent local authorities, so I stress that there would be a political dimension to that decision-making process.

The nature of the challenge that we face means that there cannot be an either/or choice; both approaches must be used, and there must be strong political leadership at all levels. If we can get that kind of framework in place, council chief executives and chief officers will have an easier time implementing the decisions that are taken by their political masters, so that would be a helpful start. As well as that, it would provide a helpful steer to the public about where the choices lie. At the local authority level, we are trying to get better at sharing with the public the nature of the difficulties that we face in ways that allow them to take a reasoned view about the kind of actions that we might have to take. That should apply at the national level, too.

Murdo Maciver: We see the partnership dimension as being extremely important. The concordat and the single outcome agreements provide all of that. Education is a national priority, and the national strategy provides the parameters within which that can be taken forward locally.

There are local interpretations of how national priorities should be delivered. As we all know, in recent times there have been tensions around input-driven national priorities such as free school meals, class sizes and teacher numbers. One would hope that, in future, such difficulties can be ironed out before tensions arise.

There are also areas of possible tension. For example, I have no doubt that the issue of school closures and amalgamations will be important with regard to the efficiency agenda. They are efficiencies, in the sense that the same service continues at a lower cost, but trying to convince parents at public meetings that things will continue as they were is pretty difficult, and I have the scars to prove it.

The partnership approach, with the centre providing the broad steer and strategy but there being scope for local interpretation, is very much the way ahead.

Robert Calderwood: In health, it is difficult to describe the balance as a split partnership. As the Cabinet Secretary for Health and Wellbeing has accountability to Parliament, we look for Parliament and parliamentarians to set the policy debate within which health boards look to deliver services in the most cost-effective way. That said, each health board obviously starts from a different relative position, so there is a requirement locally for it to continue to strive for the most efficient way of meeting the health care needs of its population.

The other point is that, across the public sector in general, we are all concerned that there is no cost shunting between the community planning partners. However policies are brought together—be it at local authority level or within the Parliament—we need to be concerned locally that we do not get into silos of looking at just our own bottom line and accountability but instead look at the service delivery, for example to meet health care needs, more widely across the public sector.

Jeremy Purvis: There has been a consistent theme from previous panels when we have asked about whether any particular budget areas should be protected. I will ask the same question. For example, has the NHS been given a guarantee that it will receive real-terms increases? Have local authorities or education services received such a guarantee, or are you all looking at the Government's forecasts for reduced budgets and planning accordingly?

Robert Calderwood: From a health perspective, we have no indication of either the decisions that will be taken nationally in the comprehensive spending review in the autumn or what the Scottish Parliament will decide on the block budget and its spending priorities beyond 2010-11. We were set one certainty, which was that throughout the parliamentary session a 2 per cent efficiency target would be set each year for the opportunity of service improvement. Allied to that, looking at the wider UK picture and the Scottish economy, all public sector bodies are running a range of scenarios based on cuts of 2 per cent upwards.

In health, the largest single determinant of the impact of inflation is pay. Let me give you a simple example. This year, NHS Greater Glasgow and Clyde received in absolute terms an increase in its allocation of £46 million on the basis of a 2.15 per cent uplift. As a consequence of pay settlements across the UK, the impact on the health board's wage bill this year of finalising the third year of agenda for change will be £30 million. In essence, the board will see two thirds of its uplift go towards maintaining a status quo for pay.

When we then take into account the fact that the real inflation across the rest of our health care expenditure is usually at the rate of the retail

prices index or greater—inflation in our drugs bill is running at about 8 per cent, which is driven by demand and new drugs coming on the market—we are in a situation in which the inflation costs of the status quo are greater than the uplift. For the first year, a large element of our efficiency programme is being driven to meet the status quo costs of the current infrastructure.

The decisions that are made externally to the board will drive the debate about the impact of change. If the Government decides on a particular public sector pay policy, that will determine for us the impact of, in inverted commas, reduced inflationary or real-terms cuts in our block allocation.

The Convener: How would you change that situation?

Robert Calderwood: In health, on the back of the record level of uplifts in spending that we talked about earlier, boards have taken the opportunity, throughout this decade, to modernise our whole pay and terms infrastructure. We have done that by creating a new contract for medical and dental staff that provides a greater opportunity to direct senior medical staff and to deal with the issue of the European working time directive and hours of work for junior medical staff. Under agenda for change, we have equality proofed our pay policy for the vast majority of our staff and have provided a career learning ladder that allows us to work with staff to help them to gain new skills that they can use to take on new roles for which they will be appropriately rewarded.

As a result, we have a number of tools at our disposal, but there is no doubt that that has had quite an inflationary impact on the part of our total budget that we commit to pay. As we move forward, the redesign proposals need to offer us an opportunity to gain the rewards for this decade's modernisation and investment, but so far pay policy in health has been determined at a UK level.

Jeremy Purvis: Have councils been told that their budgets will continue to see growth?

Ronnie Hinds: No, we are in the same position as the NHS. There is no definitive picture as far as the level of savings that will have to be made is concerned, or with regard to what our share of any reductions will have to be. As I am sure that others are doing, we are working on the assumption that over the three-year period beginning next year, we are likely to have to make real-terms reductions in expenditure of 12 per cent, which is consistent with Andrew Goudie's analysis. That is the planning assumption that we are making.

Because of the severity of that level of reduction, my answer to your question is that I do not think that we can afford to fully protect any

particular area of public service. We have modelled the consequences of doing that at different levels and, as you can imagine, the knock-on effect on other services is extremely severe. All that would have to be examined carefully on an evidence basis before we made decisions about relative levels of reduction in expenditure that had to be endured or made by particular services.

I return to what I said in my opening remarks: it is clear that there will have to be policy priorities. When those priorities become clearer, the level of savings that may be required of a particular local government service may well be lower than the level of savings that is required of some other services because the provision of that service reflects a clear policy choice by elected politicians. However, I would say that the approach that is taken should be based only on the existence of scope for efficiency savings right across the board. As a chief executive, my advice to my members would always be to assume that further efficiency savings can be driven out of all the services that councils can provide. Beyond that, once we have clarity about the policy priorities, we can ratchet up the levels of savings for those services that are deemed to be not as high a priority as others.

The Convener: Did you want to come in on that point, Malcolm?

Malcolm Chisholm: No.

Jeremy Purvis: Efficiencies have been referred to a great deal. I was interested in Mr Calderwood's explanation of where some efficiency savings could be used, but has the Government asked for it to be demonstrated where money that has been saved through efficiencies has subsequently been spent?

Robert Calderwood: From a health perspective, as part of our local delivery plan process, our submissions to the Scottish Government health department identify savings and justify how we arrived at the need to make that level of change. The Government also receives full details of the individual schemes that we propose to make up that change. As I said earlier, the impact of inflation plus service commitments that NHS Greater Glasgow and Clyde has entered into means that, in 2010-11, our service provision costs will be £80.6 million higher than they were last year. We have received an uplift of £46 million from the Government, and we will generate the other £35 million from efficiency savings that will be reinvested—they will be retained in the health economy.

Jeremy Purvis: So that is just a matter of defraying additional external pressures, rather than saving £5 million by not doing something and then spending it on something else. You have

been able to use the £5 million that you have saved to defray the external pressures that add up. Is that correct?

15:15

Robert Calderwood: To date, the 2 per cent efficiency saving has been reinvested in the local health economy each year. That remains the situation in 2010-11.

Jeremy Purvis: I want to be clear about this. I asked Audit Scotland that specific question. I do not know whether you saw its answer but, to paraphrase, it said that it was not clear about where the money had subsequently been spent. I am not necessarily making any judgment about it and I understand that, if you have made an efficiency but your pressures are still mounting up and you can defray some of them, you will. Is it a case of that or a matter of providing the same service better and now providing another service with the money that you have been able to save? That would be different.

Robert Calderwood: Yes and, in health, we can demonstrate that. Touch wood and subject to the audit that is happening as we speak, we believe that NHS Greater Glasgow and Clyde will break even on its budget for 2009-10—the year that has just finished.

To take three examples, during 2009-10, the board brought into clinical use £250 million of new health care facilities in the context of the modernisation of its maternity services, the new extension at the Southern general hospital and the opening of two state-of-the-art ambulatory care hospitals. That capital investment must be paid for. A net increase in costs of £18 million a year was generated for those new health care buildings. We have been able to bring those buildings into use and meet that £18 million step up in costs.

We have also reduced the times that people wait for out-patient treatment, in-patient treatment or diagnostic tests in year. In diagnostics, the waiting times have come down from six weeks to four and, in in-patient day-case treatment, the guarantee has come down from 12 weeks to nine.

All the money that we have generated by delivering the status quo in other parts of the business more efficiently has resulted in service increase. Having the uplift in resources and the efficiency savings alongside it generates the opportunity to invest. However, as I said in my introductory remarks, that is subject to the law of diminishing returns. If we make more and more efficiency savings and there is no uplift, so all the savings are poured into inflation, the balance will eventually go the other way. So far, efficiency

savings have been a positive opportunity to develop services.

David Whitton: How would each of the witnesses strike a balance between cuts to current expenditure and cuts to capital expenditure?

