

AUDIT COMMITTEE

Tuesday 9 December 2003
(*Morning*)

Session 2

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2003.

Applications for reproduction should be made in writing to the Licensing Division,
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The
Stationery Office Ltd.

Her Majesty's Stationery Office is independent of and separate from the company now
trading as The Stationery Office Ltd, which is responsible for printing and publishing
Scottish Parliamentary Corporate Body publications.

CONTENTS

Tuesday 9 December 2003

	Col.
ITEMS IN PRIVATE	221
SCOTTISH ENTERPRISE	222
“FINANCIAL PERFORMANCE OF THE FURTHER EDUCATION SECTOR IN SCOTLAND”	241
“DEALING WITH OFFENDING BY YOUNG PEOPLE”	244
SUBORDINATE LEGISLATION	245
Public Finance and Accountability (Scotland) Act 2000 (Access to Documents and Information) (Relevant Persons) Order 2003 (SSI 2003/530)	245

AUDIT COMMITTEE **9th Meeting 2003, Session 2**

CONVENER

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

DEPUTY CONVENER

*Mr Kenny MacAskill (Lothians) (SNP)

COMMITTEE MEMBERS

*Rhona Brankin (Midlothian) (Lab)
*Susan Deacon (Edinburgh East and Musselburgh) (Lab)
*Robin Harper (Lothians) (Green)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
George Lyon (Argyll and Bute) (LD)

COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)
Mr Ted Brocklebank (Mid Scotland and Fife) (Con)
Marlyn Glen (North East Scotland) (Lab)
Mr Andrew Welsh (Angus) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Caroline Gardner (Audit Scotland)
Bob Leishman (Audit Scotland)
Arwel Roberts (Audit Scotland)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Christine Lambourne

LOCATION

Committee Room 2

Scottish Parliament

Audit Committee

Tuesday 9 December 2003

(Morning)

[THE CONVENER *opened the meeting in private at 09:31*]

10:05

Meeting continued in public.

Items in Private

The Convener (Mr Brian Monteith): Good morning and welcome to the Audit Committee's ninth meeting this session. I welcome the Auditor General for Scotland and his team from Audit Scotland and members of the public and the press who have now joined us for the public part of the meeting. Anyone who has a mobile phone or pager should ensure that it is turned off.

Agenda item 2 is to consider whether to take agenda items 7, 8 and 9 in private. Agenda item 7 is consideration of the third draft of the committee's report on its inquiry into the Auditor General for Scotland's report entitled "Individual Learning Accounts in Scotland"; agenda item 8 is consideration of the committee's approach to the Auditor General's report entitled "Scottish Enterprise: special audit examination" and agenda item 9 is consideration of our approach to the Auditor General's report entitled "Financial performance of the further education sector in Scotland: An update report". If the committee thinks that there is enough information to consider whether to hold an inquiry when it discusses agenda item 3 on Scottish Enterprise, it can consider the matter at that point. Alternatively, we can reach a decision at the appropriate time under item 8, when we could discuss the issue more fully.

Do members agree to discuss items 7, 8 and 9 in private?

Members *indicated agreement.*

Scottish Enterprise

10:08

The Convener: Agenda item 3 is the Auditor General for Scotland's report on Scottish Enterprise. The committee has had the benefit of being able to read the report in the past 20 to 30 minutes. I invite the Auditor General to speak to the committee about the report.

Mr Robert Black (Auditor General for Scotland): In the early months of this year, there were reports in the media about the performance of Scottish Enterprise national and I received a letter from a member of the Scottish Parliament that suggested that I undertake an investigation into the management of Scottish Enterprise national. If the committee does not mind, I shall refer to Scottish Enterprise national as SEN from time to time for ease of speaking.

I asked Audit Scotland, as the appointed auditor for Scottish Enterprise, to examine the areas of concern and to consider whether there were any wider issues. The report that I have laid in Parliament this morning is based on that examination.

Five broad areas of concern were raised with me. First, there was concern about the extent to which SEN was on course to achieve its performance targets for the financial year ending 31 March 2003. Secondly, there was concern about the performance of SEN in managing major projects that were seen to be critical to the success of its role in furthering development of the Scottish economy. A third issue was whether SEN had failed to claim £32 million of European funding to which it may have been entitled.

Fourthly, concerns were expressed about the use of external consultants by SEN in developing its operations. Finally, concern was expressed about the number of staff that are employed in customer relations, particularly in the public relations department.

I emphasise that neither my report nor the examination that the auditors undertook constitutes a comprehensive review of the management and performance of Scottish Enterprise. The content of my report and the background work is restricted to the five areas that I have just outlined.

I remind the committee that SEN works with 12 local enterprise companies and other subsidiaries, which constitute the entire Scottish Enterprise network. SEN is responsible for furthering development of Scotland's economy, enhancing employment related skills, promoting industrial

efficiency and international competitiveness and further improving Scotland's environment.

SEN undertakes national and strategic priorities directly and also gives leadership support and control to the Scottish Enterprise network. SEN contracts annually with the local enterprise companies for delivery of a wide range of business development and training services and environmental and regeneration programmes.

I will summarise my findings in relation to each of the five concerns that I mentioned a few moments ago.

First, I will mention performance targets and monitoring. The Scottish Executive has set out its overall policy framework in "A Smart, Successful Scotland". That policy statement was published in October 2001 and sets out three themes and 12 priorities for the network. Within that framework, the Scottish Executive annual operating plan sets out the delivery plans for the year ahead. Specific outputs are described as key priority performance targets. The number of those targets varies each year; for 2002-03, there were 22 key priority performance targets for the Scottish Enterprise network. Scottish Enterprise national was expected to contribute directly to achievement of 12 of those 22 targets. It is important to bear in mind the distinction between the 12 priorities that were set by ministers for the Scottish Enterprise network and the 22 key priority performance targets that were set for the network in the annual operating plan that was agreed with the Enterprise, Transport and Lifelong Learning Department.

