

ENTERPRISE AND LIFELONG LEARNING COMMITTEE

Wednesday 1 May 2002
(Morning)

Session 1

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ENTERPRISE AND LIFELONG LEARNING COMMITTEE

14th Meeting 2002, Session 1

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Miss Annabel Goldie (West of Scotland) (Con)

COMMITTEE MEMBERS

*Rhona Brankin (Midlothian) (Lab)

*Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab)

Mr Adam Ingram (South of Scotland) (SNP)

*Gordon Jackson (Glasgow Govan) (Lab)

*Marilyn Livingstone (Kirkcaldy) (Lab)

*Mr Kenneth Macintosh (Eastwood) (Lab)

*David Mundell (South of Scotland) (Con)

*Tavish Scott (Shetland) (LD)

*Andrew Wilson (Central Scotland) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Richard Lochhead (North-East Scotland) (SNP)

Mr Tom McCabe (Hamilton South) (Lab)

WITNESSES

Ms Wendy Alexander (Minister for Enterprise, Transport and Lifelong Learning)

Iain Carmichael (Scottish Enterprise)

Robert Crawford (Scottish Enterprise)

Ed Weepie (Scottish Executive Enterprise and Lifelong Learning Department)

Charlie Woods (Scottish Enterprise)

CLERK TO THE COMMITTEE

Simon Watkins

SENIOR ASSISTANT CLERK

Judith Evans

ASSISTANT CLERK

Jane Sutherland

LOCATION

Committee Room 2

Scottish Parliament

Enterprise and Lifelong Learning Committee

Wednesday 1 May 2002

(Morning)

[THE CONVENER opened the meeting at 10:05]

The Convener (Alex Neil): Good morning and welcome to the 14th meeting in 2002 of the Enterprise and Lifelong Learning Committee. I have received two apologies. Adam Ingram has apologised for his absence, and Marilyn Livingstone, who is en route from Fife, has been held up in traffic.

I welcome to the committee Tom McCabe MSP, who is here as the reporter—spy—from the Finance Committee to make sure that we are doing our job properly. I also welcome Richard Lochhead MSP, who is here for the evidence-taking session with Scottish Enterprise—any member of the Scottish Parliament can participate in committee meetings and ask questions. I also welcome Sandra Bedborough, who is from Scottish Enterprise Fife. She is shadowing Tavish Scott MSP—I am sure that that will be a pleasure for her—as part of the Parliament's business exchange scheme. Finally, I welcome Michael Smyth, from the University of Ulster, who is the committee's adviser on the budget process.

Budget Process 2003-04

The Convener: Without further ado, I introduce Robert Crawford, the chief executive of Scottish Enterprise, and his team: Charlie Woods, head of operations, and Iain Carmichael, head of finance. Robert, you are item number 1. Would you like to lead off?

Robert Crawford (Scottish Enterprise): Thank you for that kind introduction, convener—at least, I think that it was kind. I also thank you for introducing my colleagues—I will not reintroduce them.

Would it be appropriate for me to give a short introduction? I do not wish to test your patience unduly.

The Convener: Yes.

Robert Crawford: We welcome the opportunity to give evidence on how we deploy taxpayers' money. We are strongly committed to openness and transparency and we think that it is appropriate that we do whatever we can—for ourselves as well as for the Parliament and other stakeholders—to make our management information as easy to understand as possible. This year's operating plan is more detailed than that of previous years. That is partly due to feedback from the committee and others and we welcome a continuous improvement process in that respect.

The planning process combines top-level guidance from the minister and the Scottish Enterprise board with a bottom-up approach from the enterprise companies, which are all fully engaged in that process. That dual approach enables us to take a strategic, national view, which is also sensitive to local needs—as it must be. As members would expect, the strategy document, "A Smart, Successful Scotland", influences what we do. The themes are intended to be holistic and to reinforce one another. The Executive has recently published a measurement framework for "A Smart, Successful Scotland", in which Charlie Woods actively participated. That framework guides us in setting shorter-term operating targets against which we can measure progress for the year. It also provides a set of economic indicators and a means of measuring economic impact in the medium to longer term—that is of increasing importance.

Over the past 12 months, Scottish Enterprise has had a substantial increase in its responsibilities, due to the realignment of Careers Scotland. I am pleased to say that, so far at least, that has gone very well. Our budget for 2002-03, excluding Careers Scotland, is less in total than it was in the previous year, but, within our priority targets, we are aiming to achieve at least the same, or more, for that money.