Ronnie Hinds: I am happy to make the first venture into that. If you refer to Andrew Goudie's paper, you can see that the reductions that we face in capital expenditure are far greater in percentage terms than those that we face in revenue budgets. That is typical of previous recessions. If we face 12 per cent real-terms cuts in revenue over three years, we are probably, as I remember, looking at 50 per cent reductions over the same period in capital budgets, so the decline in the level of resource for capital expenditure is much more severe and much swifter.

From a local government standpoint, there is a unique relationship between the two budgets because we are not entirely dependent on funding from central Government to fund our capital investment programme. We can do a lot of that at our own hand through prudential borrowing, which is entirely virtuous. It means that we are able to consider the respective pressures and savings that we have to produce for revenue and capital expenditure pretty much in the same framework. That allows members to have choices that are not separated by the artificial accounting convention that says that capital budgets are in one place and revenue budgets are in another.

In happier times, we have been able to make good use of that by making more savings on the revenue budget than were strictly required to meet a satisfactory council tax figure or, more recently, meet the council tax freeze. Some local authorities have been able to go beyond that, make revenue savings and convert those into borrowing so that we can enhance our capital programme. Although the times ahead of us are somewhat more challenging, that facility is one palliative measure that we could use to offset the significant decline in capital. It is much harder to do that now because revenue budgets are already under severe pressure and we are having to cut them further to fund capital spending, but it remains a valid policy option for elected members. It is important for local government to bear that in mind.

I will make a slightly provocative comment. In Scottish government as a whole, local government's power to convert revenue into capital spending is unique. However, given the policy choices that will have to be made at Scottish Government level, it is part of the Scottish Government's concern that we are faced with a significant reduction in capital investment. There are ways in which at least some of the effects could be offset if more revenue were available to

local government, because we could use that to borrow. We could not build hospitals with it, but we could build schools and roads.

David Whitton: Would ending the policy of zero increases in council tax and allowing you to raise council tax levels help you to do that, as you could use the resulting money to help with your borrowing?

Ronnie Hinds: It would help if we had more revenue resources either from increased income or from freeing up resources because of efficiency drives on expenditure.

Robert Calderwood: I qualify my opening comments by stressing that they relate to NHS Greater Glasgow and Clyde; other health colleagues in Scotland might have different answers to your question.

As many members know, we are just embarking on the next phase of our acute service modernisation programme, with Government support to spend, pro rata, above our share of the national capital cake—£840 million over the next four years—to build the new south Glasgow campus. It would be difficult for the health board if that programme stopped, because we are at a point in the change process at which maintaining the status quo would cost us an unsustainable amount of money in revenue terms. We must finish the journey so that we can rationalise the acute hospitals and make the revenue savings that flow from that efficiency. NHS Greater Glasgow and Clyde is anxious to complete its capital programme.

More generally, we believe that it is important from a health care perspective to keep a weather eye on the capital account, so that it is not raided. There is a history of letting health care buildings run down, with a large maintenance backlog, so that they become unfit for purpose and uneconomic to run. We are running hospitals that, in essence, were gifted to the health service. Those hospitals, which were built at the turn of the last century, are very uneconomic. It would be desirable for us to have the opportunity to debate on a case-by-case basis with the Cabinet Secretary for Health and Wellbeing and other politicians raids on the capital account for a specific purpose—for example, to create a change fund to allow us to make changes quickly over two years, because there is a big retraining programme or a redeployment of staff. However, an overall reduction in capital over an extended period would run the risk of putting NHS Greater Glasgow and Clyde back to where it was 15 years ago. That would be unacceptable to the public today.

David Whitton: Would anyone like to comment on the education side?

Murdo Maciver: I hesitate to answer. However, if we are faced with a choice, the preference would be for service delivery—maintaining learning and teaching, supporting teachers in the classroom, early intervention and all of the other dimensions to that. North Lanarkshire has made a major commitment in principle to maintaining from council resources the building and remodelling of schools, under the schools and centres 21 programme. We have a long list of projects and have seen the benefits that new schools bring to youngsters, education and the social, health and leisure dimension of communities, through the use of schools as community hubs and in other ways. For that reason, I feel sore about the postponement of new schools, not just in North Lanarkshire but more widely. However, if we are faced with a choice, the preferred option would be to maintain service delivery.

David Whitton: In asking my next question, I risk creating a bit of tension between health and education. You will not be surprised to hear that we were told in evidence from various quarters that there is a demographic trend whereby the Scottish population is getting older and services for the elderly will have to be increased. Equally, however, other witnesses told us that we should not cut investment in early years provision because we get long-term benefits from that. I would welcome your views on what choices should be made. How can we square that circle?

Robert Calderwood: I will start with a comment from the health perspective. If my director of public health, Dr Linda de Caestecker, were sitting here today, she would likely wax on the need for both. She would start with the success of the starting well and triple P programme and she would highlight evidence from Australia and other countries that proves that, over what we would consider an extended period of 10 to 12 years, addressing child and family health at that point pays dividends, with good results for the wider society. The challenge in working within such a timeframe is that the payback is beyond most business planning cycles and there is a temptation to do something more immediate. We in health, along with our education partners in local authorities, support the concept of the starting well and triple P programme and investment in it, but there might be a temptation to raid it.

On the older population, again, we need partnership working across the public sector. Large elements of the needs of the elderly population have to be dealt with by designing services around self-help, self-care and care in the community. If all that we do over the next 20 years is expand every element of our current services pro rata to the increase in the number of elderly people, we will create an unsustainable indicative budget cost in the Scottish economy. There has to

be a partnership that looks at the major input that local authorities have to services for the elderly through social care.

David Whitton: I assume that you are planning to keep as many elderly people as possible out of hospital and in the community.

Robert Calderwood: Yes. The strategy at the moment is to shift the balance of care in dealing with long-term conditions and anticipatory care. Elderly people who have long-term conditions might have an acute episode three or four times a year. They usually come into hospital for only 48 or 72 hours, and they are stabilised and discharged. The view is that, by working in the areas that I mentioned, we can stop that revolving-door concept. That takes us into the areas of adaptations to social housing, early-warning systems, e-health, new technology and, as I said, partnership working.

Ronnie Hinds: On the question that David Whitton posed, obviously, we cannot make a choice between the elderly and our young and sometimes vulnerable population. We need to address the requirements of both. Because we are faced with an overall reduction in resources and growing demands at both ends of the spectrum, the onus is on us to get a lot smarter about how we provide services. There is evidence that that can be done with no deleterious consequences for the quality or level of services as long as it is done intelligently.

In the city where we sit, the City of Edinburgh Council has reduced by about 40 per cent the number of hours of home care that are delivered to certain segments of the community by redesigning the service and making heavier use of reablement in one fashion or another. The feedback from that work is that, in many ways, the outcomes have been more valuable for the people whom we are trying to serve. Service redesign is therefore part of the answer. Significantly for me, another part is targeted interventions. Resources grew over the past decade, but we did not target the additional money, because we could do more by spreading it more widely. However, given that a period of retrenchment lies ahead, we must target the resource much more effectively, using the data that we have about relative levels of need and focusing resources on those rather than on other things that might be nice to have but are not essential.

15:30

John Stodter: The committee may be interested to know that there has been some protection of education. Education will account for 40 per cent of councils' budgets this year, but it has contributed 32 per cent of the reductions in

what has probably been a less good year than previous years, so there has been some prioritisation. Given some of our discussions with the Convention of Scottish Local Authorities, my view is that the big pressures for councils will relate to the older age group. As I said earlier, those pressures will be more significant than the budget reductions, because of increased demand and increased costs. Increasingly, council services are corporate services working in a community-type partnership. What Ronnie Hinds said is very important, in that decisions should be made intelligently and what we intend to happen should happen. For example, it has always struck me as odd that people over a certain age are allowed to travel free across Scotland, but we charge children to go to school. I do not know whether that was an intended or an unintended consequence. My plea is for intelligent strategic decisions that have outcomes that were intended.

David Whitton: That brings me neatly to my final question. Should there be a limit on currently available universal benefits such as free travel and free school meals, which are paid for by the public purse?

Ronnie Hinds: That question has to be asked. It is not going to be easy to answer it, and I will not sit here and pretend that decisions on it will be easy for politicians to make or get accepted by the population or, indeed, that it will be easy for officials to deliver them in practice. However, we have to go there. I am somewhat blooded already in this because, in the authority of which I am chief executive, we looked hard at concessionary rail travel and decided that, although it is nice when there is enough money for it, given the choice between it and targeting the expenditure at areas in Fife where we could help more people who have significant difficulty in travelling from A to B, we should do the latter. That was a tough decision for the politicians to take. The consequences of it are probably an interesting vignette of the kind of issues that we will face in addressing the situation that is ahead of us.

Robert Calderwood: From the health service perspective, the NHS's founding principles include providing services free at the point of use, financed through general taxation. To that extent, income generation has not been a feature of health service management and delivery. However, as a group of chief executives from across Scotland who have submitted evidence to Crawford Beveridge's independent budget review, we have highlighted that it is important to look at choices going forward. For example, we can consider whether free eye tests and prescriptions, which are currently universally available, should be more targeted, and compare that with the opportunity cost of the money for universal provision not being available for another part of

the health service in the years ahead. I believe that the Parliament needs to address those issues in the context of future years opportunity costs.