With regard to the 22 key priority performance targets for the networks, the Scottish Enterprise data show that the network achieved 21 of the 22 targets. SEN was expected to contribute to delivering 12 of those 22 targets. It was initially claimed that Scottish Enterprise national would miss a majority of its 12 key performance targets in the year ending 31 March 2003, but the information held by SEN indicates that it achieved its planned contribution to eight out of the 12 network targets with which it was expected to assist.

I should mention that SEN does not, because the organisation operates as one network, consider that a distinction should be made between its performance in assisting the achievement of network targets and the performance of the network as a whole.

The auditors raised a number of questions about the performance management and reporting arrangements of Scottish Enterprise national. First, they suggested that there might be scope for SEN to set more stretching targets. That is mainly because local enterprise companies and other

business units often plan to do more than the targeted level of performance. Another factor was the evidence that the reported performance achievements were often significantly in excess of targets. More specifically, the network's actual performance was at least 20 per cent greater than the target levels in relation to 15 of the 22 targets.

Secondly, the auditors have commented that, as late as May 2003, the management information system of Scottish Enterprise was reporting that, for the financial year to the end of March 2003, Scottish Enterprise would achieve its planned contribution to only three of the 12 network targets to which it was expected to contribute, although it eventually recorded that it had achieved the planned contribution towards eight of those targets.

In some instances, the auditors were not able to verify the accuracy of the reported performance information. That was because, for a number of targets, the values that were recorded were based on in-house assessment and there was no independent review or verification.

10:15

I draw the committee's attention to the fact that my report records various observations that were made by Scottish Enterprise national in response to those concerns. Those observations are detailed in my report. SEN says that targets are kept under review and might be increased, that a balance must be struck between prudent planning and unrealistic ambition in setting targets, and that it is difficult to benchmark targets because there are no appropriate comparators—Scottish Enterprise is a rather unique organisation.

I want to emphasise that the auditors did not undertake a full review of Scottish Enterprise's systems for reporting its performance. I therefore intend to consider including in my forward work programme a full performance audit of the performance management systems and accountability arrangements in Scottish Enterprise. I will consult the Audit Committee on that in the early part of next year when we are considering the forward work programme.

I turn to the management of major projects and the related concerns about application for European funds. The media reported concerns about whether certain major projects were being mismanaged and about the diversion of resources from elsewhere within the network to support certain projects. It was also claimed that projects were behind schedule and that Scottish Enterprise national might have omitted to claim £32 million of European funding for two projects.

During 2002-03, SEN reduced budgets in some areas of activity and reallocated money to other

areas. Although some of the budget reallocations were directed towards major projects, budget reductions were confined to areas of underspend. In my view, it is right that public bodies should maintain a close review of expenditure against budget and, provided that management is clear about the reasons for overspend and underspend, reallocation of budgets is part of good financial management.

Some of SEN's major projects have been subject to delay, or have not achieved targets for job creation, although progress has been made in several key areas. SEN's project ATLAS—accessing telecoms links across Scotland—which involves provision of a telecom trading exchange and the creation of a telecom network of 13 business parks throughout Scotland, has been subject to delay because of concerns that the project might contravene state-aid provisions. My report explains the recent history of the project in some detail. The European Union has yet to issue its findings on the issue of state aid.

Pacific Quay, which includes the Glasgow Science Centre, is another very large project based in Glasgow. SEN has met four of the five main conditions for European regional development fund funding. However, the job creation targets for the project have been revised downwards from the original target of more than 3,500 new jobs by 2006 to a revised target of fewer than 2,000 new jobs by that year. The Glasgow Science Centre is not performing in line with expectations. I have therefore asked the auditors to keep progress under review and I might produce a report on that at a later date.

The media have also expressed concerns about whether SEN failed to claim EU funding to which it might have been entitled in respect of SEN's intermediary technology institutes project, and the Scottish co-investment fund project. SEN has not applied for EU funding for the intermediary technology institutes project because, in its view, the nature of the start-up costs makes it ineligible for assistance. The project is, however, slightly behind schedule and I emphasise that it will require a large commitment of public funds, amounting to core funding of £450 million over the next 12 years. In view of the size of the project, I have asked the auditors to keep under review progress and the results that are delivered by that substantial programme.

We think that a reference in the media to the £32 million of EU funding that might not have been claimed relates to the 2002-2006 risk capital programme of the European regional development fund. That provided for £32 million to the areas of Scotland within SEN's geographical operating area. All public bodies in the area may apply for those funds. In April 2003, SEN applied for £25

million in respect of the Scottish co-investment fund. It has advised us that the application has been successful. The media's concern is therefore unfounded.

Nevertheless, it appears that SEN might not have applied for all the EU funding to which it may have been entitled in respect of certain other projects. EU money can be an important funding source so, in my opinion, public bodies should ensure that potential availability of EU funding is considered at all stages in the development of new projects. Sometimes the amounts might not justify the effort that is involved in making the application, but procedures should be in place to record decisions not to apply when EU funding may be available.

The next area of concern relates to SEN's use of consultants. Normally SEN commissions consultants and contractors because of a lack of in-house expertise in the areas under consideration, or because insufficient in-house resources are available with the expertise that is necessary to allow projects and other initiatives to be delivered in a timely manner. Since its inception, SEN has taken the view that, wherever possible, the private sector should be used to deliver the network's services where that represents value for money.

In 2002-03, SEN's expenditure on consultants and contractors together amounted to some £108 million. The figure is over one fifth of total network management and operational expenditure. I am concerned that for almost four years until April 2003, no management information on use of consultants and contractors was provided to the board and senior management of Scottish Enterprise national. The SEN view is that that type of spending should be monitored and controlled at the level of individual projects and programmes.

