

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 7 October 2003
(*Afternoon*)

Session 2

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ENTERPRISE AND CULTURE COMMITTEE

6th Meeting 2003, Session 2

CONVENER

*Alasdair Morgan (South of Scotland) (SNP)

DEPUTY CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

COMMITTEE MEMBERS

*Brian Adam (Aberdeen North) (SNP)

*Mr Richard Baker (North East Scotland) (Lab)

*Chris Ballance (South of Scotland) (Green)

*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

Murdo Fraser (Mid Scotland and Fife) (Con)

*Christine May (Central Fife) (Lab)

*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Rhona Brankin (Midlothian) (Lab)

Fiona Hyslop (Lothians) (SNP)

George Lyon (Argyll and Bute) (LD)

*Mr Brian Monteith (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Mark Batho (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Chris McCrone (Scottish Executive Finance and Central Services Department)

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

CLERK TO THE COMMITTEE

Simon Watkins

SENIOR ASSISTANT CLERK

Judith Evans

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 4

Scottish Parliament

Enterprise and Culture Committee

Tuesday 7 October 2003

(Afternoon)

[THE CONVENER *opened the meeting at 15:03*]

Scottish Solutions Inquiry

The Convener (Alasdair Morgan): As the majority of members are here, we will make a start. We have received apologies from Murdo Fraser, but I think that Brian Monteith will substitute for him at some stage. I ask members to ensure that their mobile phones are turned off.

The first agenda item is the Scottish solutions inquiry. We have circulated to members a résumé of the evidence that we have taken to date in the inquiry. It was felt at a previous meeting that this meeting might be a useful opportunity to stop and take stock of the evidence we have received in order to inform our future evidence-taking sessions. More evidence sessions are scheduled, but no definite names are slotted in as yet, with the exception of Professor Hills, who is the former principal of the University of Strathclyde. We also have the brainstorming event to consider potential solutions, which is to be sponsored by the Scottish Council Foundation.

Do members have any observations on the evidence gathered thus far or on where we should go in the rest of our inquiry?

Christine May (Central Fife) (Lab): The résumé gives a pretty good reflection of what we have heard. However, I have a question about page 5, which mentions the “perception of lower quality”. Forgive me, but from which piece of evidence did that comment come? I do not recall hearing it and I could not find the answer in the document.

Brian Adam (Aberdeen North) (SNP): The comment came from Universities Scotland and referred to the fact that the research ratings for universities in England go up to grades 6 and 6*, whereas in Scotland they go up to grade 5*. The group that is even smaller than the Russell group of universities uses that system to rate research quality but, in Scotland, a decision has been made not to use that system. The point is that the different systems will create the perception that our research that is of international standing is not as good as that in England because it is not level 6 but level 5.

The comment also related to the conscious decision south of the border to concentrate Government funding for research on an even smaller number of universities than is the case at present, whereas the Scottish Higher Education Funding Council has taken the policy decision not to go down that route. That decision might also create the perception that our universities are of lower quality.

The Convener: I am informed that the specific source of the comment was the Association of University Teachers Scotland.

Mike Watson (Glasgow Cathcart) (Lab): That is correct—I cannot find the comment in Universities Scotland’s submission.

The Convener: Are there any other comments?

Mike Watson: One point that struck me was the emphasis on greater collaboration between institutions as part of the solution. That point was highlighted to the greatest effect by the Scottish Council for Development and Industry, but the conclusion was reached by a number of universities and by Universities Scotland. We should stress that because, although there is not complete agreement on how greater collaboration might be achieved, there is a fair amount of agreement that the collaboration that takes place at present is important.

The Convener: One of the issues we are discussing is what further evidence we should take. If we can identify people who might have something useful to offer by telling us precisely what collaboration would mean in practice, whether more money would be required or whether it might save money—I jest—your suggestion might be a useful line of inquiry.

Mike Watson: We need more evidence on the economies of scale and the increase in effectiveness, but we should avoid as much as possible duplication of work that has already been undertaken.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I have a wider point, if that is appropriate.

The Convener: Is it on the Scottish solutions inquiry?

Susan Deacon: Yes. I want to raise the wider point about the so-called English white paper and Scottish policy, which was explored in depth by a number of witnesses in the previous meeting. I wonder whether we ought to pass comment on it. I say “so-called” because the case is not so clear cut: although the white paper relates directly to higher education in England, there are implications for Scotland in a number of areas. Several of our witnesses mentioned that that was not referred to in the white paper. Perhaps, at some point in the

process, we ought to make some observations on that.

I feel that there is increasingly a need to devolution proof policy papers—to pinch a phrase. A conscious effort should be made to consider their implications for devolved areas. The white paper is a good example of that not happening. Perhaps we could make that observation retrospectively in the appropriate terms. There are also issues about where we go from here and how we feed back our thoughts into the decision-making process in another place.

Mr Brian Monteith (Mid Scotland and Fife)

(Con): I have a concern about paragraph 5 of the paper. What it says is perfectly right, but I question whether it goes far enough. The difficulty, as far as I understand it from what I have read, is that, because the additional moneys that English and Welsh institutions will receive are essentially private, they will not feed into a Barnett consequential and therefore the Executive will receive no equivalent sum that it might or might not pass on to higher education—it would still be for the Executive to make that choice. Had Charles Clarke decided to increase universities' funding, Barnett funding would have been available and the Executive would have been able to decide how to use it. Might the committee wish to tease that out? It is a crucial part of the process.

The Convener: One witness—I cannot remember who—suggested that, in the long term, there might not be a funding gain for English universities if, at the same time as top-up fee income increased, Government support decreased. That too would have consequences for Scotland. There would be a negative Barnett consequential if that were to happen.

Mr Richard Baker (North East Scotland)

(Lab): I think that Arthur Midwinter said that a Barnett consequential would come from increased participation. The Government is aiming for 50 per cent participation in English universities, and the funding for those students would mean a Barnett consequential. However, I agree with Brian Monteith that it would be good to tease that out. We could find out what negotiations there have been with the Department for Education and Skills to find out what the consequential might be. Perhaps the Scottish Executive knows what it would be. That information will be important to our recommendations.

The Convener: The fact that we do not yet know any details of the funding proposals highlights the uncertainty of the matter.

Brian Adam: The paper discusses resources on page 6. It states that the current positive differential in Scotland's favour is 3.6 per cent more per head of student population. However, it

does not go into the fact that the financial plans that have already been published north and south of the border would guarantee erosion of that differential. Arthur Midwinter went to great lengths to explain to us that the growth in the equivalent budget for the DFES south of the border is considerably larger than that in the enterprise and lifelong learning budget in Scotland and that, in spite of higher education being a priority, its share of the budget will diminish over the next few years.

Mike Watson: The paper says that in paragraph 25.

Brian Adam: Perhaps I missed that.

Mike Watson: I do not mean that I disagree, but the matter is referred to in the paper.

I am concerned about the resources. I may be wrong, but members will have seen that the only specific figures—or certainly the most specific figures—that we received were those given in the Universities Scotland submission, which said that something like a £59 million increase would be needed to bring the proportion of spending on higher education within the Scottish block to 2002 levels. Another upgrading of 5 per cent would then be required at a cost of—from memory—£45 million a year. It is important to note those fairly specific figures.

15:15

A more specific point is that those who made submissions were asked to propose solutions as well as comment on the proposals. It is notable that quite a few of them—probably the majority—did not do that. Specific solutions were certainly not proposed and certainly not by the universities. Perhaps the universities were just a bit guarded. Some of them said simply, "We agree with what Universities Scotland says, but we would make these additional points." For the record, it should be noted that four of the 13 universities—14 if we include the Open University—did not respond. That was rather odd, given the importance of the issue.

For future inquiries, we should find a way of asking more specific questions so that we get suggestions for solutions. The inquiry is entitled Scottish solutions, but probably 60 per cent of those who made submissions ducked the issue. Perhaps they did so for political reasons—whether that is political with a small p or with a large p—but, nonetheless, the outcome is that we will be restricted by the fact that many of the respondents did not suggest a solution.

The Convener: You are right about that, but the brief that was sent out to potential witnesses was fairly clear about why we are having the inquiry and what we were looking for. The fact that many

of those who responded chose to address the current situation is perhaps unfortunate. However, we can understand why that was so, given the uncertainties about what the future situation will be and the imprecise nature of the proposals.

Susan Deacon: I concur strongly with the point that Mike Watson made. There are wider issues of process to do with how we get to a place where people explore solutions rather than just talk up problems.

Having said that, I would also say that, however critical many of the witnesses were of the proposals down south and of the impact that those may have on Scotland, some witnesses still identified areas that were worth pursuing in their own right. In a sense, they were turning the threat into an opportunity. If there were a need to do so, those areas could be explored further.