Murdo Maciver: From ADES's point of view, we had reservations throughout about the roll-out of free meals to all in primary 1 to primary 3, irrespective of need, so the provision made by the Cabinet Secretary for Education and Lifelong Learning in the December letter and the subsequent agreement to retreat or give flexibility on that position was much appreciated. I thought it odd that it was deemed appropriate for many youngsters to come to school hungry and to have to wait until midday for universal provision of free school meals. Perhaps a more targeted approach would have been to home in on the breakfast needs of those youngsters so that they would be in a better position to take advantage of learning opportunities throughout the day rather than just in the afternoon.

Linda Fabiani: I have a couple of questions on the themes that I have been hearing about, which have been really interesting. One of the points that came out clearly in those last comments was that we should target needs rather than wants. I think that it was Ronnie Hinds who spoke earlier about expectations and about how we perhaps have to get a bit harder. However, John Stodter pointed out that often it is difficult to quantify the longer-term benefits—and the benefits to society in general—of some of the things that we are doing that are not seen as being about needs. Within local authorities in particular, much of what is spent is spent in order to meet statute. Does it therefore follow that discretionary initiatives will bear the brunt of any cuts that come along? Does that bode badly for the new way of delivering services that we are supposed to be considering for the general benefit in the longer term?

Ronnie Hinds: In essence, the answer is yes. However, I am not convinced that looking at the statutory basis of the services provided by local authorities is the right way to address the issue. After all, there is a plethora of statute in social work, for example, but often it does not produce definitive answers to questions about what must be provided and what must not. It is not a good way of deciding what we will continue to do and what we might have to do a little less of.

If you were to ask what my alternative to that is, I would come back to priorities. It is important to articulate to the public as well as we can the nature of the choices that we face and engage with and consult them in meaningful ways. By that, I do not mean asking the public easy questions to which the answer is simply, "Do what you like, but don't tax this thing because I care about it a lot." You have to ask somewhat more closed questions that allow you to get a sense of their priorities.

That will be an important part of politicians' armoury as we move into times ahead. It will be much more valuable and productive than simply founding on statute, which is arcane at the best of times and requires so much interpretation that it does not give you a sharp edge.

John Stodter: That question is probably the most difficult one that Scotland faces. There is much in education that is legally prescribed—in fact, some would say too much. The number of children in a class, the number of hours that they spend in school, when they start school and when they leave are all prescribed by national standards. At some stage, you have to ask from a point of pure logic whether all those constraints and parameters are justified, given the decisions that we might have to make about services that are not necessarily so well defined or protected in legislation.

The issue for the nation is how we conduct a discussion about that, given how we are set up and the politics of the next year or so, with elections and changes in political regimes. Although many councils will avoid this, the fundamental issue is that local councils can get into a corner of asking what is statutory and putting that to one side, so that what is non-statutory has to bear the brunt of the cuts. I have been through many years of analysis of this. We then get into discussions about what level of service is statutorily defined. For example, a council statutorily has to have community learning development, but Glasgow City Council, say, could legally get away with one community centre for the whole of Glasgow. We can get into pretty sterile debates.

We feel that there needs to be a high-level strategic national-local partnership look at some of the standards to see whether it is possible to maintain or improve services, and to reorganise or reconfigure them.

Murdo Maciver: There are enriching activities in primary and secondary schools, such as music and sport, that are a major part of the satisfaction that many youngsters and parents get from their local school. Such activities are not statutory, but it would be a major loss to our schools if they were cut. The issue of parental responsibility may arise, in terms of charging. The parental responsibility issue could also be brought to bear on the transport issue, and the difficulty of changing the transport entitlement of 1 or 2 miles that still applies in some authorities back to the statutory limits. As John Stodter says, those are difficult decisions to take to do with responsibility.

Linda Fabiani: There must be an element of that in the health service, too.

Robert Calderwood: The element in the health service is slightly more challenging in that we have spent the past decade seeking equity of service throughout Scotland and to eradicate what has been loosely referred to as postcode prescribing. Today, the debate would be based on treatments whose clinical value is questioned. An historical example of that would be tonsillectomy; 25 years ago, most parents were pushing to get their children in for tonsillectomies because they were missing school. Clinical practice has proved that tonsillectomy is a totally pointless operation except in a small percentage of cases. We have gone from performing thousands of those operations throughout Scotland to performing a few hundred, on strict clinical grounds. That has allowed us to discontinue something and move resource forward.

It is more difficult when we get into the issue of balancing going forward. However, I think that there will be a debate in health. A more obvious example would be elements that are truly elective, such as plastic surgery linked to the cosmetic services. There are other aspects of service in which there could well be a sponsored debate in the fullness of time. However, the vast majority of the health service is a safety-net service, in which people fall ill and come into hospital, or have a major elective need, and we now have waiting time guarantees and charters. The debate in the health service is more likely to be a national issue because of consistency and choice.

Linda Fabiani: I hear people talking all the time about partnership working. I think that Robert Calderwood referred to community planning partnerships. We must have been talking about partnership working in the community—involving the health service, councils and the voluntary sector—for nearly two decades, but it seems that there is not parity of esteem among the members of those partnerships. What is your honest impression about whether, in times of plenty, we have really just been paying lip service to that kind of stuff? Do you feel that now is the time to consider seriously how we deliver services to people using all the available resources, with the voluntary sector being a very professional—it sounds strange to use that word—resource that can be used in that regard?

Robert Calderwood: My experience has been that there are a number of good examples in which partnership working in the community has resulted in improved services to the consumer, and in which the partners have overcome historical territorial issues about areas of responsibility and accountability.

It is also fair to say that we are still in the foothills of the big opportunities that can exist if we pool the total resource that we spend on targeted

populations, particularly children and the elderly. If we bring together my aligned expenditure with the six local authorities of NHS Greater Glasgow and Clyde and their social care expenditure for the same client groups, we are probably talking about £1.6 billion of public resource. It would be extremely naive of me to suggest that either my fellow local authority chief executives or I could say that we have targeted that full £1.6 billion, eradicated duplication and eliminated spend on non-critical front-line services by getting the shared services. There is a long way to go down that route.

15:45

Ronnie Hinds: I would echo that. Community planning has been a statutory responsibility for only seven years. The legislation to put it in place was enacted in 2003, alongside the legislation on best value. In most places, some form of partnership working would have preceded the legislation, and the legislation simply strengthened it. In most areas, partnership has been further strengthened by the introduction of single outcome agreements, which have at least placed a clear focus on what we are trying to deliver through partnership working arrangements, and on the evidence that we have made a difference.

I agree with Robert Calderwood: we have not, by any means, exploited the full potential advantages of partnership working. That is partly because, unavoidably, we find ourselves working against the grain. In very few areas are the partners' boundaries coterminous. Linda Fabiani's point about parity of esteem comes alongside that. Regardless of whether partners' boundaries are coterminous, we work to different governance and accountability arrangements, which gives rise to all sorts of differences in understanding, behaviour and so on. There are obstacles to be overcome on the way to effective partnership working. I am not saying that that, by itself, means that partnership is not a significant part of the answer to the situation that the committee is seeking to address. I would say that it does not provide a ready and easy answer to the question of how we can spend the public pound more effectively, given that there is going to be slightly less than a pound to spend.

The partnerships were not created with that express purpose in mind. They were created for different types of purpose. Making expenditure reductions is a whole lot harder than adding expenditure to what is already there. We should be careful about leaning too much on partnership working to take us through this, although I do not dispute that it has to be part of the answer.

John Stodter: I agree with everything that Ronnie Hinds said.

Linda Fabiani: I bet that Murdo Maciver does not.

John Stodter: We have seen significant investment in partnership working over the past five years and we have seen significant improvements in the quality and types of services and in the identification of need. There is no evidence that there has been a more efficient approach, in terms of pounds and pence.

The Convener: Mr Maciver, do you want to add to that?

Murdo Maciver: I have nothing to add, thank you.

Linda Fabiani: I am surprised. Can I probe a wee bit further about the voluntary sector?

The Convener: Mr FitzPatrick has been very patient.

Linda Fabiani: I have been patient for a long time, convener. I have a personal opinion about the voluntary sector. It is taken from listening to lots of people. I am thinking particularly of services to the elderly, whether for Alzheimer's disease, elder carers or other services. Greater wellbeing seems to come when people are being dealt with through the third—or voluntary—sector, as opposed to through the municipal option, but those who work in the voluntary sector do not enjoy parity of esteem. They do not feel that they are treated as professional partners. What are the witnesses' views on that?

Also, could Ronnie Hinds talk a wee bit more about obstacles to coterminous working between the voluntary sector and councils. What would have to be done to eradicate those obstacles?

Ronnie Hinds: I am sure that the role of the voluntary sector is different in different parts of the country, and I cannot speak authoritatively for everywhere. In the areas that I do know about, I am aware that the voluntary sector is represented in partnership bodies and working arrangements from the top all the way through, if you like. That does not necessarily mean that they are equal partners or are treated as such. I am not saying that they are or they are not. I recognise that I am not answering the question directly.

We have some quite good partnership working arrangements and, to some extent, there is also accountability through contracts with different parts of the voluntary sector. It seems to me that, for what lies ahead, we will have to make extensive and perhaps more effective use of those arrangements than we have in the past. It is becoming recognised that the boundaries of the state will have to retract a little, and if we are not to leave people to fend for themselves, the communities in their various guises will have to be part of how a service continues to be provided,

and the voluntary sector will have to be a large part of that.