The auditors also reviewed a sample of 10 consultancy contracts that were administered by SEN to determine whether procedures for the appointment of consultants and contract monitoring met SEN's internal guidance and accepted best practice. One of the contracts that were examined was for consultancy advice that was provided in connection with SEN's business transformation project—a major project which SEN expects to contribute to improved business efficiency and effectiveness. SEN has paid consultants to the project some £11 million to date. I describe in some detail in my report the tendering of the contract for the business transformation project.

From looking at that selection of contracts, the auditors concluded that SEN should improve its procedures for appointing consultants and monitoring contracts. In particular, the auditors expressed concern about the absence of contract

documents for a number of contracts. They found that the requirement to expose work to competition was not always met, and that there were some failures to comply fully with EU procurement rules. The auditors also suggested that the procedures for undertaking financial assessments of proposed contractors and for evaluating tenders could be tightened up. SEN has developed an action plan to address the auditors' concerns.

SEN considers that the business transformation project has contributed to a reduction in the number of staff who are employed in the network. Although consultants may be best placed to provide the required services, they are generally more expensive than in-house staff. In my opinion, if there is a risk that a move to externally sourced services might involve higher costs, SEN should consider carefully the costs and benefits of further staff reductions. The auditors will consider SEN's recruitment of consultants and contractors as part of a future review of the business transformation project.

At this point, I should mention a letter that I received from a member of the Scottish Parliament regarding SEN's premier adviser programme, which is designed to train individuals to provide enhanced business advice. The concerns related to the award of contracts, the unit cost per trainee and the possibility that favouritism may have been shown to former employees. The auditors concluded that most of those concerns were unfounded, although SEN did withhold payments to contractors because the project was over-budget, although those invoices were eventually paid.

The final issue was the number of staff who are employed in customer relations, particularly in SEN's public relations department. The auditors confirmed that the overall establishment of SEN's customer relations department is 92, with 71 staff in post. SEN is reconsidering whether to fill the vacant posts. The customer relations department has a wider remit than just press relations; it is important to recognise that.

I remind the committee that we are undertaking a study of business support services, which will look comprehensively at the whole area of business support that is provided by Scottish Enterprise. That report is due to be published in the spring. As always, my colleagues are here with me to help me to answer any questions that you may have.

The Convener: Thank you. I now open the meeting to members who have questions about the report.

Robin Harper (Lothians) (Green): In your introductory remarks, you noted that there is an injunction on SEN to further improve and sustain

Scotland's environment. You went on to observe that many of the targets were significantly unambitious, particularly in the performance of local enterprise companies.

I draw your attention to the figures on the back page of the report. The target for "Accommodation provided for key industries" is significant and it is probably a welcome target to reach. The target of 80,000m² was reached and 116,149m² of extra accommodation for key industries was provided. However, there is an extraordinarily low target for "Businesses assisted in achieving recognised environmental standards"—just 50 in the entire company—which was exceeded by only five. Would it be fair to consider Scottish Enterprise as having failed significantly in its task of improving Scotland's environment?

Mr Black: I cannot comment at this stage on whether the performance target that has been set in that area is appropriate or whether it is sufficiently challenging. All the report does is confirm the recording of what SEN achieved against that target. The appropriateness of the target is a matter that would have to be addressed to the accountable officer and to the Scottish Executive.

Mr Kenny MacAskill (Lothians) (SNP): I have some specific and some general questions. First, I note that paragraph 3.6 on page 28 says that phase 1 of Project ATLAS

"involves the provision of a Telecom Trading Exchange".

If my memory serves me well, project ATLAS has been around for some time. Indeed, project ATLAS initially commenced as a project to bring a deep-sea cable from the USA across to the west of Scotland. It has since metamorphosed into a project to provide the TTE. Do you have any comments on how long it has taken for project ATLAS to become this specific project ATLAS as opposed to the previous project ATLAS? Moreover, I understand that there is currently a dispute over whether Scottish telecoms companies that access the TTE are required to access it through London rather than directly from Scotland. Do you have any comments on that?

Finally, it appears that, rightly or wrongly, you have assumed that matters regarding state aid are resolved. I may be missing something, but my understanding is that that is certainly not the position that is being considered by the main protagonist of Thus plc, a telecoms company that is, as far as I am aware, still considering its position at EU level if not at litigation level.

10:30

Mr Black: I have difficulty in answering questions that are entirely reasonable if they do

not relate directly to matters that I covered in my report. As I remarked to Mr Harper, from time to time, members of the committee will have questions that would be more appropriately addressed to the accountable officer or another party. I regret to say that that probably applies to questions on the history of project ATLAS. We were recording progress to date within the financial year under review in relation to that project.

With regard to EU funding, it is true to say that certain matters are still outstanding with the European Union; however, there are also matters that have been resolved, as I indicated in my opening remarks.

Mr MacAskill: Let me ask a more general question, in that case. I acknowledge the legitimate point that you can deal only with what is in the report. You will obviously consider your position vis-à-vis SEN at a later stage.

The use of consultants seems to tie in with the general question of what Scottish Enterprise's remit is. There seem to be two issues around the consultancy culture. The first is a perception, from outwith the organisation, that Scottish Enterprise hires consultants even when ability and knowledge are available internally—they are not sought internally, for whatever reason. Do you have any views on that? The second issue is the question of what Scottish Enterprise is for. I appreciate that that has not been touched on in the general outline of the report, but I wonder whether you have begun to form any assumption.