However, I am not sure that that has quite been captured in the summary that has been presented to us. For example, the summary has a section on business contribution and on endowment income. To varying degrees, witnesses recognised that there was a potential to look at how income from those sources might be increased, although they were also clear that, as the summary states, such things

“could not be used as a replacement for core funding.”

In other words, the choice should not be either/or. We should capture some of the more imaginative suggestions that were made.

Forgive me if I have missed anything, but the other issue that came through time and again was collaboration. In a similar vein—I do not think that the two things cancel each other out and in no sense do I wish to detract from the real concerns and criticisms that were made—I think that the summary should be a wee bit more balanced on that issue.

The Convener: I certainly agree that the purpose of our inquiry is not just to moan about the existing situation. I suspect that some people would have been happy to do that, but we want to go beyond that.

Christine May: I want to pick up and reinforce Susan Deacon’s earlier point about the wider policy issue. One bit of it is about the committee’s role in saying what things the UK Government might have done better when it brought out the consultation document. The second bit is about what we should recommend to the Parliament as a result of our inquiry and what the Parliament should recommend to Scottish ministers, or even directly to Westminster, as a result of the consultation exercise. We perhaps also need to set a framework for that for the future. I certainly feel that, across the range of the committee’s

work, we probably need to grasp that issue and take it forward.

Mike Watson: There might be some difficulty in taking those views to the Westminster Government, if that is what you mean. We should, as a matter of course, send a copy of our recommendations to all Scottish MPs. I do not know where that will fit into the Westminster parliamentary process in relation to the development of the policy on top-up fees, but Scottish MPs should be clear about what we are saying on the basis of the evidence that we have received.

The Convener: I assume that they read our reports avidly.

Brian Adam: On the figures that Mike Watson mentioned earlier, I think that he meant pounds per year as opposed to percentage increases. There were two elements to the figures, which came to between £90 million and £100 million between them. My recollection is that those figures were broadly agreed between the National Union of Students Scotland, the AUT and Universities Scotland.

Mike Watson: The exact figures are on page 6 of the submission from Universities Scotland.

Brian Adam: As I understand it, the figures were agreed jointly between those three bodies. Perhaps they did not go into detail about how they might apply the additional money—if they received it. I presume that the minister will appear before the committee at some point, so it might be worth hearing the Executive’s view on whether that potential shortfall of between £90 million and £100 million is real and on whether such a shortfall can be bridged by anything other than a reallocation of funds in the Executive budget. I suspect that that is where the additional money would have to come from.

The committee has heard that greater efficiencies might be achieved through collaboration. That would be fine—it might happen and let us hope that it does. We have also been pointed in the direction of increases in endowment funds and increased funds from partnerships with business. However, I suspect that we will end up considering whether the policy decision on priorities in budget allocation, which we will consider shortly when we meet the minister, adequately addresses the difficulty. Universities Scotland has probably given us an objective analysis of the situation—I hope that it has—but the Executive might have a different view.

If we are considering taking further evidence, it might be worth hearing an independent view on the potential shortfall. I do not for a minute suggest that the Executive—or university students, teachers and employers—will not be objective, but

it might be interesting to have an objective analysis of the situation, before we debate from where a financial shortfall might best be funded.

The Convener: Before we move on, I will bring in another Brian.

Mr Monteith: My point is on a separate issue.

Mike Watson: Universities Scotland provided step-by-step calculations to show how it reached a figure for unit funding that is 3.6 per cent higher in Scotland than it is in England. However, it has not given the same explanation of how the figures in the submission were reached. It would be useful to have that breakdown. It is difficult to be precise, of course, because we do not know whether top-up fees will be introduced at all: we do not know how many universities will charge the fees or at what level they might be set. I understand that the figures are based on informed guesswork. Nonetheless, Universities Scotland produced a specific figure, so it would be interesting to know how that was reached.

Mr Monteith: I want to clarify a small point that arises from paragraphs 18 and 19 of the paper and which is perhaps really just about the form of words that might be found. Although tuition fees might rise to £3,000, according to the paper, I understand that means-tested support of up to £1,100 will still be available. In effect, the top-up variation is in the region of £1,900. I wonder whether we need to draw attention to that. A Scottish student at an English university would be able to apply for means-tested support and have the fees waived but would still have to pay the difference. There is an element that is not compulsory. Perhaps the clerk will find a way of working that in.

The Convener: Perhaps it would be useful to ask questions of the UK ministers in writing to clarify points that have come up. However, they might say that their plans are not sufficiently advanced to allow them to give us specific answers.

Mike Watson: Would the last point that Brian Monteith raised not be covered by the fact that the top-up proposals oblige institutions to make allowances for students from poorer backgrounds? The institutions would have to build that consideration into what they were charging.

Mr Monteith: That is an interesting question. If a student qualifies for relief on the element of £1,100, which is already there, would they automatically qualify, through the institution, for additional relief? I do not know. I suspect that people in England are not sure about such points of detail.

The Convener: It is significant detail. If we are arguing that £3,000 might be an incentive or

disincentive to move up and down the board, it clearly matters whether students are to be charged it.

Mr Monteith: That is why I mentioned paragraph 19 of the paper, because it extrapolates the amount into three years and takes the figure up to £9,000. It might not be on such a large scale.

Christine May: Is there a sense of what has been said in response to the English document? Some of that must be in the public domain, so can we get hold of it?

The Convener: The English document is a white paper. Were comments on it sought?

Christine May: I cannot remember.

The Convener: I am not sure either. Regardless of whether comments were sought, I am sure that there have been plenty. We can certainly check what has been said and at what level. Susan Deacon is looking puzzled.

Susan Deacon: Is it possible to clarify the time scale for decision making in Westminster, because that is germane to where we go from here? I do not take issue with our trying to glean further information about thinking among UK ministers. However, it would not be an illegitimate response on their part to say that the matter is for consideration and debate within the UK Parliament. Therefore I am not sure of the value of our trying to extract information from a somewhat moving target.

However, we are probably already in a position to reach broad-brush conclusions about the impact on Scotland if the policy measure is taken. I come back to the point that Christine May and others have made about feeding in broad views to try to shape the decision-making process. We should be trying to do that rather than simply extracting bits of information to shape our decision-making process. There will come a point further down the track where our scope to influence—if indeed it exists—is no longer there. I understand that careful consideration was given to the timing of our inquiry. Will you clarify the relative time scales of our work and Westminster's decision-making process?

The Convener: I do not have definite information on the Westminster time scale. The clerk might be able to assist me.

Simon Watkins (Clerk): There is no definite information. The working assumption was that the important stages of the Westminster legislation would take place next spring. If we report in January, that would at least be in advance of that.

The Convener: There is never any certainty about these things. We find it difficult enough to influence our Parliament's time scale, let alone that south of the border.

We have kicked the matter around a fair bit and got most people's comments and we have certainly taken careful note of what has been said. We have two events timetabled. The Scottish Council Foundation event is on 12 November and we have one witness identified for an evidence session. We will consider what has been said today to see whether it brings other witnesses to mind. We will consider more closely the evidence to see whether there are any points in the written evidence from people from whom we have not heard that are crying out to be exposed more in public.

We have to continue to consider the matter. There is no point in our having more and more meetings if we do not feel that we are adding anything significant to the sum total of our knowledge.

I am afraid that the Minister for Enterprise and Lifelong Learning is not coming to discuss the budget until 4 o'clock, so I am sorry to disappoint the vast masses who have turned out to listen to our deliberations, but we are going to have to suspend the meeting until 4 o'clock and await the minister. I ask that all members come back at 4 o'clock so that we can start promptly.

Mr Monteith: I must give my apologies, because I have to attend the Conveners Group meeting at 4 o'clock.

The Convener: I should be there too, but I am going to take a rain check.

15:30

Meeting suspended.

16:01

On resuming—

Budget Process 2004-05

The Convener: We shall resume the meeting with item 2 on the agenda. The layout of this room makes it quite difficult to tell who the committee members are, who the witnesses are and who the official reporters and sound recorders are, but we shall try to keep the distinctions clear. Jim Wallace, the Deputy First Minister and Minister for Enterprise and Lifelong Learning, is with us. Would you care to introduce your officials, Jim?

The Deputy First Minister and Minister for Enterprise and Lifelong Learning (Mr Jim Wallace): Thank you for the invitation to give evidence to the committee. On my left is Mark Batho, who has recently taken up his position as head of the lifelong learning division. On my right is Graeme Dickson, who heads up the enterprise and industrial affairs division. Next to Graeme is Douglas Baird from the enterprise networks division and next to Douglas is Chris McCrone, who is the head of the enterprise and lifelong learning finance team.