The income from the Executive is broadly similar to what it was last year, but funding from other sources, notably the European Union, and from the disposal of assets is down. The disposal of assets will become more of an issue over time as fewer remain.

We remain strongly committed to realising £200 million in benefits by 2006 and, if we are allowed, to reinvesting that money in operational activities and landmark projects. There are a number of such projects this year. One is the creation of intermediate technology institutes, which we regard as fundamentally important to Scotland's long-term competitiveness. Another is the creation of a seed capital fund, or the so-called fund of funds, for conditions where we believe there to be manifest market failure. Details of that will emerge over the autumn. Another is the implementation of the global connections strategy, which aims to reduce our dependency on traditional flows of foreign investment and explore a new way in which to engage Scotland in the global economy.

There are also to be specific step-change projects for the Clyde corridor, for example at Pacific Quay, and the accessing telecoms links across Scotland—ATLAS—project is to be implemented so that Scottish businesses may more easily access broadband. In addition, we will, as you would expect, play our part in implementing the outcome of the review of lifelong learning, in particular integrating Careers Scotland and Future Skills Scotland into whatever framework emerges.

The delivery of that plan will still be possible with reduced resources, in part due to efficiencies that we are beginning to realise. Those include the following measures. We are reducing 160 separate websites to a single Scottish Enterprise portal. We are reducing 270 separate brand identities to about 20. We are in the process of moving from 1,500 separate products to 100 consistent network products. We are also establishing a single network approach to customer relations, with one team and one budget. Those initiatives will free up savings, which can be used to fund the operating plan.

We are also undertaking to improve the proportion of our staff in customer-facing roles. At local enterprise company level, we will be moving from having 65 per cent of staff in customer-facing roles to 80 per cent in due course. We remain committed to reducing our head count to 1,500, as planned. In the near future we will be announcing to staff a new operating model for Scottish Enterprise in the light of those changes.

As was mentioned earlier, the business has just doubled in size following the realignment of Careers Scotland. Our administrative costs for 2002-03 are agreed at £91.5 million, of which £16

million is for Careers Scotland and £75.5 million is for Scottish Enterprise, which compares with £74.9 million for 2001-02. To give some perspective to that, if we had not been pursuing the efficiencies that I have mentioned, the current year's budget would have been 15 per cent more than it is.

As I conclude, I thank you for your patience, convener. "A Smart, Successful Scotland" is the strategy that informs everything that we do. It is an ambitious and challenging agenda. It is a new agenda for us and we plan to achieve it by increasing our efficiency within the business and by bringing in staff and skill sets that are increasingly relevant to the requirements set by "A Smart, Successful Scotland". As I have said already, we are committed to realising our target of £200 million in benefits through the business transformation process.

The Convener: Let me correct what I said earlier: Charlie Woods is the senior director for knowledge management, not the head of operations.

Miss Annabel Goldie (West of Scotland) (Con): I have been looking at the draft "Network Operating Plan" and I would be grateful for guidance on the extent to which you, as executive head of Scottish Enterprise, feel that you have operating autonomy. To what extent do you feel able to set targets and budgetary support? To what extent do you feel you have to follow a Scottish Executive-led agenda?

Robert Crawford: We are an agency of the Executive. We participated actively in the formulation of "A Smart, Successful Scotland" and we are strongly committed to that strategy. Despite its weaknesses, it sets out the right direction for the country.

The answer to your question on Government policy is that we are allowed to pursue an autonomous agenda in the context of the policy direction set by the Executive.

Miss Goldie: The overall picture shows that enterprise and lifelong learning is dropping by 1 per cent in terms of the Scottish Executive's budget as a whole. Is that a matter of concern to you?

Robert Crawford: Could we effectively do more with more resources? The answer to that must be yes. I assure you that we take the issue very seriously. I have tried to give some context to the operational efficiencies issues. We are doing that because we want to be better able to deliver effectively for Scotland.

Consequently, if we were to receive more support from the Executive, we would use it effectively for the taxpayer. I believe that we can offer a substantial contribution to Scotland's

economic well-being with the resources that we have from the Executive.

Miss Goldie: In your network budget the heading "Local opportunities" keeps appearing. What is that?