Let us take the specific example of transport. Scottish Enterprise has a transport department; we are about to create a non-departmental body called transport Scotland; the Government in Scotland has transport divisions; and there is a Department for Transport in London. How many transport departments do we require? I understand that Scottish Enterprise is as it is because of where it stood in pre-devolution days. However, I wonder whether Scottish Enterprise is taking—or should be taking—steps to refocus.

Mr Black: Convener, I respectfully suggest that a number of those very important matters are policy issues on which it would not be appropriate for me to comment.

On the narrow issue of consultancy expenditure, we have recorded in part 4 of the report detailed numbers regarding growth in the use of consultants and contractors. As I said in my opening remarks, the policy of Scottish Enterprise is to use private sector consultants whenever that is appropriate and when it believes that that will deliver value for money. In view of the significant growth in the use of consultants and contractors over the past few years, I was rather surprised to

find that management information was not routinely provided to SEN's board so that it could explicitly control what might be called a significant generator of cost increases in its budget.

Scottish Enterprise—understandably, I guess—took the view that it is the project that matters, not the inputs to the project. I respect that my judgment is somewhat different from the judgment of the management of Scottish Enterprise, but my judgment is that, given the sheer volume of expenditure on consultants and contractors and the increase in that volume over recent years, it would not be unreasonable to expect the board and senior management to monitor that quite carefully. I have suggested to Scottish Enterprise that that is an area that it needs to watch, as consultants tend to be more expensive than in-house staff.

The Convener: Thank you. I remind members that the Auditor General is best placed to answer questions on the report, not on policy. Questions on policy can be answered by others, although I understand members' frustrations in wishing to get at the heart of the matter.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I take your guidance to heart, convener, and assure you that I am keen to ask several questions on the report, which will give us more than enough food for thought.

In your latter remarks, Mr Black, you started to address the point that I would like to ask about first, which is the role of the Scottish Enterprise board. We can all understand that there might be differences of opinion about the level of information that should be reported to the board. The report highlights the differences of opinion between the auditors and the board. Will you elaborate on what the board has indicated to you, or on any information that you have gleaned, about what the board believes to be the correct level of information to concern itself with? The extent to which information is simply to be monitored at project level seems somewhat curious. I assume that some degree of information is reported at board level, but could you clarify what that is?

Mr Black: As I have just confirmed with colleagues, the auditors' view is that the Scottish Enterprise board operates effectively and discharges its duties well. I repeat that the review was a limited one and dealt with the areas of concern that had been identified. As I understand it, the board did not feel that it routinely required information on the expenditure on consultants and contractors. However, my understanding is that, since the contents of the audit examination were brought to the board's attention, the board is now receiving the information. Hitherto, as I think I mentioned, it was viewed as appropriate simply to

consider the cost and added value from individual projects and programmes, rather than looking at whether that cost related to in-house staff or consultants and contractors. The board has altered its view on that subsequent to the start of this financial year.

Susan Deacon: I move from the issue of monitoring to that of procedures and compliance with them. Your report identifies certain areas where procedures require greater clarity or where you suggest that procedures ought to be put in place. I was particularly struck by the number of areas in which the procedures that are in place are not being complied with. In particular, part 4 of the report deals with such matters as the absence of contract documentation and

“instances where SEn had not complied with aspects of EU procurement regulations”.

Was that failure to comply with the guidance and procedures within the organisation due to a lack of knowledge of those procedures? Was it that management had failed to convey the importance of compliance? Were people knowingly ignoring the procedures that were in place? I realise that there will be variation from case to case, but can you give us any indication of how and why the climate in the organisation was such that the existing rules were not being followed to a considerable extent?

Mr Black: It is difficult for us to comment on the general culture and attitude of an organisation on the basis of such a limited exercise. However, the existence of procedures that require to be tightened up in a number of areas probably points to the fact that either people in the organisation were not fully acquainted with what was required of them or there was a recognition that, in order to achieve the higher organisational goals and do things timeously, corners should occasionally be cut.

There is a particular issue around the use of consultants. Scottish Enterprise is characterised by a number of large projects that continue to evolve and change, which can be quite complex and challenging. If such projects are to be kept moving and the momentum is to be kept up, Scottish Enterprise may well—I am sure that this is the case—occasionally need to extend or alter a consultant's contract or get a specialist service in at short notice. I would not wish to underplay the complexity or the significance of some of the challenges that managers are facing. Nevertheless, I would like to think that the work of the auditors highlights a need for the organisation to be a bit more vigilant in that area, because we are talking about large sums of public money.

Susan Deacon: My final question is on part 5 of the report. You have commented on the customer

relations department, saying that it has

“a wider remit than ... press and public relations”.

You have not elaborated on what that wider remit is—can you tell us? Will you comment on the staffing of the department relative to comparable organisations? The remit is germane to the size of the department. Is the staffing level reasonable, because it seems fairly high?

Mr Black: I draw the committee's attention to page 47 of the report—the last page before the appendix. On that page, you will see an attempt to outline in summary form how the customer relations staff are deployed. I will not go through that, because it is there on the record, but it may help to answer your question.

I suggest that the size of the staffing complement is a matter for management to consider and respond to. However, I remind members that I mentioned that management is reconsidering the need to fill posts that are currently vacant, of which there were 21 when we produced the report.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I want to ask about the use of consultants, but, just for the record, and to make me feel more comfortable, I will first restate that I am a member of Unison, which has a significant number of members who are employed in Scottish Enterprise and the various local enterprise companies. I put that on the record again to ensure that it does not come back to bite me at some point.

Auditor General, you say in your report that Scottish Enterprise has a business transformation project and that, by 2006, there should be cost savings and productivity improvements of £200 million. You go on to say that there has been a 185 per cent increase, over 1999-2000 figures, for consultants in Scottish Enterprise national and a 42 per cent increase for consultants in the LECs. You then say that there appears to be a requirement from time to time for reclassification of what is consultancy expenditure and what is contractor expenditure. In paragraph 4.8, you say that the average cost for a consultant/contractor is £500 per day. Are you satisfied that that represents best value and value for money for the public purse?