The Convener: Do you wish to say a few words by way of introduction?

Mr Wallace: I shall make a few comments, convener. The figures contained in the draft budget for the next financial year, 2004-05, include the resources that were allocated to the different portfolios as a result of the 2002 spending review and that have subsequently been revised to take account of commitments set out in "A Partnership for a Better Scotland". The partnership agreement reaffirms our commitment to opportunity, equality and sustainability. It also stresses that a successful economy is vital for our hopes and aspirations for achieving prosperity and in turn for achieving social justice and first-class public services.

I shall briefly highlight a number of areas where additional resources have been found or where existing resources have been redeployed to enable partnership and other key commitments to be delivered. An original budget of £2 million has been made available in this financial year for enterprise and education. The Hunter Foundation is helping to develop a number of programmes. Those programmes will be funded by a contribution from the foundation of £2 million in 2003-04, which has been matched by our additional £2 million, and include a pilot training course in leadership skills for head teachers, a core training resource for teachers in enterprise and education, a whole-schools approach

pathfinder and a core enterprise programme that will allow all schools across Scotland to participate in enterprise and education from this school year onwards. That is an issue that we can discuss in more detail in Thursday's debate in the chamber.

A sum of £18 million has been brought forward into 2003-04 to fund the bulk of the £24 million package of measures announced last December to stimulate demand for broadband services across Scotland. Scottish Enterprise will take part in a targeted marketing campaign to promote the benefits of broadband and to stimulate demand from business. It is expected that those measures will help to achieve more than 70 per cent coverage in Scotland. Additional options will be developed in year to extend the coverage further.

The annual report of the regional selective assistance scheme was published last week and may be in members' minds. Following the Masterton review, it was announced that there would be a greater focus on growing Scottish firms, with the emphasis on high growth and innovative projects. We also propose that part of the RSA budget be redirected to other areas. Consequently, for the current year and the next two years, £23 million, £26 million and £16 million has been transferred to other parts of our programme. Principally, that is to give a boost to venture capital for small and growing companies through the Scottish co-investment scheme. There will, however, be additional development in innovative projects, including proof of concept. Provision of additional funding for higher education research has also been possible.

Those are brief introductory remarks. My colleagues and I look forward to helping the committee as best we can in responding to members' inquiries.

The Convener: Thanks, Jim. I will start by asking a fairly general question. Over the planning period of the budget document, the ELL budget grows by about 3.7 per cent in real terms in the context of an increase in the total expenditure that is managed by the Executive of 7.3 per cent—approximately double the increase for the ELL budget. The First Minister is on record as saying that the economy is a top priority of the Executive—I suspect that you have said that, too. How do you square that with a budget growth of half the average for enterprise and lifelong learning?

Mr Wallace: I fully accept and endorse the idea that growing the economy should be the number 1 priority. However, I was criticised during the debate that we had at the beginning of the new session for talking about the economy only in terms of the economic levers within my department's responsibilities—although I prefaced my remarks with the comment that I could not do

justice to the whole economy in 12 minutes. That makes the point that, in relation to the economy and what might help to grow it, other budgets are of relevance.

Not the least of those is the transport budget. When I came in today, I noticed Nicol Stephen on a television screen talking to the relevant committee about the transport budget. The committee will be well aware that the transport budget is due to grow to £1 billion a year by the final year of the spending review. That is very much a response to the kinds of concerns that have been expressed to us by the business community about access to markets. Transport is an area of considerable growth.

There are other important areas. I have responsibility for higher and further education in my department's budget. However, it is equally important for the longer-term growth of the economy that we properly and adequately fund primary and secondary education. I made the point earlier today that I believe that, just as growing the economy is important to supporting our social justice objectives, promoting social justice objectives—for example, a well-funded health service—is important for growing the economy. It is self-evident that far better improvements in productivity can be achieved if there is a healthy population rather than one that is encumbered by illness.

Looking at the narrow ELL budget misses the point. With particular reference to transport, we must allocate funds between the different headings. Twelve months ago, when the current spending review was announced, we identified the increase in transport funding as an important increase, not least because of its importance to the economy.

The Convener: As that is the kind of logical response that I might have expected, I offer a logical come-back. Given that you are tasked with the management of the economy, do you feel frustrated that a lot of the levers are not within your department's control?

Mr Wallace: No. I take a collective view. Let us think back to when the budget was set. At the time of the 2002 spending review, transport was in the enterprise and lifelong learning budget. Arguably, the money was all going into the same department. Although I was in charge of a totally different department at that time, I readily take my share of the collective responsibility for that allocation, which I believe was right.

I was conscious of the number of occasions on which I met businesses when transport loomed large in our discussions. The situation reflects how we try to work across departments to support a common goal. That does not frustrate me. The

money has been spent wisely on road and rail projects and on matters such as the route development fund and promoting air links.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): I will press you on two budget headings that you said in your introduction are under your control. Research is hugely important. It gives us a cutting edge and can help to achieve many of the aims to which you aspire. Will you flesh out what money is going into research in our higher education institutions?

I will press you a wee bit on the broadband moneys that you mentioned. It will come as no surprise that I would like you to refer to rolling out broadband to rural and remote areas such as the Highlands and your constituency. We fear that we may be last and that we may lose in the race to roll out broadband, which would mean the loss of some leverage and advantage.

Mr Wallace: I said in my introduction that some of the funding that had been identified for regional selective assistance had been reallocated to research in higher education institutions. I will return to the premise of your question. Research is vital in helping to maintain and improve our economic competitiveness. Our tertiary educational institutions have a vital role to play in that.

In the current financial year, the Scottish Higher Education Funding Council is providing £190 million to universities for research. That is about a third of their research income. In the next financial year—2004-05—an additional £25 million will be allocated and, in 2005-06, an additional £35 million will be allocated. In the final year of the spending review—2005-06—an increase of 20 per cent in real terms will have taken place over 2001-02. By any stretch of the imagination, that shows a real commitment.

We can also show that we are obtaining good value for money. In 2000-01, Scottish higher education institutions filed 11 per cent of total patents in the UK and formed 14 per cent of new spin-off companies that UK universities created, and the average 2001 research assessment exercise rating in Scotland was just above the UK average. We are obtaining good value for money. There is much excellence in our universities. Those figures show that we are determined to support research.

I fully accept your point about broadband, not least from a constituency perspective. We often feel that we are at the end of the line, but £3 million has been spent in the Highlands and Islands Enterprise area on upgrading six exchanges. Yesterday, it was announced that BT and Thus will collaborate—that might be a unique venture—to extend broadband provision to

Stornoway, Kirkwall and Lerwick. That development is encouraging. HIE is supporting moves to deliver in remoter parts of the country.

Last month, I launched a £7.5 million business broadband incentive scheme that was approved for Scottish Enterprise. I fully accept that such spending initiatives have been delayed. A large part of that was caused by the need to ensure that we complied with provisions on state aids. The situation in the Highlands and Islands is slightly different because of the European regional development fund transitional status but, in the Scottish Enterprise area, it became clear that we could not support supply; rather, our resources should be targeted towards increasing demand.

The objective survey work that we have done supports that approach. We ran a pilot scheme in the north-east of Scotland, which had a good response, and there are grants to assist with the introduction of broadband for businesses. Those incentive payments—£300 for an ADSL land link and up to £1,200 for a satellite connection—are available within the Scottish Enterprise area.

Resources are also going into a buying-club scheme, because we have discovered that businesses sometimes hold back if they think that they will not get broadband in their area—however, if a number of businesses hold back, they will never get it. We are encouraging businesses to register; if they do, the suppliers will identify a potential market. In addition to giving those incentives, therefore, we are trying to market the whole idea of broadband and to encourage businesses to join the club.

16:15

Mr Stone: I hope that when you go to Lerwick and to your constituency you will remember to leave some connections in Wick and Thurso. On a serious note, though, although I would not want to interfere in all the positive work that is going on in our higher education institutions, I am interested, in a benevolent way, to know whether your department audits the outcomes of the money that you are putting in. Is that money notionally reaching the sort of targets that you want it to reach and indeed the areas of research that your department deems most appropriate?

Mr Wallace: There are a lot of questions rolled into that. There is an arm's length between ministers, the funding council and the institutions. Ministers give an annual guidance letter to SHEFC. It is important to view funding for higher education research not just in a higher education research silo, as it were. A point made to me this morning at a conference on higher and further education concerned the importance of the overlap between the economic agenda and the

higher education agenda. That is self-evident in relation to skills training, but it applies to research, too, where a lot of work goes on. For example, Roger McClure, the chief executive of the funding councils, is an observer member of the board of Scottish Enterprise and Robert Crawford, the chief executive of Scottish Enterprise, attends meetings of the funding council boards. There is close working there.