I am taking very seriously the notion that we should be having a different kind of conversation with our colleagues in the voluntary sector and, for that matter, in the social enterprise sector. As councils have less and less resource to deliver services directly, we should try to transform our role into one that is more supportive and advisory for people who might have to take up the cudgels once we have decided, or it has been decided for us, that we can no longer do that. Part of our role is to stop being providers for some services, and to start being advocates for and supporters of other people.

What can I say about the things that do not help? That is an unavoidable consequence of the our public services structure. We have 32 of one thing and 15 of another and so on, so very few of us have the advantage of working in exactly the same geography. Even when we do, and it so happens that Fife is one of the places in which we have that advantage, there is a bigger hurdle to effective partnership working—Robert Calderwood described the accountability and governance arrangements in the NHS hierarchy. Local government has a different set-up, and it is obviously very different again for the voluntary sector. We all have to work with different backgrounds and cultures, which is part of what we have to contend with if we are to work with each other as effective partners.

Linda Fabiani: We had a meeting that reflected some of those issues. Thank you for that. Thank you, convener, I am finished now.

Joe FitzPatrick: Convener, I was not itching to get in with my questions. I was just trying to ask a supplementary to David Whitton's question. Ronnie Hinds suggested that increasing revenue could be used for capital build. What sort of revenue support would be required to support the borrowing of, say, £20 million to build a secondary school?

Ronnie Hinds: One of the advantages of the parlous state of the economy is that borrowing costs are at an all-time low, so if we are ever going to do that, this is the best time. I am working hard on my arithmetic here. For £20 million, we would be talking about £1.5 million in debt charges per annum over the piece. Borrowing £20 million for a primary school would cost £1.5 million or so per annum over 25 years. You would not get a secondary school for that.

Joe FitzPatrick: So revenue would have to go up by £1.5 million per annum. How much would you have to increase the council tax in Fife, for example, to raise that?

Ronnie Hinds: Coincidentally, the increase would be about 1 per cent.

The Convener: Do the witnesses have any final comments to make?

Ronnie Hinds: I will make one brief remark. I accept the correction that my colleague made earlier. I did not mean to give the impression that we are spending £1.20 in Scotland on education for every £1 that is spent south of the border. I meant across the piece, in all public services, we spend about £1.10 for every £1 that is spent south of the border for comparable services. We have done a bit more research beyond the CPPR to establish that.

Using that as a prompt, I might add that a significant part of what we all need to do now is to get better at that kind of benchmarking. That need not necessarily be just between Scotland and England, although that is part of it. It should also happen between different parts of Scotland. Where is the most productive expenditure, as measured in unit-cost terms? We do not have a good enough grip of that at the moment.

The Convener: I thank you for that correction. Indeed, I thank all our witnesses because there are lessons in what they have said for central Government, as it enters unprecedented times. I thank all the witnesses for their presence here today; their expertise and experience are very helpful to our inquiry.

We will take a short break to allow the witnesses to leave and to allow the next set of witnesses to take their places.

15:55

Meeting suspended.

15:57

On resuming—

The Convener: I welcome our final panel of witnesses: Mark Batho is chief executive of the Scottish Further and Higher Education Funding Council; David Middleton is chief executive of Transport Scotland; and Lena Wilson is chief executive of Scottish Enterprise.

I will start by asking the question that I posed to our previous panel. Can the witnesses briefly set out for the committee the broad principles that should inform how their sectors will seek to identify and implement budgetary reductions? In doing so, please say whether there are any relevant lessons to be learned from previous economic recessions that will inform people's thinking.

Who would like to go first?

Lena Wilson (Scottish Enterprise): Good afternoon. Thank you very much for giving me the opportunity to be here.

Speaking for Scottish Enterprise, I found it very interesting to hear the previous panel's comments on statutory spending and spending on other services. In economic development, it is certainly important to regard every pound that is spent as an investment. Therefore, the question is where we should make those investments and what prioritisation we should make in order to give the greatest return to Scotland and the Scottish economy.

From a Scottish Enterprise perspective, the overriding thing is to ensure a strategic fit with the Government's economic strategy, from which we take our mandate. How do we ensure that we prioritise spend based on sound evidence about the return that we will get for that investment? How do we drive—as we should be doing as a matter of course—even greater efficiencies? How do we keep our customer focus at all times and ensure that we are delivering to customers?

It is now also about the kind of flexibility that we can have to ensure in-year budget agility. We have been talking about the uncertainty in the years to come, but there may well be uncertainty in the current financial year. From my perspective of leading Scottish Enterprise, I am aware of the need for that in-year flexibility.

16:00

I echo what has been said about partnership, which is easy to say but is often difficult to do. I would take it further and ask how we can get much greater public sector alignment around some of the issues. It would be easy for me to be territorial about Scottish Enterprise's budget, but the impact of Scottish Enterprise on some of the other agencies and vice versa is very important. Especially in developing a sector such as renewables in Scotland, it is not just the budget of Scottish Enterprise that is important, but the budgets of so many other agencies.

Those are some of the issues that are guiding the strategic direction. In terms of lessons learned, I do not know about living through recessions in a professional capacity but, from my experience at Scottish Enterprise and in the public sector over a number of years, I think that it is fair to say that from times of adversity can come better investment decisions. I had the privilege of working with the World Bank for a few years and I worked in about 25 developing countries. Even the adversity that those countries faced sometimes brought a clarity of decision making and allowed greater focus that, in my experience, led to much

better joint working. Those are the lessons that I would cite, convener.

David Middleton (Transport Scotland): As Transport Scotland is an executive agency of the Scottish Government, we get our priorities from ministers and take their direction on projects that have the highest priority. As Lena Wilson said, the Government's priorities around sustainable economic growth and its central purpose are well known and understood. In a sense, transport stands ready to contribute both in the short term and in the longer term. In the short term, where resources allow projects to proceed, they can provide valuable employment benefits in the areas where they are promoted. Equally, the benefits in the longer term of modernising the transport infrastructure and making it more efficient are well understood.

Transport often has to stand by to take the shocks in both directions, as there are important public services that ministers must consider; nevertheless, it has been helpful to us that ministers have seen that it has been valuable to maintain a significant programme of major transport projects even in difficult times. The contribution that infrastructure expenditure can make in helping economies through recessions has been well known and understood in the past.

Mark Batho (Scottish Further and Higher Education Funding Council): I echo what Lena Wilson said about the principle of alignment between public bodies. We are conscious that there is potentially an artificial divide between Scottish Enterprise and ourselves, but we are all part of the same pipeline and we are now forging much closer relationships. Lena mentioned renewables. We are talking jointly about projects for a number of institutions, particularly universities, to develop knowledge exchange from the universities into businesses throughout Scotland in that territory. That is just one example. That alignment will be critical, not only to our organisations but to those that I represent today—the universities and colleges, which are autonomous and independent.

In terms of principles, I will talk mainly about the economy and economic contribution, but it is important not to lose sight of the fact that universities and colleges have a significant cultural and social role. We must not let that be forgotten when we are concentrating on the economy today. Nevertheless, in no developed economy is there anything other than full recognition of the fact that universities and colleges are essential to the development of skills and innovation, without which we cannot have successful economies. That is fundamental to the work of the funding council. Interpreted at a personal level, it means maintaining for students throughout Scotland high-

quality services, particularly teaching and research, which are relevant to the end users—in particular, employers.

Of course, efficiency is very important indeed to ensure that we get maximum value for the resources that are invested. If you speak to the universities and colleges, they will all produce well-validated figures on the return from the public pound of other resources that they build in.

I make one more point, on competitiveness. The Scottish university sector is about the only thing that is funded by the Scottish Government that is in direct competition with other parts of the UK—I have not had that proposition contradicted, although, of course, Scottish businesses are indirectly supported by Scottish Enterprise. The funding council funds universities—I concentrate on universities in this context—that are directly competing for students and faculty with universities in other parts of the UK and other parts of the world. Maintenance of competitiveness is very important to the universities' continued success. That is less the case for colleges and for some of our universities that have a more local and concentrated mission, but it is certainly the case for our research-intense universities, which always look to the rest of the UK, to America, to India and to China for their competition.

The Convener: It is all about getting Scotland working and moving. In the context of the budgets to come—we heard about Scottish expenditure forgoing £25 billion to £35 billion—will the alignment that Lena Wilson talked about involve sharing services? How will you face the future?

Lena Wilson: An example of how services can be shared is our recent alignment or partnership with Skills Development Scotland. We now share a single information technology director and we are outsourcing IT services, which will save both organisations £2 million per annum for the next five years. More of that is not just necessary but inevitable.

David Middleton: Most of Transport Scotland's services and overheads are provided by the Scottish Government; we do not maintain a lot of services within Transport Scotland. It should be remembered that of the work that we commission with the budget that we have, which is substantial, 95 per cent is tendered to the private sector and is competed for out there in the market economy.

Mark Batho: In the context of the funding council, there are gains to be had from shared services and we are looking at that. We are using experts from Scottish Enterprise to consider realignment of the space in which we operate, in a useful way.

The big gain is around shared services in colleges and universities. There is no doubt that we need to continue to concentrate on that programme. Perhaps I can come back to the issue later in the discussion, because there are significant barriers, not least a VAT issue that stands in the way of shared services. However, the institutions are alert to the opportunities and will push forward. If there is a gain to be had from difficult years, it is that they concentrate minds on such matters.