Mr Black: As I indicated in my opening remarks, the business transformation project is very significant indeed within the Scottish Enterprise forward work programme. I have given an undertaking to the committee that we will keep it under review to monitor progress, performance and expenditure. It is a long-running project, as you will imagine.

Whether or not the expenditure on consultants and contractors constitutes best value is a matter that will need to be addressed to the management of Scottish Enterprise. My report is restricted to commenting on levels of expenditure and how those have moved upwards in recent years.

Mr MacAskill: I want to clarify your answer to my colleague Susan Deacon. The second bullet point on page 47 of the report states:

"Six staff are directly responsible for building relationships with key customers ... This includes a parliamentary unit".

Further down the page, in the penultimate bullet point, the report states:

"12 staff comprise the Corporate Communications Team ... Of these 12 staff, six work in SEN's press office".

Are those groups of staff distinct or is there an overlap between the two groups? Is there a team of six and a team of 12, or does the 12 incorporate the six?

Mr Black: The posts are distinct; there is no overlap.

10:45

Mr MacAskill: Similarly, the report states that

"25 staff comprise a Network Marketing Team"

and that three external public relations firms are used. Again, is there any overlap? I assume that there is not, given that the PR firms are external. I do not want to stray into policy issues and I appreciate that it is difficult to make comparisons, but do you have any view about whether the situation is reasonable or do you take the view that it is up to the management to justify whether that is best value?

Mr Black: I cannot take a view on whether the situation represents best value; all I can do is record what the audit examination found. The numbers of staff that are given in the report are correct and there is no overlap.

Rhona Brankin (Midlothian) (Lab): You have highlighted your desire to consider certain issues further, such as the systems for reporting performance, the progress of Glasgow Science Centre, the progress in delivering intermediary technology institutes and, as part of a future review of the business transformation project, the recruitment of consultants and contractors. An audit of business support is also to be carried out. Given that those matters are to be reviewed, the committee should consider Scottish Enterprise holistically. What are your views on how the different aspects of the operation of the network could tie together into a more complete review?

Mr Black: I suggest that, as a result of the report, three issues may require further

consideration. The first is the robustness of the performance measurement, recording and reporting systems, given that the auditors found that reported performance was significantly in advance of the performance targets. There was a movement towards the end of the financial year in the levels of achievement, between comparatively low levels of reported achievement to the final figure, which was significantly higher. If I were on the board of Scottish Enterprise, I would wonder whether we were receiving absolutely sound information about how the organisation performs, given that the numbers varied when the audit was carried out. The robustness of how performance is measured and reported is an issue. Secondly, there are issues about the need to tighten the use of consultants and contract management. Thirdly, as you said, there is a need to consider how major on-going projects are being managed and whether they deliver value for money.

Each of those three elements will have to operate on a different time scale. We will consider looking at Scottish Enterprise's performance management systems in the near future. Nevertheless, we would need to build that into our forward work programme in 2004, so I doubt that we could report on it before the autumn of next year at the earliest. Tightening the management of consultants and contract management is, in my view, a matter that should be kept under review by the auditors and reported on as part of the annual audit process. On the monitoring of the major on-going projects, given that some of those projects have a long lifespan, it may be some time before the audit process engages to provide a proper examination of what has been spent and of whether value for money has been delivered.

It is for the committee to determine whether it wishes to take evidence in the interim on the basis of Audit Scotland's report. However, I think that it is right to alert the committee to the fact that there will be a continuing engagement with Scottish Enterprise, which is the largest non-departmental public body in Scotland. Finally, our on-going study of business support services is well under way. We are on target to make a report to the Scottish Parliament in the spring of 2004.

Robin Harper: Obviously we would like more time than we have had to read the report, but there seem to be quite a few instances of Scottish Enterprise changing the way in which it measures things. I seek a point of clarification about page 37. Paragraph 4.9 states:

"following a detailed internal review ... SEN reclassified £6.2 million of consultant expenditure ... as contractor expenditure ... SEN was required to undertake this reclassification because of staff difficulties in interpreting the guidance".

I have two questions. Do you mean that Scottish Enterprise found it necessary to undertake that reclassification or that it was required externally to do so? Can you cast any further light on the reasons for the reclassification of consultant expenditure as contractor expenditure?

Mr Black: We have to recognise that the definition of what is consultancy work and what is contractor work is not easy to make. The boundary is fluid. It is not easy always to distinguish between a consultant who is providing policy advice or advice on process or procedure and a contractor who might be delivering projects. Quite often, a consultant might be expected to move on and assist with the provision of some services. I acknowledge that the classification between consultant expenditure and contractor expenditure is not always an easy one to make. However, the magnitude of the reclassification is very significant indeed. Therefore, I think it right to express a concern that SEN could do more to clarify exactly what it means by consultant expenditure and contractor expenditure so that the board has a clear view of where the money is going.

The Convener: I would like clarification on a number of points, which I will list together so that members of the Auditor General's team can look up anything that they need to.

For paragraphs 8 and 9 of the summary, it would be useful to clarify for the public record whether there is any difference between the various targets. The summary states that 21 of the 22 key priority targets for the Scottish Enterprise network have been achieved. It then states that 12 targets were expected to be contributed by Scottish Enterprise national, of which eight were achieved. Clearly, there is a discrepancy of four, whereas previously there was a failure to achieve one. Can we clarify that we are talking about the same targets and that three of the targets that Scottish Enterprise national did not achieve were then achieved by the local enterprise network on its behalf, in a sense?