In addition to the figures that I have given you to illustrate the benefits, there are the intermediary technology institutes. That is perhaps one of the biggest projects to be funded. Over the next 10 years, £450 million will go into three areas where, with the enterprise agencies, we have identified Scottish strengths—the life sciences, energy and telemedia. A lot of the detail is being worked out with the newly appointed chief executives, but the institutes will form a bridge between industry's identification of its research needs and the commissioning from our universities of that research.

Christine May: As a new member of this institution, I have had some difficulty in finding my way through the rather labyrinthine budget process. One of the issues that I have had most difficulty with is tracking the cross-cutting themes. I was interested to hear what you said about your priorities and the importance of investment in other budgets to achieving the outcomes. Is it your intention to produce some sort of briefing paper that might quantify those elements—perhaps in the transport budget—that are directly applicable to priorities for economic growth, including geographic areas, particular community groups and work-force groups? I think that we would find that helpful. Moreover, on the face of it, the percentage increase in the ELL budget is significantly lower than the percentage increase in the budget as a whole, which does not make good reading if economic growth is a priority. What are the other elements? If they were aggregated in, what would the figures look like?

Mr Wallace: Your question is essentially about the transport budget and where it might bring benefits. I will not quantify those benefits, but I am sure that that can be done with the help of the Enterprise, Transport and Lifelong Learning Department.

I will give some background information. The transport delivery report, which was published last year, identified 10 priority projects, the majority of which focused on what business had said that it wanted and needed. Tackling urban and interurban road traffic congestion was identified and the top priority projects in that respect included tackling transport problems on the A8, the A80 and the M74 corridors. The committee—not least Mr Baker and Mr Adam—will be aware of

our commitment to the Aberdeen western peripheral route.

On local roads, the Executive is investing £70 million in capital allocations over the period 2001-02 to 2003-04 to tackle a backlog of repairs to local roads and bridges. On trunk roads, I have talked about the completion of the M74 by 2008, improvements to the M77 in Ayrshire, a new eastern link road at Kincardine, a second Kincardine bridge and improvements that are planned to improve journeys on long-distance single carriageways.

Work on the rail passenger franchise is on-going, but there will be rail links to Glasgow and Edinburgh airports and the reopening of the Stirling-Alloa-Kincardine line, which will not only be of considerable benefit to freight traffic, but free up rail usage on the Forth bridge and improve links between Fife and Edinburgh and further down the track, if I may use that phrase. There are the Larkhall to Milngavie rail proposals and the Borders rail link. Further support is being given to Caledonian MacBrayne, Highlands and Islands Airports Ltd, ferry services to the northern isles—in which I have more than a passing interest—and the route development fund, which was developed jointly with Scottish Enterprise to help to start up air routes in Scotland. There have already been four or five announcements—perhaps there have been more than that. The most important recent announcement concerns the direct link to New York. There is a fair amount that we could happily try to quantify, but what I have said gives a fairly good flavour of what is being done.

We do cross-cutting work in other areas, although I will not elaborate on those. For example, there is cross-cutting work with other departments on adult literacy and numeracy and on child care. Responsibility for the education of health professionals is shared between the Enterprise, Transport and Lifelong Learning Department and the Health Department. Responsibility for teacher training is shared with the Education Department.

Jamie Stone mentioned broadband. The pathfinder projects are very much within the public sector and fall within the responsibility of Andy Kerr's department. A cross-cutting approach is therefore taken in a number of areas.

Christine May: I asked whether you intended to produce a document that gives a wider perspective on your individual annual priorities and perhaps on your three-year priorities. Perhaps I could ask other ministers the same question. We may have greatest difficulty in establishing when we know that priorities have been met, and by how much the targets have been exceeded or not been met.

Mr Wallace: The overall picture was originally presented in "Building a Better Scotland". I hesitate because I do not necessarily want to make a commitment that would not easily be met. I accept fully where Christine May is coming from and have much sympathy with what she wants, but I do not know how readily achievable it would be in practice.

Last autumn, we published detailed separate publications on the overarching themes of the spending review, such as how the review would contribute to closing the opportunity gap and to sustainable development. Summaries are included in the budget document that we are considering at the moment, but I think that I am getting a clear signal from Christine May—and, I suspect, from the rest of the committee—so I am willing to examine how much more information we can give the committee. I would not want to commit the whole Executive to doing so on every cross-cutting issue, but I will examine the extent to which we can give the committee more information on matters in relation to which we believe the spending of other departments contributes to the goal of the Enterprise, Transport and Lifelong Learning Department—although we must remember that it is also an objective of the whole Executive.

Mike Watson: In response to the convener's original question about the overall size of the budget, you said that the department's budget increase is not up there with the average increase across the budget as a whole.

I want to target two aspects of the department's portfolio that I think are crucial. The first of those aspects is higher education, in which there has been an increase of about 14.9 per cent over the current three-year spending plans. That is significantly short of the 23 per cent increase in the budget as a whole. This comes at a time—as I am sure the minister is aware—when there exists the likelihood that top-up fees will be introduced in England and Wales. The minister will also know that we have been inquiring into what the effects of that might be on Scotland.

One of the points that has been made is that there is a fear that not only from 2006—when top-up fees will begin to bite if they come in—but in the period between now and then, the 3.6 per cent unit of resource advantage that Scotland has over England and Wales in higher education terms might be eroded. That could leave Scotland in an even weaker position should top-up fees come in.

I know that top-up fees were not mooted when the spending review was introduced. However, do you have within your plans any flexibility to deal with their introduction and to ensure that, because top-up fees will not be introduced in Scotland, you will be in a stronger position to resist any effects

that might appear before 2006 in the Scotland versus England and Wales situation?

Mr Wallace: First, I believe that generally we have, not just in this spending review and in this budget, but since the Scottish Parliament was established—I think that I am right in saying this—funded higher education with a real-terms increase in every year. By the time that we get to the final year of this spending review in 2005-06, funding for higher education will exceed £800 million. Over the course of the spending review that represents a cash increase of 15 per cent and an increase of 6.9 per cent in real terms. There is a very clear commitment to fund higher education, which has been taken through since the Administration was formed in 1999.

Of course, there is an issue about what might happen south of the border. The committee is taking evidence on that and I think that I indicated during our earlier informal session that I welcome the committee's reporting on that because it will help to inform the debate. I look forward to the committee's findings and recommendations. Even if top-up fees were to be introduced in England, it would not impact on this current spending review.

I have set in motion what is, in effect, stage 3 of the higher education strategic review, which involves a pretty thorough examination of higher education. For example, the review brings in the major stakeholders such as the university principals, Universities Scotland, academic staff and students. The four key working groups, which have already met at least once, are focusing on potential cross-border student flows and what influences students' choice of university; staff retention and recruitment; capital investment in the teaching estate; and the sources and uses of funding revenue.

16:30

Mike Watson: Are those groups working within the context that I outlined of what amounts to a smaller increase in funding in Scotland? I accept and welcome the fact that there has been an increase, but it is smaller than that in England.

Mr Wallace: That is not the case. I should explain that the review seeks to gather robust evidential data about our position, which can then be accepted and shared among all the stakeholders. I have asked for that data to be ready by the end of next year, first, to provide a pretty robust and solid evidence base from which we can develop policies that might be required to respond to what happens south of the border. For example, the group on staff recruitment and retention will no doubt examine the reasons for staff going to particular places. After all, it might not always be a question of funding.

The second reason why I have made that request for the data is that next year there will be a spending review—SR 2004. If we can go into a spending review armed with a pretty solid evidential base and with a clearer picture of what is going to happen south of the border, that will give us flexibility over the key decisions that have to be made. However, the terms of the current spending review, which takes us up to 2005-06, will feel no impact from a decision south of the border that will probably not start to take effect until a subsequent financial year. The key point behind much of this work is that it will prepare and arm us well for next year's spending review. Indeed, I hope that the committee's work will also help in that respect.

Mike Watson: I take comfort from those comments.

I was surprised to find that Scottish Enterprise's budget shows a decrease over the current period. I know that the organisation has not been without its difficulties; however, it plays a fundamental role in taking forward the policies that are outlined in "A Smart, Successful Scotland". How do you justify the year-on-year reduction in expenditure from £461 million to £440 million in 2005-06?

Secondly, on page 108 of the budget document, it says:

"A measurement framework has been established for 'A Smart Successful Scotland' that sets medium- to long-term ... measures for the Scottish economy."

I notice that "priority performance targets" are set out on page 109. Are they the same thing as, or are they related to, the measurement framework that has been established for Scottish Enterprise? I do not suppose that they can be exactly the same thing.