The Convener: Do you want to talk about the VAT issue now, in case it gets lost in our subsequent discussion?

Mark Batho: Yes—although I am not an expert on the matter. Broadly, a university does not attract VAT through providing its own IT service, but as soon as it shares the service with someone else there is a 17.5 per cent surcharge. That means that we must save 17.5 per cent before we start getting into profit. The Treasury has been considering the issue for many years. Consultants tell institutions that there are ways of getting round the issue, but those are invariably complex. The VAT issue is undoubtedly one of the big blockers to early shared service.

The Convener: That will be a matter for the UK Government—when we get one.

David Whitton: My question is for Mr Batho. Will you enlighten us on what changes, if any, the Scottish funding council is looking to make to the make-up of the academic calendar to make your universities work a bit harder? I am thinking of changes to the academic year and shortening courses from four to three or even two years—sweating your assets, as they say.

Mark Batho: Those are bigger issues than the funding council alone can address. Ways in which to condense are undoubtedly on the table. The paradigm for universities is the four-year degree, which is done typically in three 10-week terms with significant breaks in between that are justified on the ground that that is when academics do their research. That has been tested in England, where there is talk of two-year degrees and the like. Of course, there is some part-time provision that allows people to break out of that.

In part, we are in a consumer-driven world. As one seeks to persuade universities that change is something that they should look at—a number of them are doing that—they are saying, "But if that drives away the customers, it is no good for us." If change were to affect adversely the capacity to do research or—to return to my point on competitiveness—to attract top international stars, we would need to be careful with it.

I return to Lena Wilson's point. In these difficult times, these issues will undoubtedly need to be looked at—

David Whitton: But they are being looked at.

Mark Batho: They are; they are on the table. That said, they are not being actively pursued. We are not saying, "We will fund you in future to educate students in this programme for three years," or, "We expect you to increase contact time with teaching staff over the year." We have not yet got to that stage.

It is not just the funding council that needs to address the issue; the Government also needs to do so because it undoubtedly becomes a political issue. For example, the four-year degree becomes a political issue when viewed internationally. Some of our competitors—America and China, for example—have a four-year degree with which the Scottish programme fits very well. Indeed, that makes the Scottish programme internationally attractive. The four-year degree also has the undoubted advantage of giving younger students in particular the ability to make choices during their time at university. If they make the wrong choice at the outset, it is not a disaster; they can move on. One can say that that is nice to have—it is not a necessity, but it is a valued part of the system nonetheless. One needs to be careful to ensure that all these things are taken into account.

We also need to look at entry and exit points. There is overlap in our present system between the sixth year advanced higher and the first year of university. The Scottish credit and qualification framework acknowledges that. At the moment, full credit is not given to people who decide to leave university after two years because, for example, they get a job. They pass their exams, but what have they got for their two years at university? Technically, they have an acknowledgement of what they have done, but it is weak in comparison with, for example, America, where full credit is given and people can pick up the credit at a later stage of their lives.

The kind of discussion that needs to take place is about entry and exit points and flexibility, not big-bang reduction. However, I absolutely acknowledge that the discussion needs to take place.

David Whitton: I turn to capital expenditure. You will be well aware of the plans for the super college in Glasgow under which three colleges will merge into one. Is that absolutely necessary in the current climate?

Mark Batho: It is important to separate two closely interlinked things. One is the need to replace a very poor capital estate in the centre of Glasgow and the other is the merger of the three colleges. It is important to emphasise that the two

things are not a single project. On the first, we have had condition surveys done of the whole of the college estate. The remaining really bad cases include the Glasgow colleges that are under consideration, Inverness College and Kilmarnock College. We are just starting on Banff and Buchan College and a couple of the Forth Valley College buildings. Once that work is done, we will have worked our way through the very worst cases. That is not to say that there is not more to be done. Glasgow sits in that category, so doing nothing in Glasgow is not an option. The professionals tell us that the buildings are in serious need of either very significant refurbishment or replacement.

16:15

On the merger of the colleges, at the moment there are two colleges on Cathedral Street, one of which doughnuts the other, with less than full coherence of provision—there is overlap between them and with Glasgow College of Nautical Studies. The vision that has been around for years is broader than just being about the city centre. It is about Glasgow as a whole and about building up coherent, high-end provision, particularly but not exclusively in the centre of Glasgow, that matches up with the rest of the academic environment, such as Glasgow Caledonian University and the University of Strathclyde, which are just across the road, the Royal Scottish Academy of Music and Drama and Glasgow School of Art, in a strong and cross-articulating community.

The academic vision is strong, and the case for capital investment is strong.

David Whitton: I just want to ask about the case for capital investment. When we were in Ireland we were told that although such capital projects are always desirable, given the move back out of recession, they could be put off for two or three years, because the money has to be managed better. Is that a possibility here?

Mark Batho: In all the colleges that still require work, there are things that need urgent attention. For example, a chimney is falling down at Inverness College, which is a potentially lethal situation. Doing nothing is not an option. If the capital investment is such that the Glasgow project is simply unaffordable going forward, we might have to look at other options. We are keeping that closely in mind and are looking carefully at what comes out of the next spending review and the next budget. We will need to cut our coat according to the cloth that we get.

David Whitton: Ms Wilson, you said that you had worked in a number of countries. What lessons do you think that they can provide us with

at this time? Would you focus on any of them in particular?

Lena Wilson: Admittedly, many of the countries that I was talking about are in the developing world, so they are coming from much further back than those in the developed economies. However, they were able to leapfrog some of the developed world, because they were not shackled by so much industrial development. They could leapfrog straight into aspects of digital communications without having to go through the industrial age. They could work together, crossing political divides, to get behind economic issues, regardless of partisan approaches. Countries that had been at war are coming together in that regard. There are aspects of that that I would never wish on my own country, but I certainly learned from some of that spirit.

I have also worked in many other countries, including the United States and Japan. We have looked at why Finland, which is very similar to Scotland, has such levels of innovation. We have looked at the entrepreneurial spirit in California and the way in which life sciences have developed in Massachusetts. We have done quite a lot of benchmarking for Scotland.

There is no one easy answer. You can take elements of what works and bring them back to Scotland. We have done that in our new approach to how we commercialise all the terrific research that we have in Scottish universities, turning it into companies that grow. As you all know, we are world-renowned for our research and science base, but we have not been good at commercialising and turning it into companies. That is an example of something we have learned from what has been happening in, say, North America.

David Whitton: In its call for evidence, the committee asked,

"In preparing for the forthcoming reductions in the Scottish budget, how can public sector bodies best take service users' views and needs into account?"

Scottish Enterprise's submission answers that by saying that there should be a customer-driven approach.

You might have seen a piece at the weekend about a rival service to the business gateway that has been set up by some entrepreneurs. That perhaps does not say much about the way in which the current business gateway has been changed. The complaint seems to be that the business gateway service was quite good but that it is now underresourced. How do you respond to that?

Lena Wilson: As you know, the business gateway is not run by Scottish Enterprise any more. It is not part of Scottish Enterprise. It is

delivered by local authorities. We participate in some aspects of how it is marketed, but we do not run the service.

On customer satisfaction, we do a great deal of customer research, including real-time research. We fed into the Government's recovery programme on a weekly basis what was happening with the business base in Scotland with regard to not just whether businesses liked Scottish Enterprise—it is great if they do—but what was happening to their liquidity and customer base. We use such information to change, in real time, the services that we provide.

Your point about whether parts of the private sector can rival public sector provision is interesting. In terms of economic development, the public sector should not be delivering things that the private sector can deliver and customers can pay for; it should be doing only things that are truly additional, such as helping companies to get into markets that they would not be able to get into themselves, or to innovate in a way that they would not be able to do themselves and to assist them with leadership. The public sector should not be competing with the private sector in that sense; it should be truly additional in economic terms.

David Whitton: Earlier, Mr Batho spoke about the links between your two organisations, one of which is the graduates for business scheme. Can you bring us up to date with what is happening with that?

Lena Wilson: Yes. One of the hazards with trying to take bold and brave decisions about what is the right thing to do for the economy and with trying to prioritise in terms of returns is that you occasionally find yourself on the front page of the newspapers in connection with things that you have stopped doing or said no to. That is a constant challenge. It is easy to talk about what you will do more of, but it is much more difficult to talk about what you will do less of. Graduates for business fell into the latter category.

The programme was designed to place graduates in business with the idea of creating economic impact and competitiveness in those businesses. When we evaluated the programme, we found that, although the graduates and some of the businesses enjoyed the programme, the benefits were less than half of what that we projected. Further, it cost us £700,000 a year.

We have considered different ways of procuring those benefits, through work with the Scottish funding council and Skills Development Scotland. We will shortly announce something that will be better than the old graduates for business programme and will cost significantly less. That is a win for the economy and the graduates as well as a win for the public purse.

David Whitton: I am always pleased to hear that there is a win for the public purse. Another win for the public purse might be news of a reduction in the amount that Scottish Enterprise spends on consultants, given that you have spent around £26 million on them between 2005 and 2009. Has that figure gone down?