Charlie Woods (Scottish Enterprise): That heading reflects the fact that, within the budget, we try to ensure that there is the scope to be sensitive to local needs and opportunities. Although we try to do most things across Scotland in a standardised way to ensure consistency, there is scope within the plans to do things in way that responds to needs in specific areas. For example, in the entrepreneurial dynamism and creativity category, local opportunities would include, for example, the on-going support in response to the foot-and-mouth crisis.

10:15

Miss Goldie: Does that mean that there is almost a contingency element in that you have to have something in reserve in case some headache crops up?

Charlie Woods: It is not quite a contingency. It is more to give scope for local discretion. The contingency that is built into the budget is the fact that we operate as one network and review our plans during the course of the year. We are at the starting point of the year. Plans change as the year progresses and that will free up resources. That gives us the ability to have funds for contingencies as they crop up, whether they are good or bad.

Robert Crawford: During the past 12 months, we increased the budgets of both the Borders and Dumfries and Galloway in excess of 80 per cent specifically because of the foot-and-mouth crisis. We all understood that. There is that flexibility in the budget.

Tavish Scott (Shetland) (LD): I refer to the executive summary of the operating plan, which I note is a draft at this stage. I am particularly interested in the skills and learning category because obviously that is the area in which the committee has been involved for the past nine months. The executive summary does not explicitly mention other stakeholders and the overlap with other public agencies that are involved in the area. I assume that the document is an internal one, but the other agencies are crucial, as is your relationship with them. Do you believe that that needs to be stated in terms of your overall approach?

Robert Crawford: Possibly yes, because we have a growing relationship with the other agencies. For example, tomorrow evening we have a Scottish Enterprise board meeting at which the new chief executive of the Scottish Higher

Education Funding Council will be present. Mr McClure is becoming an observer at Scottish Enterprise board meetings as I am at SHEFC meetings. Coincidentally, although I cannot be there, SHEFC has its board meeting the following day. We have increasingly strong partnership-based relationships with others involved in skills and learning. If that is not reflected in the operating plan, we will take account of that.

Charlie Woods: At the end of the executive summary, we try to emphasise the importance of partnership generally. We have not referred specifically to learning and skills, but you are absolutely right.

Tavish Scott: There is a little about the actions of Scottish Enterprise in relation to Careers Scotland in the skills section of the document. One of the phrases used is:

"The successful alignment of Careers Scotland is a key priority".

Could you tell the committee about the work that has had to be done to align Careers Scotland successfully, presumably into your organisation?

Robert Crawford: Numerically and operationally it was a major challenge. We were not quite doubling the size of the organisation, but we were taking on 1,200 people from a diverse set of organisations. They were doing excellent jobs, but were all different.

We established a series of transition teams to consider matters such as finance, information technology, office deployment and so on over nine to 10 months. As you will all know, such alignments or mergers can go wrong. Seventy per cent of them fail in one way or another. So far, the evidence that we have had from the staff and the operational recipients of the services is that the merger has gone very well.

As I reflected last week to the head of Careers Scotland, the key challenge will be delivering a markedly different service at a higher level than before. I am proud of what the team has done, but that was work on the mechanics of alignment and merger. The real challenge will be in operation, which has begun. I do not doubt that the committee will scrutinise whether service levels from Careers Scotland have improved. The merger has gone well so far.

Tavish Scott: I do not doubt that, but I wonder whether, in that alignment process, the operating plan needs to reflect more your relationships with other bodies, simply because of all the obvious links on which we have taken evidence in the past few months. I should see more of that, but perhaps I am missing the point.

Charlie Woods: You are right. That is the intention behind the plan and should be reflected in it.

Robert Crawford: I do not look forward to appearing regularly before the committee, but I think that I have said to the committee—I have certainly said it privately to members—that one advantage of such forums is that they make people focus on details of the business and impress on one the need for as much transparency as possible. Occasionally, that makes life uncomfortable. We would like to share knowledge. If you are not exposed to constant observation and critique, you behave in a way that you think is appropriate, but may not be. If we need to do more such work, we will.

Tavish Scott: I am not trying to make you uncomfortable.

Robert Crawford: I just feel that way most of the time.

Tavish Scott: I looked for a reference to the Scottish university for industry, because links with it are important and are all part of the building-blocks approach that some of us think is extremely important. Can you give some perspective on SUFI's relationship with Careers Scotland? Is it the network's role to assess or produce techniques for measuring your relationships with other organisations against your overall targets on skills and training?