The Convener: I have a supplementary to that question. On page 108, it also says:

"The planning process has yet to commence for"

the next two years, and that

"Target figures will be agreed when this is completed."

As a result, we have an unusual situation in which the targets for the next two years are blank. That is not the same as the situation with HIE, and it strikes me as a strange way of doing things. I would have thought that one would set targets and then work out how much money would be needed to meet them instead of receiving a wodge of money and then working out what targets to meet.

Mr Wallace: I must address several issues in those questions.

First, the funding for this year—the £461 million—includes the £18 million for broadband that I mentioned earlier. Taking that away brings the figure down to £443 million. So, in fact, there is

some growth next year before the figures go back, in 2005-06, to slightly below their present level. It is important to note that the planned spend for this financial year and the next includes funding of £6 million and £8 million for the Executive's contribution to the Scottish co-investment fund. That funding is shown on the "Growing business" line. Obviously, there could be a review of whether that funding should continue but, as things stand, the final year for the fund is 2004-05. That explains the very exact drop of £8 million on the "Growing business" line between 2004-05 and 2005-06.

In January 2001, Scottish Enterprise launched a business transformation project, which was intended to bring about a substantial change in its working methods. It is fair to say that the project has not been without controversy, but it has resulted in staff numbers being reduced from 2,000 to 1,500 and a gross and cumulative—rather than year-on-year—financial saving that is estimated to be around £200 million by 2006. Savings have been made.

I accept that there should be greater clarity in Scottish Enterprise budgets. There should be information on where the business transformation savings will go. To answer the convener's question, Scottish Enterprise has yet to make precise allocations of savings for the next financial year. That will be done as part of its operating plan process. I will ensure that Scottish Enterprise is aware of the issue that has been raised here and that allocations are clearly identified when the plan is published. My understanding is that there is nothing new in the operating plan not being published until just before the beginning of the year to which it relates. Just because it has aye been that way does not mean that it is right, but that is what happens. I would not wish to hazard a guess as to how readily publication of the plan could be brought forward.

To answer Mr Watson's question, there are measurements of the "A Smart, Successful Scotland" strategy. We have published the first two guides—the joint performance team reports—on how we are meeting the targets in "A Smart, Successful Scotland". As Mr Watson suggested, those targets are different from the Scottish Enterprise targets. In the most recent year for which it has reported, Scottish Enterprise has achieved 20 out of 21 targets. Although the targets are different, they correlate closely because, obviously, Scottish Enterprise is pursuing the same strategy. Its targets give a much more detailed breakdown of its work.

The Convener: I will bring Mike Watson back in, but first I want to comment on the targets. If Highlands and Islands Enterprise can put targets under the headings of "Digital connectivity",

"Involvement in global markets", "Globally attractive location" and so on, why can Scottish Enterprise not put figures in the same columns in its targets? That seems strange.

Mike Watson: I want to follow up on a point that the minister made in response to my question on the overall Scottish Enterprise budget. You spoke about the growing business scheme—I cannot quite remember its name—that comes to an end in 2004-05.

Mr Wallace: It is the Scottish co-investment fund.

Mike Watson: Something seems rather strange. You spoke at the Confederation of British Industry dinner that I attended about a month ago, at which the CBI chairman made the point that the key that he identified was growing business in Scotland. On page 109, under "Entrepreneurial dynamism and creativity", business start-ups are listed as 8,500 for the current year. As the convener said, there are no figures for the following two years. However, if the co-investment scheme is coming to an end and there is a reduction in the amount of pump-priming money that is available for growing businesses, how can the figure of 8,500 be increased in the two years that remain at this stage in the current spending review?

Mr Wallace: The co-investment fund is not to do with business start-ups; in some respects, it is a stage further on. It is there because we have identified a venture capital gap, particularly for businesses, of up to about £500,000. The fund is to address the difficulty that is faced by many businesses that have a good idea but cannot quite find the venture capital to help them to take it forward. It is without prejudice to what, if anything, might succeed the Scottish co-investment fund. The fund was established to exist for a certain period of time and no decision has been taken about what, if anything, might follow it.

There is a business start-up scheme, the details of which are still being worked out. The funding for that is in our budget as opposed to the Scottish Enterprise budget. I hope to be in a position to announce that scheme in the new year.

Mike Watson: Would that fill the gap in the figures that I mentioned?

Mr Wallace: It would certainly assist in addressing the target for new business start-ups. I am very conscious—I think that anyone would be—that our business birth rate in Scotland has lagged behind many other parts of the United Kingdom, not just recently but historically. The measure that we are introducing is one of a number of ways of trying to address that.

Chris Ballance (South of Scotland) (Green): While the HIE board has managed to give a target

figure for the three-year survival rate, Scottish Enterprise has not. Can you comment on that? Is that a relevant area for Scottish Enterprise to consider in future? HIE has a target of 70 per cent survival at three years.

Mr Wallace: Measuring that is complicated. I can see the HIE target. I am trying to see whether there is a similar—

Chris Ballance: There is not. I just wondered whether there could be.

Mr Wallace: To the extent that we are not entirely prescriptive, HIE has obviously chosen a different method of measurement, and it would be invidious of me to second-guess why it has done that. You may wish to pursue that question with the respective enterprise agencies. The importance of trying to sustain businesses is recognised. There is recognition too—certainly in my discussions—that start-up is only one part of the picture, and that we must follow through and provide appropriate support to sustain businesses after the initial start-up. There are a range of options for doing that, not least the somewhat controversial consultancies. Consultants are there to try to assist businesses to sustain themselves after start-up.

Susan Deacon: You said that the Executive was not prescriptive, and that we may wish to ask the enterprise agencies more about their reporting requirements. Surely, though, in certain of those areas, such as the ones that have been highlighted, those data are fundamental to assessing whether key strategic Executive objectives have been achieved. While recognising the sensitivities and the respective roles, if you like, of the Executive and Scottish Enterprise in respect of the determination of the allocation of resources, might the Executive not want to take a more active interest in the reporting requirements in those areas?

16:45

Mr Wallace: Obviously, one takes a close interest in performance. However, the Scottish Executive set out a strategy in three key areas in "A Smart, Successful Scotland": growing businesses, global connections and the skills agenda. What you see are different ways in which those key strategic objectives can be measured. They give a pretty good picture of how we are progressing and of how the key strategies are being delivered.

Take global connections as an example. We now have Scottish Development International, and we are talking not only about the importance of new jobs coming in through foreign direct investment, but about the importance of engaging Scottish companies abroad. Therefore,

involvement in global markets would seem to be a suitable measurement. The Executive set Scottish Enterprise a strategy framework and Scottish Enterprise has identified targets that give a fairly good picture of how it is performing against the central objectives that the Executive has devised. I have met the chairman and chief executive of Scottish Enterprise regularly since becoming a minister and have met the board. We discuss such issues. The Executive has a keen interest in what is happening in the context within which we have set the overall framework. Like HIE, Scottish Enterprise is an important delivery agency.

Chris Ballance: Under the heading "What the budget does", page 118 of the draft budget document states:

"The Scottish Climate Change Programme is designed to deliver our commitment to reduce carbon emissions"

and that the programme's

"major aims are better energy efficiency and the greater use of renewable energy."

However, the energy efficiency budget will remain static in real terms over the three years—in other words, it will be reduced once inflation is taken into account. What are your targets for the money for energy reduction? Why is spending being reduced in real terms?

Mr Wallace: The figures that are shown will shift as we get a better idea of the renewables obligation provision. In the autumn revisions, there will be an extra £3.9 million for energy efficiency this year and an extra £3 million will go into renewables promotion. We have a specific target of 40 per cent of Scotland's electricity to be generated by renewables by 2020. There is not the same target for energy efficiency in the sense of energy being saved, but there are targets for the assistance that we and the Scottish energy efficiency office will give. For this year, the targets are 2,000 man days of free energy consultancy for business; 2,600 helpline inquiries; 200 environmental audits; and 25 interest-free loans.

I am glad that Mr Ballance raised the question. I am a committed devotee of the renewables agenda, but we should not focus on that agenda to the exclusion of energy efficiency. Indeed, we can probably make a bigger contribution to tackling climate change through energy efficiency. Last year, Scottish businesses saved £12 million and 175,000 tonnes of carbon dioxide by adopting best-practice advice on energy efficiency. Quite a bit of work is being done on that, and I take this opportunity to voice my support for the Scottish energy efficiency office and its work.

The Convener: You mentioned the autumn revisions. Could you clarify where that extra cash will be coming from?

Mr Wallace: I invite one of my officials to give you a detailed, technical response.