Secondly, paragraph 20 describes the Pacific Quay project. The number of jobs that might come from that was reviewed downwards, because of

"unforeseen market failures resulting in low levels of private sector investment, and the unforeseen importance of a new bridge to be constructed over the River Clyde",

which is known as the Finnieston bridge. Can you reassure the committee that the procedure by which the proposals for Pacific Quay were produced was rigorous enough? Would the "unforeseen market failures" or the unforeseen need for a bridge have been foreseen if the procedure had been more rigorous?

Finally, I seek clarification on the first sentence of paragraph 36, which states:

"information on consultant/contractor spend was not routinely provided to either SEN's Board at its request, or to management."

Does that mean that the board requested the information but the information was not provided or that the board did not routinely request it? There is some dubiety in the language. Those three points might usefully be clarified.

Mr Black: Convener, may I work back through your three points, because I suggest that the most complicated of the three is how performance was reported?

The Convener: Certainly.

Mr Black: Paragraph 36 states that

"management information on consultant/contractor spend was not routinely provided"

either to the board or to management. The key point is that the board took a decision that it did not require that information to be reported. I do not know the reason for that, but I suggest that it relates to my earlier comment that the board took the view that what was important was the monitoring of programmes and projects, rather than the inputs to those programmes and projects.

I doubt whether we can help you terribly much on your question about Pacific Quay, because of the narrow construction that we placed on our role. In other words, we did not look back at how that project was developed and implemented, although—as I think I have remarked—the project is so big that I intend to keep it under review, including the on-going performance of Glasgow Science Centre.

I will turn to my colleagues to explain more fully the detail of the performance targets and monitoring. Sometimes the numbers can be confusing, because the same numbers keep coming up. In "A Smart, Successful Scotland", the Scottish Executive set out three broad themes and translated them into 12 priorities. Each year, as it develops its operating plan, Scottish Enterprise agrees operational targets for the year, which it calls its key performance targets, of which there are 22.

Of those 22 targets, Scottish Enterprise national was expected to make a direct contribution to the achievement of 12, which are covered in exhibit 2 on page 21. In that diagram, you will see SEN's planned contribution to network targets as a percentage of the outturn required to achieve that target. SEN's planned contribution to the target is shown in the lighter colour. You will see that there is quite a variation. For example, the "Total business start-ups assisted" target is a matter for the LECs; at the other extreme, it is entirely for Scottish Enterprise national to deliver on the "broadband hub created" target.

SEN's information indicates that it has achieved its planned contribution to eight out of the 12 targets, as you will see in exhibit 4 on page 23. The lighter shading of the bar shows the extent to which SEN has contributed to targets and whether its contribution was greater or less than it had anticipated.

The picture is complex. We have found it difficult to be analytical in our approach. We have tried to interpret the information that we have received, but I emphasise that you should not treat as hard quantities the pieces of information that we have presented, as they represent an attempt to capture what is happening in relation to network targets and SEN's contribution to them. Perhaps Arwel Roberts can add to those comments.

11:00

Arwel Roberts (Audit Scotland): The only point that I would add is to say that the interpretation that you gave at the start of your question is fundamentally right, convener. Although SEN achieved 8 out of 12 targets, the network as a whole achieved 21 out of 22 by virtue of the fact that the local enterprise companies made up the difference.

The Convener: Thank you. That is helpful. As there are no further questions from members, I thank the Auditor General.

As I said when we came to this item, we can consider at this stage, prior to any further discussion we may have under a later agenda item, whether—having had the opportunity to read the report and hear the answers that the Auditor General and his team have given us—we have enough information to allow us to decide whether to hold an inquiry, be it an interim inquiry or a full inquiry on the report. I am happy to hear members' comments before we formally ask for their view.

Robin Harper: There is more than enough evidence in the report to require us to conduct an inquiry.

Susan Deacon: It would be wholly appropriate for us to follow up the report by taking evidence directly from Scottish Enterprise and having senior representatives of that organisation here to clarify some points that have been raised today, which it is not within the scope of the Auditor General to answer. However, it would be preferable to consider having a full inquiry once the Auditor General has completed the second stage of his work.

There is perhaps an issue about the use of the word "inquiry", which to me implies something that is on-going. My view is that our more thorough piece of work ought to follow the completion of the Auditor General's work, but it would be appropriate

and desirable for us to have an evidence-taking session at this stage to probe the specific issues raised within his report.

Mr MacAskill: I agree with the points that have been made.

There are two aspects to the matter. I think that we should certainly take evidence from Scottish Enterprise. Many questions remain to be answered about the consultancy culture, the size of the corporate communications team and the metamorphosis of project ATLAS—where it is and where it has come from. All those questions can be legitimately answered only by senior management.

The issue is then the nature of the inquiry. I take cognisance of the points made by Susan Deacon and the Auditor General about the fact that a further inquiry will be on-going. We should perhaps just take an interim viewpoint based on the information that we currently have and factor that into where we might go in a full inquiry, which would perhaps tie in with further investigations.

There are sufficient matters that still require to be clarified following the Auditor General's report to mean that we should take at least some evidence from senior management.

The Convener: It might be useful to remind members that it is public knowledge that the accountable officer for Scottish Enterprise, Mr Crawford, is to leave his post, so it might be pertinent to the time span that the report covers at least to take evidence from him.

As other reports appear, it may also be pertinent to hear from the accountable officer who is in charge of Scottish Enterprise at the time that those reports cover. That will be a decision for the committee. With that, we can roll together a more comprehensive report. The two comments that have been made suggest that we have consensus that an interim evidence session might be useful.

Margaret Jamieson: We should have Scottish Enterprise representatives—in particular the accountable officer—to answer some of the questions that the Auditor General could not answer today. Only after that could we say whether we want an inquiry. I do not want to detract from work that is under way or the work that the Auditor General plans, because that will give us a greater overview of what is happening in the organisation.