Charlie Woods: SUFI is an extremely important partner. As well as performance targets on new starts and modern apprenticeships achieved, this year's plan contains some softer targets that reflect the degree to which such matters make a difference in driving performance. For example, a customer satisfaction rating is a target. We have yet to devise the precise measure, but we intend to have a target that reflects a partnership satisfaction rating with bodies such as local economic forums. How do our partners rate us? How well do we do? Measuring that is at the top of our agenda. In community planning, more formal mechanisms are in place to encourage greater partnership. We are committed to making the most of that.

Robert Crawford: I may be mistaken, but I do not think that what I will describe is in the operating plan. We have given ourselves an externally assessed benchmark for customer satisfaction that is wide-ranging, has implications and includes partnership. Many of my colleagues think that we have given ourselves too big a task and that we will not be able to achieve it on the planned time scale. Nevertheless, the benchmark exists and is on our website. People will be able to see it a year from now and decide whether we hit the target that we set. I think that we set a benchmark level of 3.6 for customer satisfaction on a scale of 1 to 4.

Charlie Woods: The figure is 3.6 for next year and 3.3 for this year.

Robert Crawford: By all accounts, that is too ambitious, but we will see.

Tavish Scott: Who assesses Careers Scotland? Is that done by partner agencies such as SUFI?

Robert Crawford: Yes, but assessment is much wider than that. A wide-ranging customer satisfaction index is used.

Charlie Woods: We will also develop a partnership satisfaction index. There is no question but that that drives performance.

Marilyn Livingstone (Kirkcaldy) (Lab): I will tease out some of the issues that Tavish Scott raised—particularly the skills and learning agenda, because the committee is dealing with that. I will also ask a question about the wider agenda.

If the committee has heard any criticism about collaboration and partnership, it has concerned flexibility to work in partnership with the networks on the ground.

You talked about solid targets—and about soft targets, which I found interesting. Sometimes, because your targets are so solid, it is hard for you to work in partnership. We have had evidence that your targets drive the agenda. I am on board for business transformation and believe that we should have a portfolio of products. However, within that portfolio of products, we must have strong local flexibility. We must bring other people on board, otherwise we will hit problems.

I am very concerned about the partnership agenda and how it can better be advanced. It struck me that, if we are to reach local targets and work well for local communities, the only way that we will do that is in partnership. That is about being flexible while having national standards and a certain portfolio of qualifications. How will you be able to improve on that?

Robert Crawford: I will respond quickly and then Charlie Woods will address some of the details. Because Scottish Enterprise is a high-profile organisation and is increasingly subject to scrutiny, it is right and proper that we be asked how we are spending other people's money.

One danger in the nature of an organisation such as Scottish Enterprise is that it has such a diversity of products with so much variation throughout the country that those in one part of the country could be disadvantaged in comparison to those in a different part of the country. The committee highlighted that danger a couple of years ago and I ran into it last year on the back of the foot-and-mouth crisis. The other problematic outcome of our structure is that, over time, unless

we keep a weather eye open, we can replicate resources to less effect than we should as a public agency. There may be a danger that, in my time, by addressing the efficiency and effectiveness agenda we have sought to take the pendulum too far in one direction.

I acknowledge the necessity of trying to square the audit responsibility with a meaningful local agenda. There is a role for partnership. Differences must be recognised throughout Scotland. When a local councillor asked me a question at a Careers Scotland convention in Fife last week, I made exactly that point. We need to allow local flexibility, but not to a point that it creates manifest differences between one part of the country and another to the disadvantage of Ayrshire, Dumfries and Galloway, Fife, Grampian or anywhere else.

That is not an easy task. The audit responsibilities do not always make life easier in that respect, but we take the task seriously.

Charlie Woods: We are trying to help to build a stronger Scottish economy in a way that is sensitive to local needs and opportunities. There are tensions in that. We must reflect that fact.

One of the important tools for helping us to resolve those tensions will be community planning. In the proposed legislation on community planning, there will be a duty on the network to participate in community planning. We are happy to have that duty placed on us. We are enthusiastic participants in that process, which, as you probably know, is about looking across the full range of public services and trying to identify how best they can be brought together locally to achieve our aims.

That process must also be consistent with a broader Scottish agenda. We are fortunate that we have the agenda of "A Smart, Successful Scotland" so that we can show our partners what we are trying to deliver for Scotland and say to them that we want to do it in a way that is sensitive to local needs and that we want to thrash it out together. There will sometimes be issues.