Lena Wilson: That is an important part of our spend. I want to clarify that those consultants are not advising Scottish Enterprise on how to do what we do. In fact, we have conducted our recent restructurings entirely by ourselves. Over the past four years, we have saved £50 million and reduced our head count by more than 400, and have relied very little on consultants to help us to do that. We do not use consultants to help us with our big transformation programmes.

The role of the consultants we use is one of supporting our armoury of expertise to help business, perhaps through specific market investigation reports for new markets, or specific scientific assistance in research for companies that are developing new products. I share your concern about our consultancy spending, but it is focused very much on providing additional expertise to help the businesses of Scotland and to help us to get projects on the ground for Scotland. Therefore, although we have significantly reduced the use of consultants to help us—I will always want to reduce that—I do not want to be held to reducing the figures for consultancy spending to help businesses, on which we should always get value for money. It is more important that Scottish Enterprise keeps a lean organisation, instead of employing expensive resources when we do not need them all the time.

David Whitton: What has been the result of your efforts to produce the 2 per cent savings that the Government is seeking from all departments?

Lena Wilson: As I said, we have exceeded that target year on year. Our savings over the past four years have been in excess of £50 million, largely due to significant reductions in head count. Over that period, we have significantly consolidated our premises costs and reduced our head count by a third in real terms—not including those who went to Skills Development Scotland.

David Whitton: You have heard your fellow witnesses say that it will be difficult to keep achieving such savings going forward. How will that impact on your organisation?

Lena Wilson: It is always a challenge. Our projected efficiency savings this year are £14.3 million, and I am confident that we will achieve those. As you have heard from witnesses throughout your inquiry, and as I have heard today, efficiencies in themselves will not be significant, but Scottish Enterprise will maintain a

relentless pursuit of them; the graduates for business scheme is part of that. We are a much leaner organisation than we have ever been, and this year we have delivered more to the business community than ever before.

Tom McCabe (Hamilton South) (Lab): My first question is directed to Ms Wilson. You spoke about strategic direction. I invite you to spend a few moments defining that. Is there a diktat from Government that you must look at the way in which we are organised here in Scotland and how our major organisations are set up, or must we place different responsibilities on senior people in those organisations to ensure that they work together and seek out opportunities?

Lena Wilson: It is not an either/or question—there may be an element of all of the things that you mention. I have been in my post for six months. Part of my ticket for getting the post, which I am honoured to have, was that I thought that it was important not just to be a good leader for Scottish Enterprise but to demonstrate good public sector leadership. I made a commitment to work across the public sector with my colleagues; Mark Batho has referred to some of that work. For a variety of reasons, the appetite for such work in Scotland is greater than it has ever been.

Part of the strategic direction is what we can achieve by doing more. At the moment, the chief executives of the five main non-departmental public bodies—Mark Batho, the chief executives of VisitScotland, Highlands and Islands Enterprise and Skills Development Scotland and I—are piloting an initiative to see whether we can deliver more for the food and drink sector in Scotland by working together than we deliver separately. We will see how that initiative goes and try to roll it out. Ideally, we would have similar business plans and budgets, so that we could compare and contrast. My hope, which is shared by others, is that we will achieve those.

You asked whether our strategy for the country and the economy was a diktat from Government. It is Government's responsibility to set out that strategy and it is for me to ensure that Scottish Enterprise does the utmost to deliver it. There is a strong policy advocacy role for Scottish Enterprise and others. As I said, we take business intelligence regularly to Government. In the next couple of days, I will have one of my regular meetings with the chief planner for Scotland, at which I will outline to him the business issues that we are hearing about. Through Scottish Development International, we have access to 23 offices all over the world, so we are getting an outward view of Scotland—the planning system, regulation and our supply chain. It is important that we play that role appropriately; often, we do so privately. We have a strong role in advocating

strategy but, ultimately, that is a matter for Government.

16:30

Tom McCabe: Mr Batho spoke about the competitiveness of the university sector. As he will be well aware, universities south of the border can levy different charges, including top-up fees. Because of that income stream, they can sometimes perhaps attract different research projects and different individuals to head up those projects. To what degree does Scotland's inability to do that at the moment affect competitiveness?

Mark Batho: At the moment, I think that we share the view of Universities Scotland on that. There is an incredibly complex mix so it is not possible just to do a quick sum—we currently have a project running jointly with the Scottish Government and Universities Scotland to try to tease this out more—but, in very broad terms, our view is that we are not far from comparability of funding. When our universities need to make the big investments that will attract international stars, they are still able to do that.

The risk going forward is that, if the Browne review of higher education funding and student finance recommends a significant increase in tuition fees down south, that equation—the balance that currently exists across the border—will be altered. In the end, the one way of resolving any imbalance would be to put comparable amounts of resources into Scottish universities as are going into English universities, whether from public sources or from elsewhere. In terms of being able to get the quantum, that “elsewhere” would probably be from users of the system—from students. Looking across the world, one sees that commercial income, endowments and the like do not produce the kind of figures that one would hope for. Therefore, there is a fairly well-recognised choice between either having some kind of charge on users themselves or having more public resources going in.

If a gap emerges, maintaining competitiveness would require—from our perspective as a funding council—extra resource going in. That is not to make a party-political point but simply to observe the sector as it stands.

Tom McCabe: Finally, a body such as the funding council will obviously be loved by some organisations and not by others. We are entering a period when the fiscal position is tightening considerably and hard choices will need to be made. In an era when very considerable pain might be felt in different sectors, are you still convinced that the Scottish funding council is good value for money?

Mark Batho: What the funding council delivers is a capacity to look at the sector as a whole in a demonstrably impartial way. That is why, for example, there are specific powers that prevent Scottish ministers from engaging directly with individual institutions. We have that capacity to offer. It is for others to judge whether we do that well or badly. I have not yet found anybody who loves us, by the way, but that is par for the course.

On the issue of how efficiently we operate as an organisation, I merely make the point that our running costs are around 0.5 per cent of the resources that we administer. If one looks across the rest of the UK—and, indeed, internationally—one can see that we are reasonably fit for purpose in terms of our scale and our size for our function. Across our whole organisation, I have 130 staff administering £1.7 billion, so we are quite small.

Could we do without a funding council? Undoubtedly we could, as there are other models out there. However, our function would then need to be carried out by some other body—whether by local government or, more probably, by central Government—and would still need to be resourced. Therefore, one needs to weigh that up. Simply removing the funding council would not be an efficiency saving in itself, as one needs to think about how the function would then be carried out. One needs to bear in mind the appropriateness of having a body that operates quasi-independently of Government as opposed to putting that function back into Government.

The Convener: Before I bring in Jeremy Purvis, I notice that we have been educated and employed, but we have not been transported yet. Mr Middleton, have you assessed the likely impact of budgetary reductions on your sector and service users? Are you discussing with your service users how the impact of reductions can best be mitigated?

David Middleton: Since we directly commission most of our activity from the private sector in the form of projects, there is an on-going dialogue in which people in the marketplace and in construction business continually talk to us about market prospects. Clearly, they read the newspapers and understand the projections on public spending. In a sense, they can try to position themselves in the market and look at the best way to prepare their businesses to compete in the future.

Notwithstanding the fact that, as everyone keeps saying, we are entering a difficult fiscal time, we hope that the service users in Scotland—the citizens who use the transport infrastructure—will enjoy considerable benefits from the transport infrastructure improvements that will be coming on stream.

We are building two motorways at the moment: the M74 extension and the M80 completion. The two projects are going well—they are on time and on budget—and we hope that they will benefit those who use the network. Similarly, we hope that those who have used the Stirling-Alloa-Kincardine rail enhancement—they are using it in far greater numbers than were predicted—are happy with that additional infrastructure. We hope that we will be on time to have the Airdrie to Bathgate railway line open as planned in December of this year and that that will make a contribution, so that those who use the transport infrastructure have a better journey. We hope that those projects help the competitiveness and free mobility of labour around the central belt as we move forward and, we hope, come further out of recession.

The Convener: You have on-going projects but, from what we heard earlier, the danger will be that funding for future projects may be less available.

David Middleton: That is understood. Scottish Government ministers have been clear about their future priorities for the capital budget, and it is clear that, of the projects in the Scottish transport projects review, the Forth replacement crossing—for reasons that are being debated as the legislation proceeds through the Parliament—is the number 1 priority for the direct capital budget.

If other new projects that come on stream are rail projects, we will probably look to the mechanism of the regulatory asset base through Network Rail, and if they are roads projects there is the non-profit-distributing model of finance, which is currently being used for procurement in the Borders railway project. We understand that projects outwith the Forth replacement crossing will have to look for financing mechanisms that spread the resource costs over a longer period. That does not mean that there are no budgetary or expenditure implications to be assessed, but we understand well the need to ration the direct capital budget in the forthcoming years.

The Convener: Being able to move people, services and goods to where they are needed, when they are needed, is crucial to the future and to get us out of the financial difficulties that are about to hit us.

Jeremy Purvis: Mr Middleton, I might have heard you incorrectly, but did you say that the regulatory asset base is an option in looking at new rail projects in Scotland?

David Middleton: Yes, it is the primary funding vehicle for new rail investment in Scotland.

Jeremy Purvis: Will there be opportunities to use that in the future?

David Middleton: Yes. That matter is not determined at our own hand—it is negotiated with Network Rail as the owner of the asset and the Office of Rail Regulation, which determines whether it is an appropriate economic use of the asset—but the option is open to us.