I remind the convener that nothing prevents us from asking individuals who have left employment to speak to the Audit Committee. The precedent for that has been established. I hope that we will continue to make such requests. Whether Robert Crawford leaves employment today, tomorrow, next week or next month, we will be able to ask

him to explain decisions that were taken when he was the accountable officer.

The Convener: Point taken and agreed with. I am just concerned that it might be appropriate to take evidence now, while everything is fresh in people's minds.

Margaret Jamieson: We can take very fresh evidence.

The Convener: Otherwise, we might have to pull people back from Japan or wherever they might be working.

Rhona Brankin: On the basis of the report, it would be reasonable and useful for the committee to take evidence, and we should decide what to do after hearing evidence. We should also take further advice from the Auditor General about the progress of other continuing work.

Robin Harper: The reason for our action is to ensure better operations in future. I would be happy to settle for interviewing the accountable officer and his advisers at the earliest opportunity. Does the Auditor General have a time scale for continued auditing and inquiry? I presume that that will cover a considerable period.

Mr Black: The first report, which will be produced in the autumn, will examine business support services. The next report will concern local economic forums.

Caroline Gardner (Audit Scotland): That report will appear at around the same time as the other one will.

Mr Black: It will not examine the core of Scottish Enterprise's business, but clearly LECs have a contribution to make, so it is worth mentioning.

Beyond that, we will have the auditors' on-going work, which is reported on annually. The final audit report on Scottish Enterprise's accounts will probably be published in early autumn next year.

Caroline Gardner will advise the committee on our thoughts about the programme beyond that.

Caroline Gardner: I will recap. The reports on business support services and the local economic forums are both due out in spring next year and the auditors' report that is based on 2003-04 is due out in the summer or autumn of next year. As Bob Black said, after that, a decision will be taken on further work on the use of consultancy, the performance management system and the business transformation project. Those three matters will need to be programmed in, but I expect reports on those subjects to be produced in 2005, which would allow time for the work to be done and for some of the larger projects to roll forward a little further.

Susan Deacon: I have an addendum. It sounds

as though we are moving towards a consensus that we will have an opportunity to question representatives of Scottish Enterprise on the report. To pick up on Robin Harper's point about the importance of remembering that we are in the business of bringing about improvement, not forever asking questions, could we ensure that Scottish Enterprise comments specifically on the considerable number of action points that are identified in the report and on work that it has initiated in response to the audit work that has already been done? It would be preferable if Scottish Enterprise could do that in writing in advance of appearing at the committee but, if that is not possible, its representatives should certainly come prepared to give oral evidence on those points. If that was our starting point, it would move us forward considerably.

The Convener: That is a useful point. I suggest that we agree that the report merits our taking evidence from Robert Crawford, the accountable officer for Scottish Enterprise; that we suggest that it would be useful to be made aware of the action points and any action that Scottish Enterprise is taking on them; and that we then decide whether the committee needs to take any further evidence or any action, bearing in mind that Audit Scotland will make further reports. Is that agreed?

Members indicated agreement.

The Convener: I thank members for their contributions and Audit Scotland for its work on the report.

“Financial performance of the further education sector in Scotland”

11:11

The Convener: Agenda item 4 is a briefing on the report “Financial performance of the further education sector in Scotland”. I invite the Auditor General to brief the committee and answer questions—I am stretching this introduction so that people can leave the room and we can have some peace and quiet.

Mr Black: I invite Arwel Roberts to brief the committee on the item and help you with any questions that you may have.

Arwel Roberts: The report “Financial performance of the further education sector in Scotland” provides an update on information in our previous overview reports on the financial health of the education sector. The report covers financial stewardship in further education colleges, the forecast financial health of the colleges and the progress that the Scottish Further Education Funding Council has made in addressing recommendations that the Audit Committee has made arising from previous overview reports on the further education sector.

A number of key points have emerged from the report. The funding council’s forecasts suggest that most of Scotland’s 42 colleges of further education are on target to become financially secure by 2006, and the report shows that, across the sector, a £14.1 million operating deficit in 2000-01 was turned into a £2.3 million surplus in 2001-02. Only Lews Castle College in Stornoway is not expected to meet the funding council’s criteria for financial health by 2006.

The improving picture of college finances has been assisted by significant increases in core funding and additional specific grants to address problems in individual colleges, and specific funding will continue with the funding council’s latest campaign for financial security in the sector. However, additional funding does not in itself guarantee better financial results: results in 2001-02 identified three colleges—West Lothian College, Kilmarnock College and Lews Castle College—that recorded deficits rather than the surpluses that had been forecast for them.

It is worth noting that financial stewardship within the sector is of a good standard, and that colleges must pay careful attention to the European funding that they receive and to the provisions that they make for pensions. The funding council is pursuing initiatives to improve

the adequacy and efficiency of further education, which were first reported to the committee some three years ago. Information on colleges’ efforts to implement action plans for improving their management is now becoming available and, as the committee recently heard when the funding council gave evidence, important information on supply and demand has still to be finalised. Similarly, plans to improve efficiency through rationalising the provision of further education are still on-going, and proposals to merge colleges in Glasgow have been shelved in favour of a new proposal to introduce a revised framework for further education delivery in the city.

In summary, the report contains recommendations for action by the colleges and the funding council. Those recommendations seek to encourage continued improvement in financial stewardship, the implementation of a campaign for financial security in the sector, and the completion of initiatives that are under way to ensure adequate and efficient provision of further education in Scotland. Audit Scotland will continue to monitor progress in all those areas.