Marilyn Livingstone: Robert Crawford's comments are correct. The issue is about balancing the swinging pendulum. The criticism of the network is that the pendulum has swung too far. People spoke to us at the recent lifelong learning convention privately as well as publicly. They said that they were concerned about local innovation and flexibility.

I know that there is no hidden agenda behind what is happening in Scottish Enterprise and that you are simply trying to deal with the huge plethora of products. It is all about striking a balance. The committee would be interested to know how that work is progressing. That ties in

with what Tavish Scott was saying about how Scottish Enterprise works with other agencies. I know how agencies interact in Fife, but it would be helpful if that were made explicit in general.

Robert Crawford: I am conscious of that. I am a chief executive with accountable officer responsibilities through the Parliament to the taxpayer. The agenda that I was speaking about was necessary. I am probably oversensitive about my centralisation tendencies.

10:30

We have a conference for our local enterprise company board members tonight and tomorrow. I will be happy to tell them that by the time we complete the business transformation exercise, the majority of people in Scottish Enterprise will be front facing—80 per cent—and the majority of those staff will be in the enterprise companies, delivering operational activities. There will be a significant move downwards from the current percentage of staff in Glasgow and there will be a significant movement of people outwards to the enterprise companies. Moreover, we have recently given the LECs—with the agreement of the Executive—a significant increase in their discretionary spend power of up to £1 million.

I recognise that there is a tension and I plead guilty to the charge that I took seriously the need to implement an efficiency agenda, an issue that the Enterprise and Lifelong Learning Committee raised in a report two years ago. However, I am not blind to the sensitivities of local needs. As I said before, I live in a part of Scotland with needs that are very different from those of Edinburgh, and I would like my area to prosper, too.

Marilyn Livingstone: Guidance and support are central to the Enterprise and Lifelong Learning Committee's strategy proposal. All the different student groups talked to us about personal development planning and, having talked to Careers Scotland, I know that that is a route that it wants to go down. I agree that the change in emphasis with the creation of Careers Scotland has been first class.

In future, will the Careers Scotland money be ring fenced and will we be able to see how it is being spent in the budget? We are worried that such things might come under a "Miscellaneous" heading in the budget, because we consider guidance to be very important to the strategy. In the first years of its development, I would like to see how Careers Scotland is working in the budget.

Iain Carmichael (Scottish Enterprise): It is our intention to keep the budget of Careers Scotland separate in the early years in the interests of transparency and control. We will report on

Careers Scotland separately, because we want to understand the true cost of running it. However, we will also be looking to see where we can achieve further efficiencies between the two budgets. An example of that might be where careers staff can be located in Scottish Enterprise premises, rather than taking on new premises.

Marilyn Livingstone: That is very important. We would like to see local flexibility in Careers Scotland as well. I do not disagree with your comments, but that budget must be clear and transparent.

Andrew Wilson (Central Scotland) (SNP): We are told that the Minister for Finance and Local Government convenes discussions with departmental heads, people make bids and that there is a budget outcome—similar to the star chamber process at Westminster. What is your role in that process and what were you bidding for at the start of the budget process?

Charlie Woods: We are not directly involved in the discussions in the Executive, but we are in fairly constant dialogue with the Executive about what we can do with resources over the course of the year.

For example, in terms of the current three-year spending review, the broad direction of where we should be going in that period was discussed at the last board meeting. We communicated that directly to the Executive as input to the spending review. It is done in much the same way as “A Smart, Successful Scotland”, which was developed in dialogue with the Executive, but at the end of the day the decisions are for the Executive.

Andrew Wilson: How much less is Scottish Enterprise getting than you wanted?

Charlie Woods: That goes back to the question that Robert Crawford answered at the beginning. It is always possible to do more with more funding, but we think that we can do a good job with what we are getting.

Andrew Wilson: I am certain that that is true, but how much less are you getting than you wanted?

Robert Crawford: We are satisfied with the amount that the Executive has set.

Andrew Wilson: You did not ask for any more?

Robert Crawford: We made a bid in line with the amount that we have received.

Andrew Wilson: I congratulate you on the improvements that have been made on administration costs. The things that you outline about the website and the brands make perfect sense. What puzzles me is that, although you have had an efficiency agenda, which has worked,

administration costs have stayed broadly the same in real terms. If efficiency savings have been made and they have not been felt in administration costs, what is going on?