Jeremy Purvis: In a previous meeting, we took evidence from the Forth Crossing Bill team on the scale of the project and Transport Scotland's choice of funding method for it. The bill team said, in effect, that all other capital expenditure will have to be reprofiled. The report "Outlook for Scottish Government Expenditure" states:

"Capital spending is likely to bear a significant burden of the planned fiscal adjustment."

What work is being done now for the next decade, given that the peak year for the reductions is 2014-15, which is when expenditure on the Forth crossing is due to peak? What work is being done now to be able to say to local authorities and health boards what their capital allocations are likely to be?

David Middleton: I have no wish to be unhelpful, but I do not think that, speaking from the Transport Scotland end, I can speak for what the Scottish Government or Scottish Government ministers will say to health boards and local authorities.

Jeremy Purvis: So what about Transport Scotland?

David Middleton: Transport Scotland is part of the Scottish Government, and I have heard ministers say on a number of occasions that, given the condition of the existing bridge, the Forth replacement crossing is their number 1 priority for the direct capital budget over the coming years.

Jeremy Purvis: Yes, we know that, but it is priorities 2, 3, 4, 5, 6, 7, 8, 9, 10 and so on that I am interested in. I want to know whether work is being done to rank them or give some indication about them. If, as Transport Scotland tells us, every other project has to be reprofiled, and if we are looking at the future delivery of services and investment, what work is being done now to reprofile and order the other areas of the Transport Scotland portfolio that are not the number 1 priority?

David Middleton: Obviously, we have to complete the on-going work. However, as my comments were meant to indicate, we are under no illusion: any major projects in the coming years will proceed either on the regulatory asset base or the non-profit-distributing model of raising private finance. There will be a certain amount of direct capital expenditure—perhaps quite a minimal amount—on the road network, depending on ministers' decisions on affordability. However, all

the major projects that it is conceived will be initiated over the next two, three or four years will follow either the RAB model or the NPD model.

Jeremy Purvis: Is everything in the STPR still being planned?

David Middleton: The projects in the STPR will be taken forward as determined by spending reviews that take place in the medium term.

Jeremy Purvis: So there is no ordering within the STPR.

David Middleton: The number 1 priority in the STPR is the Forth replacement crossing. The other two projects that have been highlighted as priorities are the Highland main line improvements between Inverness and the central belt and the rail improvements between Aberdeen and Inverness.

Jeremy Purvis: Let me move on. I was interested in what Lena Wilson and Mark Batho said about closer co-operation and so on. Has the establishment of Skills Development Scotland helped that process of closer co-operation?

Lena Wilson: Yes. I met Damien Yeates, who is part of the Skills Development Scotland team, quite a few times in my first six months. It is fair to say that Skills Development Scotland is a fairly new agency that is now very externally focused, but at one point the team was involved in creating its own organisation and finding its feet. Skills Development Scotland is now absolutely crucial in renewables, as I have already said, life sciences and leadership and management, which is where we are going to get the talent—Skills Development Scotland is fundamental to that.

Jeremy Purvis: That was properly delivered by Scottish Enterprise.

Lena Wilson: Yes, it was. However, the Government reorganised the enterprise networks and chose to separate out—as it had been before—the skills development element.

Jeremy Purvis: I guess I ask because the Government has told us, “We are going to streamline public services and combine bodies to do a lot of that work,” but the evidence that we have heard today is, “Actually, no—setting up brand-new separate agencies is the way forward. You can deliver much better with that.”

Lena Wilson: You can shift institutional deckchairs around and make a lot of institutional change, but in and of itself that will not achieve anything—we have to act like we are aligned and one team, and co-deliver. Setting up multiple agencies will, in and of itself, not achieve that. You could have almost any institutional model but deliver a lot more with a spirit of collaboration and working together.

Jeremy Purvis: Would that be stronger than simply reconsidering the number of bodies that exist?

Lena Wilson: It must be much stronger than that. One must have common goals that align around issues, not mind who gets the credit and be less territorial. It is about how one acts as a leader, which permeates down through the organisation. Institutional models and frameworks do not achieve that in and of themselves.

16:45

Jeremy Purvis: That is something to consider when we hear that the Government’s key objective is to reduce the number of public bodies in Scotland.

There are three key bodies for economic development and support, and training and skills. In our work on the budget assessments, we considered, in effect, the baseline situation. Not including the set-up costs for SDS, overall expenditure for direct economic support through Scottish Enterprise and VisitScotland has gone down over the most recent budget period. Have any other countries in Europe cut economic development support in the current recession?

Lena Wilson: Mark, would you like me to go first again, at the risk of hogging the floor?

Mark Batho: It is more a question for you than for me, actually.

Lena Wilson: It seems to be.

Many countries have taken a range of measures. The important point is what we do with the budget that we have. If I am asked whether I would like more money for Scottish Enterprise, the answer always has to be yes, but our job is to make the business case to Government, do the best that we can—individually and working together—with the budget that we have and lever in as much as possible.

I appointed an internal candidate as our chief financial officer in Scottish Enterprise last week. For the first time, a stated objective of that post is innovation in funding and finance. We have to look to our finance directors not only to manage our budgets and come in on budget but to consider other approaches. We talked about the prudential borrowing powers of local authorities, and we must think about how we can collaborate on those.

We must also consider asset-backed finance schemes. How can we lever more money into Scotland? We must not look only to public sources all the time. That is why prioritisation is important. How much can we lever in from private sources? How can we ensure that we project £8.80 for every £1 that we spend over the next 20 years? It

is not sufficient to ask questions about only Government funding.

Jeremy Purvis: If the picture is comparable in education and health and it is possible to take out a considerable number of staff without harming the end results, there should not be any problems for public services in Scotland if we refocus public agencies as the Government has refocused Scottish Enterprise. We could follow that model in further and higher education. We could take out a whole swathe of senior staff within our universities and colleges and not have any impact on the students, if the basis is comparable. Is that correct?

Mark Batho: I argue exactly the opposite. A choice has to be made if one is going to reduce expenditure on universities and colleges. That choice, which I have articulated in my submission, is between reducing quality, broadly speaking, and reducing volume—the number of students. To put it in simplistic terms, we can have either bigger class sizes in universities and colleges or reduce the number of people who come through the doors in the first place and have the same, smaller class sizes taught by the teachers. That is hugely oversimplified, but it illustrates the point. To make a reduction in expenditure at the academic staff level, we are therefore faced with giving way either on quality or on the number of people whom we teach.

Our universities and colleges perform pretty close to the margin—they are not far out from the margin. Indeed, over the years, they have absorbed significant increases in the number of people they teach without commensurate increases in resource. One could argue that, if they have done that once, they could keep going that way—

Jeremy Purvis: Sorry to interrupt, but I want to ask about that specific area. Many of the universities that have spoken to me over the past few months have asked whether there could be flexibility in the cap, so that they are not penalised if they attract more students. They want to guarantee that there will not be an increased burden in the future. At the minute, there is a significant penalty for universities that take more students than you say they should take. Is the cap a political decision by ministers, or is the funding council strongly of the view that the cap should remain?

Mark Batho: The cap is significantly less tight in Scotland than in other parts of the UK; nevertheless, it is driven by the fact that the more students an institution gets, the greater its student support budget. That is the driver of the cap. The Scottish Government asked us to introduce consolidation limits in relation to different subject areas precisely because, if we let rip and

universities brought in a lot more students, those students would come with student support costs attached to them, which would be significant. That is the driver.

The Convener: Can technology intervene? In the 1970s, history lecturers thought that they would be out of a job because people could see A J P Taylor on television. Can technology assist on numbers? Do student support costs automatically follow?

Mark Batho: That is one of the great holy grails internationally. Everyone seems to think that, somewhere just over the horizon, there is a transformation in the way that content and teaching can be delivered. However, we have seen successive failures of interactive university in Scotland, the e-university in England and experiments in Australia and across the piece, whereby the technology has not quite taken off. That says something about the nature and humanity of teaching.

The Convener: The Open University is a major success story in the field.

Mark Batho: Indeed.

The Convener: Perhaps the models that you have mentioned, which failed, were not modelled on the Open University.

Mark Batho: Indeed. There are different models throughout the world. In Scotland, as in most countries that have significant higher education systems, we have a mixture of different kinds of delivery. It is possible to argue that the Open University in Scotland could be very bold and say that it will deliver most of its content through the media that the Open University uses, without significant face-to-face teaching. Of course, one must not forget that the Open University is not one of the major players in research.

Across the international scene, there is no significant move away from face-to-face teaching as the normal model for the delivery of higher education. Nevertheless, let us always keep an open mind on that—one should never sit in a bubble and say that a man in a tweed jacket standing up in front of 200 students, reading notes that they copy down, is the right paradigm. I have sons at university and I have been to places such as Canada, where laptops are issued to all students and the content of lectures is significantly reinforced through the delivery of content by electronic means as well as through the other bit—the tutorials and engagement with the research process. I am not going to get defensive about it; I am simply observing, from where the funding council sits, that there will be no eureka moment when we say, “Oh, that’s the way to do it!” Others have tried and still the old ways persist.

The Convener: I hope that we can learn. I declare an interest—I enjoyed the traditional method of university education, but I am undertaking a course on the Chinese language with the Open University. In the face of the massive cutbacks that will hit us, we should all be open minded about how best to approach the issue in the interests of our students. That should be paramount.