Chris McCrone (Scottish Executive Finance and Central Services Department): An underspend has been identified in the Scottish renewables obligation budget, and it has been agreed with the minister to move the money available from the SRO budget to increase the energy efficiency and renewable energy budgets by the amounts that he has stated.

The Convener: So that is a current-year underspend.

Chris McCrone: Yes, it is a current-year underspend, which will be used to increase those budget lines.

Chris Ballance: Is that a one-off situation for this year? Will the figure that is allocated to energy efficiency go back to £6.1 million next year?

Chris McCrone: It is a one-off for this year; the allocation will return to its budgeted amount next year—unless there is an available saving from the SRO money next year. That is possible, in which case money would probably be moved to the energy efficiency budget again. However, we are not sure that money from the SRO budget is available continually, so I could not make a permanent revision at this time. That will therefore have to be an in-year revision.

Chris Ballance: It seems odd that the budget for energy efficiency will be £10 million this year, whereas it will be only £6.1 million again next year. Is there any contingency in case no SRO underspend money is available next year, so that the energy efficiency allocation does not suddenly drop from £10 million to £6.1 million over the space of one year?

Chris McCrone: During the in-year budgetary process we identify budgetary savings, so that there are not massive underspends in the departmental budget. The situation that you are asking about will be one of the pressures that we will log with the head of department. The head of department then considers the priority of those pressures and, if there is money available, the amount may be made up through a revision next year. It depends on the priorities.

Chris Ballance: It strikes me that the amount of money we are spending on energy efficiency is somewhat random and haphazard, considering that the area is so important and that, proportionally, we are lagging behind the rest of the United Kingdom in reducing carbon emissions and reaching the 2020 targets, according to the Executive's "Key Scottish Environment Statistics 2003". The reduction that has taken place has been largely due to a fall in the capacity of steel and steel-related industries since 1990. Our

emissions are falling, but at a slower rate than that which applies in the rest of the UK.

Mr Wallace: Our targets for electricity generated from renewable sources are more—

Chris Ballance: I am talking about energy efficiency.

Mr Wallace: I am sorry; I thought that you were talking more generally.

Chris Ballance: I am talking about reducing greenhouse gases, basically.

Mr Wallace: Through our energy efficiency office, Scotland delivered 20 per cent of last year's United Kingdom target for environmental fast-track audits for small and medium-sized businesses. If we are doing that, I like to think that, even if there has been a time lag, we are starting to get some things on track. Those audits alone have identified potential savings for businesses of about £2 million.

Furthermore, there is a partnership agreement commitment to improved energy efficiency in public buildings—dare I say that we could reduce the amount of heat in this room.

Chris Ballance: We tried to do so while the meeting was suspended, but it was not possible.

Mr Wallace: You will recall that, when Andy Kerr made his spending announcement last month, he indicated that there was a block of money that, for a number of reasons, was not being allocated at that point. We still have to work up the various business cases for the allocation of that money. Clearly, there is a potential to make savings by tackling energy efficiency in public buildings.

Chris Ballance: The central point that I am trying to make is that, according to the environmental statistics, the Scottish proportion of greenhouse gas emissions went up from 10 per cent in 1990 to 11 per cent in 2000. Given that fact, a static figure over three years of £6.1 million does not seem appropriate. It is great that underspend money will come into this budget area, but I would like some commitment that that figure will not remain at £6.1 million, even if the money is not available in years 2 and 3.

Mr Wallace: You rightly give us credit for recognising that we should fund that area as a priority when resources are available to do so. Clearly, although that priority is not going to go away, I would be rash to commit myself to doing something that I might not have the resources to fund. Every extra pound that we spend has to come from another area. I would describe this area as a spending pressure and no doubt you and others will ensure that that pressure is to the fore of our minds in subsequent years.

I genuinely believe, as I have indicated, that

spending on energy efficiency is the right thing to do, because of the benefits that it creates. As I said, businesses have saved £12 million by adopting best practice. Such a figure gives the lie to the statements of those who see environmental issues as a threat to business. Good environmental stewardship can help businesses' bottom lines.

The Convener: I understand that budgets are constantly changing. We welcome that because it means—I hope—that we will not end up with a surprise underspend at the end of the year. However, it would be helpful if people would tell the committee when they know that an underspend has been identified and transferred to another budget heading. If not, we will end up asking questions about figures that, even though they were published only one month ago, are already out of date.

Mr Wallace: I understood that your earlier question was more to do with the general question of the autumn revision, which is presented to Parliament.

Chris McCrone: The autumn revision is presented to Parliament as a document that shows the movement between each budget heading. It is possible to see where the money comes from and goes to.

The Convener: I understand that the autumn revision is presented to Parliament. The point that I am making is that we have not seen the revisions yet but we are examining you on figures that have been changed. You know that they have been changed but we do not. That gives us a slight handicap.

Chris McCrone: Technically, they have not been changed until the statutory instrument is laid.

Mr Wallace: If it will help you, we will try to give the committee as much advance notice of the detail of the revisions as possible.

Susan Deacon: I have a series of unrelated questions.

The Convener: Perhaps you could group them so we do not lose track of them.

Susan Deacon: In that case, I will ask first about the area that we are currently dealing with.

The footnote to the budget heading for independent learning accounts makes reference to on-going work on the development of a new scheme. The old scheme is currently suspended and we do not yet have a date for the introduction of the new scheme. Are you able to shed any light on that and tell us how that relates to the budget projections for the current year and for later years, given that there must be a high degree of uncertainty about the new scheme?

17:00

Mr Wallace: I would like to launch ILA Scotland sooner rather than later, but there is a lot of detailed work to do, not least to ensure that it is watertight. Let me be up to the minute and open about it: I had a meeting yesterday with officials to discuss timing. One of the issues that we considered seriously was the work of the Audit Committee on ILA1—the original ILA scheme. While that work may be more about the details of delivery and operation, it is important that we examine what the Audit Committee has to say about the operation of ILA1 before we launch ILA Scotland.

When the scheme is agreed by the Cabinet, I want to share that with the Enterprise and Culture Committee before we make the necessary amendments to the statutory instrument to implement it. We are probably looking towards the summer before we can get the new scheme up and running. We may be able to advertise it at an earlier stage, so that potential students benefit from knowing what is coming down the line, but until we finalise the scheme we cannot engage with the learning providers on the detail of what precisely they will deliver. Obviously, they have been involved in the consultation on ILA Scotland and ILA2 but, inevitably, there is a time lag between our publicising and approving a scheme and the learning providers ensuring that they have the courses in place for those who wish to take them up. That has clear implications for the budget line for this financial year. Yesterday, I spent some time examining carefully the possible timelines. I hope that the committee agrees that it makes sense to examine the Audit Committee report, which we have been led to believe might come out at the beginning of December.

The Convener: Brian Adam has a supplementary on ILAs. Have you finished, Susan?

Susan Deacon: I have a very simple question. The minister said that there would be implications for the budget line this year. If that means that the entire year 2003-04 has been without an active scheme, surely—

Brian Adam: That is precisely the question that I was going to ask. Why have we allocated £15.4 million to a programme that does not exist and has not existed for some time? Do we already know that we will have an underspend in this area, and do you have plans to reallocate that money?

Mr Wallace: It was hoped that the scheme would be up and running. Clearly, that has not been possible. It has taken longer, for reasons that I have just explained.

Brian Adam: I hope—indeed, I assume—it is not the case that that figure is the baseline

administration cost, and that the £3 million uplift that you are projecting for next year is the actual programme spend.

Mr Wallace: You can be reassured that when the budget was set it was hoped that we would be able to deliver the scheme during the present financial year. For the reasons that I just gave to Susan Deacon, that will not be possible. There will be some preparatory expenditure—Mark Batho will indicate what that sum is—but there will be money to reallocate.

Mark Batho (Scottish Executive Enterprise, Transport and Lifelong Learning Department):

The development partners are incurring some expense at the moment, but there will be a build up as the overall programme gets up and running. I confirm what the minister said: we do not have a baseline operating cost of £15 million before the scheme begins to operate. That is not the case at all.

Brian Adam: I want to pursue that point. You say that there will be some expenditure, because you have to spend some money with your partners in order to make the scheme happen. Can you give us some idea of the proportion of the ILA money that will be spent on delivering courses? How much will be spent on working up relationships with partners and on administration?

Mr Wallace: There is a difference between how much will be used for the start-up and how much will be used for routine management and administration of the scheme once it is up and running. However, we estimate that we will use approximately £3 million this year for development work on ILA Scotland.

Susan Deacon: Having got to the bottom of the situation that there is not £15 million in this year's budget purely for set-up costs, I calculate that about £12 million in the current financial year will not be used for ILAs, for the reasons that the minister gave. Will that sum, which is relatively sizeable, be handled as any other budget adjustment would be? I presume that other learning providers, such as the FE sector, would have the opportunity to put that sum to good use in the current financial year for broadly the purpose for which the money was intended.