Iain Carmichael: I will make two observations on administration costs. First, there is often a misunderstanding that administration costs mean the overheads of the organisation. About 50 per cent of that budget goes on direct operational staff, which we regard as an input to the projects that we deliver. Those staff are not overheads. As Robert Crawford said, we are recruiting more highly skilled people, who inevitably cost us more because we have to compete in the market to recruit them. Pay reviews are also coming through the system.

Secondly, I understand that the Executive has presented the committee with a paper that breaks down our administration costs in some detail. Members will notice that the support cost element—the non-operational or support staff element—reduces by 10 per cent over the next three years.

The reason for the headline figure not coming down is that there are some cost increases in the system. I have referred to the pay review and there are some contracted increases through lease reviews of premises. Some costs over which we have no direct control could come through the system. There will also be a significant increase in our information technology costs over the next three years to support the systems that we are introducing to enable us to provide better services to more customers.

If we had not taken the action that we have taken on administration costs, our budget for this year would have been £86 million rather than £75 million. That does not come through in the paper. The efficiencies are there, but they are absorbing some of the other issues to which I have referred.

Robert Crawford: I believe that I am right in saying that a major Scottish utility halved its staff numbers and doubled its pay bill—and it is an efficient organisation.

I would like Scottish Enterprise to be the kind of organisation that people join because they learn a lot about the Scottish economy, contribute a lot and then go back into the private sector, in the way that people do in, for example, Singapore.

Notwithstanding my very large salary, which we all know about—quite rightly, convener—one of the things that we encounter is that we are in a marketplace that is increasingly competitive for good skill sets, as it should be. Our ability to attract people for reasons other than that they are interested in what we do is diminishing because of what is going on in Edinburgh, in Glasgow and elsewhere in the economy.

Andrew Wilson: I do not disagree with that. You must pay the going rate for talented people, but that is true of all public sector agencies.

The Convener: Including MSPs of course.

Andrew Wilson: Performance indicators are at question there.

Roughly 21.5 per cent of the budget is spent on administration costs. How does that compare with other public sector agencies and economic development agencies internationally?

Are the LECs included in the administration overhead figures?

Iain Carmichael: Yes. The figures that you have are the aggregate costs for the entire network. We have not benchmarked in detail against other organisations. The fact that our operational staff are included in the administration figure could fudge that benchmarking. From my private sector experience, I have never known direct labour costs to be included in administration, but they are included in the way that we have to account for our staff costs.

Robert Crawford: I have to qualify what I am saying, as I am not certain about this. I believe—and we can find out quite quickly because a representative of the Singapore Economic Development Board is coming to our conference tomorrow—that our costs compare very favourably with that organisation.

Andrew Wilson: I hear what Iain Carmichael is saying on that operational point. What share of administration costs is taken up by the LECs? Do you have that information at your fingertips?

Iain Carmichael: It is about 60 per cent of the total £75 million.

Andrew Wilson: How many of those costs are operational?

Iain Carmichael: About 50 per cent of the total cost is operation staff cost.

Andrew Wilson: So that is 50 per cent of the 60 per cent?

Iain Carmichael: Yes.

Andrew Wilson: That is interesting.

On page 91, the targets for full-time equivalents support through business development support—I assume that that is in your remit—go from 2,800 in 2001-02 to 1,500 in 2002-03. What is behind that lowering of ambition?

Charlie Woods: Sorry, but which document are you referring to?

Andrew Wilson: The overall targets that are set for each area of the budget. The document lists a series of targets under global connections, one of

which is more people choosing to live and work in Scotland. The target is 2,800 for 2001-02, the expected outcome is 1,970 and the target for next year is only 1,500. What is behind all that?

Charlie Woods: I would need to look into the detail on that—I do not have those figures to hand. I am sorry, I am being rather obtuse.

Andrew Wilson: Perhaps I will put the question to the minister.

Charlie Woods: I do not think that I have the same document as the one to which you are referring.

Andrew Wilson: It is in the budget.

The Convener: Perhaps I can assist. The Scottish Executive has provided some of the papers and some have come from Scottish Enterprise. Perhaps Charlie Woods can come back to us on that point.

Charlie Woods: Yes.

Rhona Brankin (Midlothian) (Lab): Convener, how long do we have left to ask Scottish Enterprise questions?