Mark Batho: I go back to my point about competitiveness. At the moment, Scottish universities attract around £500 million-worth of income to Scotland through their international student activities. We must always bear in mind the fact that we must have a competitive product to offer the students who come here.

Jeremy Purvis: What burden do overseas students bring with regard to student support?

Mark Batho: None.

Jeremy Purvis: Is there a cap on the number of overseas students?

Mark Batho: No, although European Union students count as Scottish students, of course.

Jeremy Purvis: I have a final question on pay. I do not want to be personal, but among the leaders of the agencies in Scotland, is there an understanding that there is quite a big gap in public perception between those who are paid the most—such as university principals, the chief executive of an agency that is now considerably smaller than it was and the project manager for the Forth crossing, whom Transport Scotland hired on a six-figure salary while we continued to be told that the Scottish Futures Trust should be doing a lot more—and porters and ordinary employees in institutions? Is there an understanding that the pressures on budgets mean that a differential approach to pay might need to be adopted in the agencies that you represent? I know that the funding council does not control the institutions, but what work is being done as far as that is concerned? Do you believe that that is nothing to do with the respective agencies and that individual organisations will simply do what the Government asks?

Mark Batho: Our relationship with the institutions is such that we have no influence over the pay that they offer. They are autonomous institutions with their own governing bodies. At college level, there is pay bargaining at institution level, whereas a more national bargaining process takes place at university level. The pay of universities' top staff is a matter for their governing bodies. We have played no part in that process. If we were to start to play a part in it, the nature of our relationship with those institutions would change.

I do not think that I am in a position to judge public perception of my pay vis-à-vis that of others in my organisation. I took the settlement that was offered when I applied for the job. I am well aware that we are in a period of pay constraint and that the governing bodies of agencies are being asked to exercise restraint in relation to the pay of senior executives in their organisations. That is part of the deal, as far as I am concerned.

The Convener: Are there any further questions?

David Whitton: Yes.

Jeremy Purvis: I assume that the other witnesses did not want to answer my question.

The Convener: I do beg your pardon.

Lena Wilson: Would you like me to say something?

Jeremy Purvis: If you would like to—I cannot force people to respond.

17:00

Lena Wilson: As someone whose pay has been the subject of relentless—I do mean relentless—highly personal media coverage for the past six months, I am well aware of the issues. I am honoured to have the role of chief executive of Scottish Enterprise. I did not set my pay—I competed in a global field. My pay is benchmarked against a range of factors. I do not set my own pay. I think that public leaders should be fully scrutinised and should be worth every penny, and that their performance should be exemplary.

Setting myself and Scottish Enterprise aside, I make the point that relating someone's pay to the size of an organisation is an easy thing to do but is not necessarily fair. We must look at the complexity of the job, the challenge that it presents and the talent that we are trying to attract. As someone who is proud to have been a public servant for 20 years, I feel very strongly that we have to attract good talent into the public sector, especially at this time when we need people to lead and deliver for Scotland. In some cases, the size of an agency might be a red herring, for example when discussing not an administrative organisation but a complex business that is trying to deliver radical change for Scotland.

David Middleton: For completeness, I should comment on the question. My salary and those of others in Transport Scotland are part of the civil service system, so there is not much to say.

The individual who is going to be the project director for the Forth replacement crossing was recruited through open competition in line with civil service rules, and has a pretty prestigious track record of being involved with a major international

infrastructure provider. They have also been responsible for building bridges in the United States, China and other parts of the world.

I understand that this is a difficult time for many people and that large salaries can cause individuals concern. However, within the circles of people whom I meet who are involved in large infrastructure projects approaching the size of the Forth replacement crossing, which will be the largest infrastructure project in a generation, the feeling is that we identified a suitable candidate, and I look forward to welcoming him to Transport Scotland at the end of June.

David Whitton: Again, for completeness, Mr Batho was asked by my colleague Mr McCabe if we could do without the Scottish funding council.

Tom McCabe: That is not what I asked—I asked if it was value for money—but carry on David.

David Whitton: Mr Batho interpreted your question as being whether we could do without it. I would like to ask Ms Wilson and Mr Middleton the same question. In these straitened times, could we do without Scottish Enterprise and Transport Scotland, or would we have to find something else to provide the same service?

Lena Wilson: I would love to work Scottish Enterprise out of its role, because that would mean that we had a really successful and vibrant economy with no issues. I firmly believe that we need to take a driven approach to national economic development and making Scotland much more competitive internationally. We could do that in many ways, but if we had no Scottish Enterprise we would have to find another way of doing it, whether that meant creating another agency or whatever. In my opinion, there has never been a greater need for a national consensus on economic development and a high-performing agency.

David Middleton: Transport Scotland is overseeing a major programme of transport investment and the ownership and management of the trunk road network. In comparatively recent times, we have had a relationship with the rail industry—that relationship was not previously part of the Scottish Government—to deal with the rail franchise in Scotland and Network Rail.

In my view, nothing is sacrosanct about any particular configuration. As an organisation, Transport Scotland has done well. For example, during the ice and snow in the winter months, those who were involved in liaising with the trunk road network operating companies did extremely well. However, if some other configuration is arrived at, so be it. As it happens, the Scottish Government has a transport directorate, which leads on certain transport issues, whereas

Transport Scotland leads on the trunk road and rail networks. As I think has been communicated, we are merging those two transport units in August, so there is a certain amount of economising and generating efficiencies within the Scottish Government, and also within Transport Scotland. If another form of organisation is needed in the future, so be it.

The Convener: We have had a very long session, and I sense that everyone is wilting a little bit. However, Linda Fabiani is still full of beans and has the final question.

Linda Fabiani: Questions.

The Convener: Oh well; I did try.

Linda Fabiani: I have a question for Lena Wilson—sorry, chaps—which takes us back to what we said about the public service ethic. We are all here to serve the public. You said that you have a policy advocacy role when you talk to Government and agencies. Very often it is the small things that mount up into a bigger picture and make things successful. What is your view on that?

Scottish Enterprise does a lot of good stuff for small businesses, for example in Lanarkshire and Ayrshire—I have been involved in that work. However, I am picking up from small and medium-sized enterprises the difficulties that they are having in the current climate. For example, they are having difficulty getting bank loans. Some firms are going out of business because of cash-flow issues that could easily be overcome if they could access credit.

In relation to Government procurement—this might also apply to Transport Scotland—there is an understandable push to make economies of scale. However, SMEs in communities are concerned that the approach shuts them out of the process. Such an approach might be a false economy, because vibrant local areas add to our towns and cities and to the nation as a whole. Is Scottish Enterprise taking its advocacy role for SMEs to the heart of Government?

Lena Wilson: You raise two significant issues, which we have regularly picked up in intelligence. Liquidity and access to finance has probably been the number 1 issue for the Scottish business base during the past 18 to 24 months. Scottish Enterprise has diverted a lot of its resource into helping companies to survive and stay afloat through access to other means of finance. We have sometimes gone to the banks alongside companies, bringing our expertise and vouching for the companies—we did that for a business in the past few weeks, but of course for reasons of commercial confidence I cannot go into that.

Linda Fabiani: Would you do that just for account-managed businesses?

Lena Wilson: I am talking about businesses with which we have a relationship. We intensively account manage about 2,000 businesses, but we are involved more widely with up to 10,000 businesses in any one year. Remember that we have about 30,000 businesses in Scotland, so the rest are sole traders. It is easier than you might think to get to more of our businesses. Liquidity is definitely an issue.

The issue to do with public sector procurement often comes up. Businesses tell us that they are not of a scale that would enable them to go through the process, which is fairly arduous. We have been helping companies to understand the rules and how to go through the process.

I have had regular conversations with officials and ministers on both issues.

David Middleton: On the point about public sector procurement, as I said, 95 per cent of our spending is on contracts that are tendered in the marketplace. More than 90 per cent of the contracts that have been awarded since May 2007 have had a tender value of less than £5 million. Our impact on small enterprises in Scotland is well understood. I think that we provide about 25 per cent of the civil engineering market in Scotland.

We do what we can do within the rules of tendering under EU law to encourage local employment and local training. We piloted such an approach in relation to the M74 extension and we hope to enter clauses in the contract for the Forth replacement crossing on the number of training places and the number of local people to be employed—within procurement law.

Lena Wilson: We can have a broader reach by getting online more and encouraging businesses to do so. We piloted the strengthen your business campaign last year, which is a full online service. The pilot was a huge success and was a direct response to the downturn in recovery. The approach has allowed us to reach hundreds and thousands of companies that we had not reached before. Maybe we need more of that. In the context of transformational government, if we want to find other ways of delivering more with less, maybe we can all learn from approaches in which as much as possible is moved online.

The Convener: If the witnesses have no last-minute comments, let me say that in the face of national budgetary problems your activity and management of resources will be crucial to recovery. I wish you well in your work to fight back against the current problems.

The committee's next and final discussion on its inquiry into the efficient delivery of public services

will take place next Tuesday, when we take evidence from the Cabinet Secretary for Finance and Sustainable Growth. The evidence that we have heard today will greatly inform our questions to the cabinet secretary. I thank members and all our witnesses for their attendance.

Meeting closed at 17:10.

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