Mr Wallace: There are huge pressures on the budget, and the £12 million that Susan Deacon identified will be allocated to help to ease those accumulating pressures. Our budget is very tight and there is precious little scope for much manoeuvre or for anything that comes out of the blue. I will indicate to you as soon as possible where the £12 million will go.

Susan Deacon: Are there pressures on the enterprise budget in general rather than on lifelong learning in particular?

Mr Wallace: There are pressures on the totality.

Graeme Dickson (Scottish Executive Enterprise and Lifelong Learning Department): Part of the reason for that is that most of the budget, as members will be aware, goes out to a number of large non-departmental public bodies. Once that money is allocated, the remaining discretionary spend is fairly small.

Susan Deacon: I will move on to another line of questions on the same section of the budget. A significant and rising sum is being allocated to enterprise in education and specific programmes in schools. My question relates to Christine May's earlier line of questioning. How much of the enterprise in education budget will simply fund a separate and additional programme in schools, which is referred to on page 119 of the draft budget? How much of the enterprise in education sum will be used to lever in the even more substantial resource in existing education budgets and skew that towards the development of entrepreneurial and related skills in our young people?

Mr Wallace: The initial funding for enterprise in education was £40 million, which consisted of £5 million for 2003-04, £13 million for 2004-05 and £22 million for 2005-06. However, an additional £2 million, to which I referred earlier, has been allocated to 2003-04 through match funding from the Hunter Foundation. The total funding of £42 million is intended to deliver the proposals in the report "Determined to Succeed: A Review of Enterprise in Education", which was the Executive's response to the review of enterprise education.

The aim is to develop the knowledge, skills and attitudes of young people to prepare them for the world of work and to ensure that they have the skills for a world of enterprise. A study of people who, when interviewed, said that they had thought about setting up their own business indicated that Scotland ranked 33rd or 34th of 35 Organisation for Economic Co-operation and Development countries. Scotland had roughly the same ranking for those who had given a friend or relation help to set up their own business. We have a big hill to climb to establish and stimulate an enterprise culture.

That is why we see that programme as a step change in the delivery of enterprise and entrepreneurial vocational activity through primary and secondary school. We intend to help teachers, too, because who teaches the teachers? We will provide them with the appropriate qualifications, training and support to deliver the programme. We will also encourage business participation in the delivery of the programme.

I will be able to say more about the schools

enterprise programme in the debate on Thursday morning. The intention is to start by identifying 10 local authorities where there is already a good track record of delivery. The programme will then be rolled out to the remaining 22 authorities.

The Convener: The programme will clearly get a significant sum of money, in anyone's language, by 2005-06. However, I suspect that it is going to be difficult to assess how effective the programme is. I also suspect that it will take many years to work through and become effective. Have you given any thought to how you are going to measure the programme's effectiveness? Are you committed to carrying on the programme for the length of time that it will take to make it work?

Mr Wallace: There are pilots, which we are evaluating and learning from before we try to roll anything out. The programme is not a stab in the dark; we are building on much work that has already been done. The baseline is built into the programme, whereas few other lines go beyond the current spending review. I fully endorse your view that we cannot run the programme for only a fraction of a generation of school pupils. It will be lasting and will provide a step change; therefore, it must be carried right through. The fact that we have now established a baseline for it is indicative of how important we think that the initiative is.

Susan Deacon: There is a whole series of issues that would be interesting to explore. Perhaps the debate in the chamber on Thursday will provide us with the opportunity to do that.

I have two further points to make, which are unrelated. Would you like to take the opportunity to comment on regional selective assistance? Am I correct in saying that recent reports on RSA have suggested that the uptake has been disappointing or, at least, less than expected? I appreciate the fact that, as the budget document says, the programme is demand led. However, could you say what the current trends in uptake are and give us an indication of the impact of those trends both in substantive terms—in terms of the objectives of the scheme—and in budgetary terms, regarding the outturn relative to the budget plan?

Mr Wallace: By the nature of RSA, offers are made and accepted and the spend comes later. The spend is often made in tranches, and it is not always as easy to get an accurate picture of it as the raw figures might suggest. However, I can say that the balance of grant offers has shifted. In the past two years, the percentage of grants accepted going to UK firms has risen from 51 per cent to 65 per cent.

As Susan Deacon recognised in her question, the programme is demand led and depends on the take-up of firms applying. There has been a significant downturn in the volume of foreign direct

investment, not just in Scotland, but globally. That is one of the reasons why we are focusing more of our attention on growing indigenous businesses. There is a time lag because some of the spend is in respect of offers that were accepted by inward investors at a previous stage.

It would be wrong for the message to go out that Scotland does not want inward investment—far from it. There are some important inward investors who might already have made a commitment to Scotland and we want them to consolidate and grow. However, the volume of foreign direct investment is much smaller than was the case previously. We are under increasing competitive pressure from eastern Europe and south-east Asia. I do not believe that our future lies in trying to compete with low-wage economies in south-east Asia; to try to do so would be a big mistake. That is why there has been a shift in focus towards trying to grow indigenous industries.

17:15

Susan Deacon: I am happy to move on to my final question unless the convener wants to bring in someone else.

Brian Adam: The future of Scotland depends upon us growing the economy. There are those who say that Government-invested money is wasted. What do you say to that, especially given that we have moved from using regional selective assistance to co-funding the expansion of our SMEs? How do we address the dilemma that is caused by our bankers being risk averse?

Mr Wallace: Our number 1 objective is to grow the economy, but governments do not create wealth; businesses create wealth. The role of the Government is to lend appropriate assistance, to create a framework or environment within which businesses can be encouraged to grow, to foster enterprise and creativity and to supply appropriate support. In some cases, that will mean the kind of investment that I mentioned in my answer to Christine May's question. Examples include investment in the transport infrastructure or in the e-infrastructure; increasing our connectivity is vital for Scotland's growing businesses. Government has a role that can be directed towards giving appropriate support.

There is a series of schemes and initiatives that are delivered principally through Scottish Enterprise and Highlands and Islands Enterprise. I have already referred to the Scottish co-investment fund.

Brian Adam: With respect minister, you have indicated that that initiative is going to be concluded.

Some people in the business community

suggest that investment decisions are not best made by those in Government or by NDPBs, which are closely associated with Government. How do you counter that argument? Is the Government's role increasing? We do not have the figures before us, there is some uncertainty about what Scottish Enterprise is going to do, and you have indicated that the co-investment fund is to come to an end. You also suggested that there will be some kind of replacement for it. How do you address those concerns, particularly in light of the widely shared belief that we have to identify the sectors that are likely to bring highly paid jobs in the future and those in which we should be investing?

Mr Wallace: When it was established, I said that the Scottish co-investment fund had a fixed life. I said that no decision had been taken as to whether it would continue, which is different to saying that it is definitely coming to an end. No decision has been taken to go beyond the period for which the fund was established. That was why certain figures appeared in the budget.

It is also important to note that the co-investment fund invests in existing and new private sector funding vehicles, and that the fund is managed and driven by the private sector. Access to the fund is gained through contacting individual fund managers. That is not about me sitting in St Andrew's House and taking a best guess about which company ought to get a little tranche of money.

It is also unfair to assume that those who are engaged in Scottish Enterprise, Highlands and Islands Enterprise and the local enterprise companies are cavalier about the way in which they dispense public money—a lot of care and consideration is given to that.

What I am about to say is relevant to what Brian Adam asked. When I was first elected as a member of Parliament 20 years ago, the chairman of the then Highlands and Islands Development Board, Bob Cowan, told me that he saw the organisation's role as being to take risks, although not rash risks. Occasionally that meant that some of the things that the HIDB invested in failed. He hoped that I would back him if there was a failure—although clearly not if there was a string of failures, because that would suggest that something had gone wrong.

If the enterprise network did not take on that role, one might as well go to a bank, but such has been the role of our development agencies over the years. It is inevitable that they have to take risks, but I believe that they operate within the framework of the overall strategy that ministers set. They have substantial amounts of public funding at their disposal and, inevitably, they will be involved in taking risks. I believe that they

should do that, as they have by identifying cluster strategies, such as in bioscience and the creative industries. They have identified where they can play to Scotland's strengths, for example in the intermediary technology institutes. The funding that is made available to those institutes and which is used to help support research and business development and growth is thought about carefully; it is not distributed arbitrarily. I hope that that gives some reassurance about what enterprise agencies should be doing.

Brian Adam: We have an industry that is risk averse and bankers who are perhaps risk averse. Someone will have to take the lead; that might have to be the Government, at least for a time, even if it is not Government's primary role to make such investment. I agree with you; I just wanted to hear you say it.