The Convener: I will allow this part of the meeting to run until 11:00. The Minister for Enterprise, Transport and Lifelong Learning is in the building and I have been told that she can carry on working until we are ready for her.

David Mundell (South of Scotland) (Con): I am interested in the targets that Scottish Enterprise has produced and in measuring the impact of the expenditure. We must ensure that the expenditure is making a difference. We highlighted that issue in last year's budget process in relation to VisitScotland. Did any of the money that we spent on VisitScotland ensure that extra people came to Scotland who would not have come otherwise? How are you ensuring that the money that is being spent within Scottish Enterprise is achieving anything that would not take place otherwise?

Robert Crawford: I would not wish to be the chief executive of an agency spending the amount of money that Scottish Enterprise spends if I thought that we were not making a material difference. Some aspects of economic development are difficult to measure; there is no doubt about that and it would be foolish to pretend otherwise. However, increasingly, we are seeking to introduce performance measurement targets that have quantitative assessments associated with them. It is quite difficult to do that at an aggregated level of gross domestic product in some areas. However, we have set a series of targets that seek to address—as far as we are able—that question.

Charlie Woods: There are several dimensions to that. First, the measurement framework of “measuring Scotland’s progress towards a smart, successful Scotland” is extremely important—it sets down specific measures that we are seeking to influence over the long term, such as the amount of money that businesses invest in research and development or training. We will never get a totally unambiguous attribution between the things that we do and the impact on those numbers. However, if we are doing our job properly, one would expect those numbers to change.

Secondly, at the micro end of the scale, each year we set specific operational targets, such as the number of businesses that we will assist in starting up and similar things that we can measure in-year. We expect those activities to have an impact on the macro level, too.

The third dimension of the monitoring and evaluation is detailed analysis of the impact that individual programmes have had, in particular the number of jobs that they generate. We then try to net out programmes that would have been displaced by something not happening elsewhere, or those that were not totally additional. We try to arrive at as robust as possible an estimate of the genuine net impact on Scotland.

We then, rather heroically, try to aggregate all the results of that evaluation exercise and find out what it means in total. The early estimate from that work is that the total impact of our activity is around 20,000 net additional jobs. There are all sorts of caveats to that. We would be happy to share the results of that analysis with the committee and others. Your question is critical.

10:45

Robert Crawford: I will give a specific example. I sat down yesterday with Martin Togneri, who runs Scottish Development International. One of his responsibilities is to help Scottish companies to globalise. Last year’s target was to directly assist 16 companies to globalise. I asked Martin Togneri how we could know that those companies would not have globalised without our intervention and support. The easy way to get a response to that question is to ask the companies whether they would have undertaken the programmes to globalise had they not had public sector assistance. They answer yes or no. Martin Togneri’s work is measured against that target.

We could do the same and take a variety of other measures. In the case of assisting globalisation, it is easier: there is a limited number of companies and a yes or no response from each company, which details what it did that it would otherwise not have done. In foreign investment,

which is admittedly a challenging area, it is much easier to do that. We can ask the company for a yes or no answer to the question, “Did you come here against a competitive backdrop—you could have gone somewhere else?” In softer areas of our work, that is more difficult. That is a challenge for economic development all over the world.

The question arose last week at a business breakfast meeting that *The Scotsman* arranged. Scotland would not create technology institutes of the type that we propose to create without the intervention of Scottish Enterprise and its partners. That would be a problem for the Scottish economy in the long run. The question for the committee and others who examine our activities is whether the level of intervention is sufficient or too much and whether it is effective. Under the new formula, you will be able to pursue those questions in detail. That is a significant advance.

The Convener: To get everybody in who wants to ask questions, we will need to make the questions—and answers—briefer.

David Mundell: Robert Crawford referred to *The Scotsman*. It held a debate in which I think that it was suggested that spending nothing at all on Scottish Enterprise and simply reducing business rates would have a much more significant effect on the Scottish economy. That suggestion seemed to find favour with the audience. How do you respond to such a suggestion?

Robert Crawford: That is a fundamental issue that confronts politicians and economic development specialists the world over. If I thought that economic development intervention was unnecessary in Scotland, I would not be in my job. Manifest market failures are operating in Scotland and will not be fixed simply by letting the market address them, by whatever mechanism.