11:15

Margaret Jamieson: I have a question on financial stewardship. The report indicates that a number of colleges will continue to depend on ever-increasing overdraft facilities. Although that was a technical point, it was obviously of concern to Audit Scotland. In your oral presentation, you mentioned three colleges, but paragraph 2.6 of the report identifies a greater number: did you mention only those with the biggest overdrafts?

Arwel Roberts: In such cases, we rely on the reports that the auditors make. They point such issues out based on details of varying technical difficulties that colleges provide. Some cases are more serious than others, and I highlighted the more serious ones.

Margaret Jamieson: Do those colleges have difficulty in drawing down money; is money not being made available to them at particular times; or is the problem linked to the way in which colleges receive their European funding?

Bob Leishman (Audit Scotland): The three colleges that Arwel Roberts mentioned are those whose actual results were below those that were forecast. There were different reasons for that in the different colleges. In Kilmarnock College, there was an issue with the European funding.

Margaret Jamieson: That is fine. Thanks.

The Convener: As there are no other questions on the report—we will discuss our approach to it under a later agenda item—I thank the Auditor General and his team.

We are running considerably over time, but it would be appropriate to have a comfort break before we move on to item 5, because much water has been consumed in the past hour or two. I suspend the meeting for five minutes.

11:18

Meeting suspended.

11:27

On resuming—

“Dealing with offending by young people”

The Convener: I bring the meeting to order. We move on to agenda item 5, on “Dealing with offending by young people”. The idea is to consider further the information that has been submitted by the Scottish Executive. Members will have received copies of the letter that I received from the Scottish Executive. I invite members to make any comments that they wish to make. I shall then invite the Auditor General or David Pia, from the Auditor General’s team, to comment. We can then consider whether any action is required, following the Executive’s response. Do members have any points to raise in regard to the letter?

Members: No.

The Convener: I felt that it answered our points, although I wondered whether some of the points could have been answered in an earlier letter rather than through our writing to the Executive again. Does the Auditor General’s team have any comments to make?

Mr Black: I do not think that we have any comments to make. We share your view that it is a full and appropriate response.

The Convener: That being the case, I suggest that we are content with the response and need take no further action. Is that agreed?

Members *indicated agreement.*

Subordinate Legislation

Public Finance and Accountability (Scotland) Act 2000 (Access to Documents and Information) (Relevant Persons) Order 2003 (SSI 2003/530)

11:30

The Convener: Agenda item 6 is consideration of subordinate legislation under the negative procedure. We have had time to consider whether any further action is required—whether a motion to annul the instrument needs to be lodged—but no member has suggested that or lodged a motion to annul. Do members have any comments to make on the instrument?

Members: No.

The Convener: It may be of use to members if I say that we have had some correspondence explaining what procedures have been followed and the reasons for the delay. There seems to be some dispute between the legal advisers for the Scottish Executive and the Subordinate Legislation Committee. We know that that is not unusual, and it has not driven any member of the committee to lodge an objection to the instrument.

Margaret Jamieson: I took the issue up with the Minister for Finance and Public Services and he wrote to me on 3 December. I can provide the clerk with a copy of that letter. The minister has indicated that the problem was due to an administrative error and that the commencement date was already included in the body of the order. The order had to go through the Executive's processes to ensure that no other interested party in the Executive had a comment to make, which is why it was late in being laid. I will pass that letter to the clerk.

The Convener: We will circulate it to members. Thank you.

Given that the committee does not wish to annul the order, I would like to clarify whether members feel that they would like to record any concerns over the procedures or the timing of the order, given the fact that we might have had to convene an extra meeting to discuss it. We did not have to do that and have, therefore, been able to meet the deadline for the order. Do I take it from the lack of interest—no member is trying to catch my eye—that there is no need for us to take any further action?

Members *indicated agreement.*

The Convener: That is fine. We will now move into private session for items 7, 8 and 9.

11:32

Meeting continued in private until 12:53.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, 375 High Street, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

Monday 22 December 2003

Members who want reprints of their speeches (within one month of the date of publication) may obtain request forms and further details from the Central Distribution Office, the Document Supply Centre or the Official Report.

PRICES AND SUBSCRIPTION RATES

DAILY EDITIONS

Single copies: £5

Meetings of the Parliament annual subscriptions: £350.00

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

WHAT'S HAPPENING IN THE SCOTTISH PARLIAMENT, compiled by the Scottish Parliament Information Centre, contains details of past and forthcoming business and of the work of committees and gives general information on legislation and other parliamentary activity.

Single copies: £3.75

Special issue price: £5

Annual subscriptions: £150.00

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75

Annual subscriptions: £150.00

Standing orders will be accepted at the Document Supply Centre.

Published in Edinburgh by The Stationery Office Limited and available from:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Stationery Office Bookshops at:
123 Kingsway, London WC2B 6PQ
Tel 020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
Tel 0121 236 9696 Fax 0121 236 9699
33 Wine Street, Bristol BS1 2BQ
Tel 01179 264306 Fax 01179 294515
9-21 Princess Street, Manchester M60 8AS
Tel 0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
Tel 028 9023 8451 Fax 028 9023 5401
The Stationery Office Oriel Bookshop,
18-19 High Street, Cardiff CF12BZ
Tel 029 2039 5548 Fax 029 2038 4347

The Stationery Office Scottish Parliament Documentation
Helpline may be able to assist with additional information
on publications of or about the Scottish Parliament,
their availability and cost:

Telephone orders and inquiries
0870 606 5566

Fax orders
0870 606 5588

The Scottish Parliament Shop
George IV Bridge
EH99 1SP
Telephone orders 0131 348 5412

RNID Typetalk calls welcome on
18001 0131 348 5412
Textphone 0131 348 3415

sp.info@scottish.parliament.uk

www.scottish.parliament.uk

Accredited Agents
(see Yellow Pages)

and through good booksellers