Mr Wallace: We are not a million miles apart on that—far from it.

Mr Baker: My understanding is that in the partnership agreement the Executive indicated that it wanted to increase support for students from poorer backgrounds. At first sight, the figures that you quoted today for 2003-04 seem to be roughly the same as those for previous years. Is there any accounting for the increase in student support within the budget?

Mr Wallace: You are right to refer to the partnership agreement. If I remember correctly, we mentioned having a review of the amount for the bursary, the level of parental income that would determine whether someone was entitled to the full bursary and the sum to be earned before repayments are made. I think that it is £11,000 at the moment—[*Interruption.*—]I am told that it is £10,000. If that was to change south of the border, as has been suggested, there would be a lot of pressure on us to change it, too. Those matters will be the subject of review. We have identified funding, which I think you will find in the other part of the budget, but the issues will be picked up in next year's spending review.

Mike Watson: I have a specific question and a general question. The specific question is on what comes under the "other" heading and relates to education maintenance allowances. I refer to page 118 of the budget document. I have experience of the allowances because, as you know, they have been piloted in Glasgow. That has been quite successful as far as I can ascertain; your department seems to agree with that, because you are now rolling them out throughout Scotland. Will they be rolled out throughout Scotland or just in the local authority areas where—according to the usual indices—a higher proportion of families live in deprivation? The total figure for the plans for 2005-06 is £31 million, which is not only the biggest heading in the "other" column, but makes

up about 20 per cent of the total. The figure would suggest that the pilot would not necessarily be rolled out throughout Scotland.

Elsewhere in the document it is indicated that the aim is to increase participation and retention rates by 5 per cent by 2007-08. Why is that target so far ahead? With the kind of resources that are being invested, 5 per cent should be a relatively modest increase to achieve.

Mr Wallace: As Mike Watson said, we are piloting educational maintenance allowances. The four local authorities in which they are being piloted are East Ayrshire Council, Dundee City Council, Glasgow City Council and West Dunbartonshire Council. We intend pan-Scotland roll-out of educational maintenance allowances to commence in the academic year 2004-05. The budget lines for the financial year 2004-05 include half an academic year. The full amount will be made available in 2005-06.

Mark Batho: It will not be the full amount, because allowances will be given first to 16-year-olds and then to 16 and 17-year-olds. By 2007-08, they will be available to 19-year-olds. There will be a double roll-out, based on area and age.

Mike Watson: So allowances will be rolled out throughout Scotland for all age groups, in schools and FE colleges, in 2007-08.

Mr Wallace: Yes.

Mike Watson: My second question is more general and relates to an issue that was raised frequently when I was convener of the Finance Committee and we were setting out the budget process. I refer to the question of gender proofing of the budget and the extent to which departments are expected to have a gender-proofing process or to conduct a gender-impact assessment of spending.

In a number of important areas in which the Enterprise, Transport and Lifelong Learning Department is spending considerable sums of money, I expected the issue of gender to have been taken into account, but that is not indicated. Given that you are seeking to increase take-up in further education, surely it is important to check that proper child care facilities are available for women with children.

Priority performance targets for Scottish Enterprise in skills and learning are to increase the number of modern apprenticeships and, more important, the number of adult modern apprenticeships. There is also a target for training of low-paid staff. Those are areas in which a gender-impact assessment would be useful. What is being done in that regard? Can you find a way of demonstrating that such assessments are being made?

My next question also comes under the heading of equality. On pages 98 and 99 of the draft budget it is stated that an equal opportunities officer is being appointed

“to promote equal opportunities issues across all programmes supported by European Structural Funds”.

I welcome that, but I suspect that the policy may have been laid down by the European Union. Why cannot it be extended to other programmes?

The second initiative that I welcome is the work of the national unit for women's enterprise within the enterprise networks. That work is being done, but it could be spread more widely and—to return to the point that I made earlier—it could be shown that it is happening. There is a good story to tell, but we do not seem to be telling it.

Mr Wallace: I must take that well-intentioned constructive criticism on board. Equal access to further and higher education lacks less—or is perceived to lack less—in relation to gender than it does in relation to some other issues. For example, there is more work to be done to assist students with disabilities. I am not aware that major issues of unequal gender treatment have been raised. I will not hazard a guess as to the gender ratio in applications or admissions to further and higher education institutions, but Mike Watson makes a fair point. We need to consider further how we can highlight such issues better. If you feel that there is a gender inequality in a certain area, I am more than willing to investigate whether that is the case and to find out what we can do about it.

17:30

Mike Watson: I hear what you say. However, the important time to do anything like that is when the budget is being set. At that point, we can assess the likely impact of spending, whether it will fall equally on men and women or whether there needs to be additional spending to address my point that women with children seem to be limited in their ability to go into education. As the subject certainly had some currency in the budgets that were laid in the early days of the Parliament, we should be seeing signs that the problem has been addressed.

Mr Wallace: Sums have been set aside to fund extra support for child care provision in further and higher education. Perhaps we should revisit the matter to find out whether current provision is having the intended effect and whether it must be improved to make it more effective. Both funding councils are examining the idea of appointing an equality officer, no doubt to oversee their spend.

Mike Watson: I appreciate that there are equality issues besides gender. However, I mentioned gender specifically because it has been raised in the past.

Susan Deacon: I come back full circle to top-up fees, which Mike Watson mentioned earlier and the committee is examining. I listened carefully to your earlier response and took on board your point that the impact of any changes south of the border would start to kick in only after the current spending review period. Given that any decisions on the Westminster white paper will have clear implications for us, and in light of the current programme of work that you described earlier, what arrangements are in place between the Scottish Executive and its UK counterparts to liaise and share information?

Mr Wallace: I do not think that the committee would expect me to go into detail on the discussions that I have had with Charles Clarke; however, those discussions have taken place.

Susan Deacon: You can go into that kind of detail if you want.

Mr Wallace: After our previous meeting, we reached an agreement that such meetings should take place regularly. As a result, there is dialogue at ministerial and official level. Obviously, it is up to the UK Government to make its own policy decisions on these matters, but I hope that it will be willing to share with us any factual information that it receives.

Susan Deacon: That is precisely the point that I wanted to explore. It is clear that any policy decisions are up to the UK Government, but as a UK Government, it has an obligation to consider the impact of its decisions on Scotland. From the work that the committee has undertaken—and that which the Executive is currently undertaking—an ever-clearer picture of the policy's potential impact is emerging and it seems reasonable that such information should be fed into the current decision-making process. Are there any mechanisms that would allow the Executive to do that as its own programme of work progresses?

Mr Wallace: I am not quite sure about how you suggest information should flow.

Susan Deacon: Your response focused on the flow of information from south to north of the border. I suppose that my question is about the flow of information from north to south.

Mr Wallace: The short answer is that one of the reasons why we are doing what we are doing is to establish that information. Anything that we imparted at this moment would simply be anecdote, hunch or intuition.

We have established the steering group and identified key areas—such as the cross-border flow of students and analysis of why staff go to, or stay in, particular places. It is very early days for us to come to any conclusions. We do not yet have qualitative information, which is one reason

why we are trying to gather it. We ought to know more about those things. At the moment, I understand that Scotland has better recruitment and retention rates among academic staff than other parts of the United Kingdom. We may want to analyse why that is the case. Mark Batho thinks that we have more robust information, but I am not sure that I could feed any information into the UK Government's decision-making process that would be as robust as I would want it to be.

Susan Deacon: When might that robust information be available?

Mr Wallace: I have said that I want a report by February, which is not so far away.

The Convener: I have some further questions, Jim, but because of the time I will probably write to you. I hope that you will be able to answer them. I thank you and your officials for attending. It has been very helpful, as you can judge from the length of the meeting.

Mr Wallace: Thank you.

The Convener: I close this meeting of the—*[Interruption.]* I have just been told that there is an item 3 on the agenda, so I reopen this meeting of the committee. My apologies to the official reporters if they are becoming confused—although I presume that they will be no more confused than I am.

There will be another meeting on the issues that we have been discussing. If there is anything that members feel must be in our report, they should e-mail the clerks while it is still fresh in their minds. We can consider the matter further once we have heard from the other minister at our next meeting.

Chris Ballance: When will we hear from the Minister for Tourism, Culture and Sport?

Judith Evans (Clerk): On 28 October.

The Convener: Which, because of the two-week recess, will be our next meeting.

Mike Watson: Can we take it as read that the clerks will include in the report points raised during questioning, in addition to other points raised?

The Convener: If you feel that something particularly important has come up, or if there was something that you did not get the chance to raise, let the clerks know.

I now really do close the meeting.

17:37

Meeting closed.

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