Take the areas about which I know, such as foreign investment. I say beyond equivocation that the 25-year to 30-year programme in pursuit of foreign investment, with all its weaknesses, made a fundamental difference to the economic well-being of the country and, because we were competing globally, would not have occurred without the intervention of Government agencies in one form or another.

I can point to the same thing in the provision of advance units and properties by development corporations alongside the then Scottish Development Agency and Scottish Enterprise. The market would not have made that provision. I am sorry that my answer is getting too long. We are providing incubation facilities for new areas such as biotechnology, for which the property marketplace will not provide facilities. That would not otherwise happen. We can measure such

things.

The Scotsman might be right about the effect of business rates. I do not know. However, I know, with all my experience, that economic development intervention is a fundamental requirement in an economy such as Scotland's and we would be weaker without it.

David Mundell: Where did the targets come from? Page 5 of your draft network operating plan lists a lot of targets as new. How did you come up with three for the number of new international business transport links, for example?

Charlie Woods: Those targets are generated internally. They are reasonable, but at the same time, they are a stretch to aim to contribute to achieving the objectives in "A Smart, Successful Scotland" and to make an impact on the measures that are set out in the measurement framework.

Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab): I will touch on a couple of points; whoever deems himself appropriate to answer can do so. I am interested in the target for get ready for work, but page 38 of the draft network operating plan—it is helpful to have it—says:

"xxxx participants in 'Get Ready for Work'".

What do you plan for skills and learning and how widespread will that be?

I will move on from the star chamber to Scottish technology and research—STAR—centres. What is going on with Scottish companies in the US post 11 September? What is the marketplace like? What engagement do we have with consular and embassy staff to promote Scottish companies in the US?

Robert Crawford: The answer to your first question is in the submission that we tried but failed to send to the committee last night because the system had a virus. Simon Watkins assures me that that will be fixed during the morning.

The STAR centres took a serious beating post 11 September. The level of activity is beginning to pick up, but it is low. The level of activity from Scotland to STAR centres fell dramatically. That is reflected in other indicators, such as flows from the United States. I discussed that with Martin Togneri last night. Uptake has been modest and is not significant.

The enterprise companies need to market STAR centres harder than before. The evidence from the companies that use them is that they are a great way into the US market. I am sufficiently confident about that approach to interventions in foreign markets to wish to take the same approach in Shanghai and we will consider using it elsewhere.

As far as I know—I am slightly rusty on the matter—we receive excellent support from

consular services throughout the world. As they have a wider set of responsibilities, they do their level best to bring to the attention of foreign companies the existence of those centres. We must remember that the centres are for Scottish companies.

Brian Fitzpatrick: Are we receiving any help from the Californians under the memorandum of understanding?

Robert Crawford: I will have to come back to you on that, because I do not want to guess. I think that we are, but we will return to you on that. When I was last there, we were receiving help.

Charlie Woods: The details are that 8,200 adults are participating in work-based training and development, of whom 2,600 are from disadvantaged areas.

Rhona Brankin: How do you integrate different approaches and address sustainability in your budgetary considerations?

Charlie Woods: That is an underlying cross-cutting principle of our planning. There are examples of that. We set a target for the number of companies that we will help with internationally recognised environmental standards as part of our business development standards, not only because of the importance that that gives to improving the environment, but because much research has shown that companies whose environmental impact is well managed tend to be well managed and to out-perform others financially, too. That is an overall part of the management development process. As for specific projects, measures such as environmental impact assessments are a key part of the programme.

Rhona Brankin: Is it part of your remit to be part of the drive to encourage energy efficiency in businesses?

Charlie Woods: Yes. One of our chief executives—Ron Culley of Scottish Enterprise Glasgow—is a sustainable development champion throughout the network and tries to embed those principles.

Robert Crawford: A key part of the energy institute's work—we believe that the energy institute will be the first of its kind—will have a sustainability agenda attached to it and will involve the creation of Scottish companies that are based on sustainability intellectual property in Scotland.

Mr Kenneth Macintosh (Eastwood) (Lab): I was going to ask the question that Rhona Brankin asked.

I have two comments. You are obviously doing more work on sustainable development. However, although a lot of targets are set throughout your draft operating plan, there is not much targeting or

use of measurements in the sustainable development agenda. Will you move towards that? When targets are set in lots of other areas, it gives them higher priority and there is greater focus on them. That seems to be missing in sustainable development.

Secondly, I have a more general comment on the small business gateway. I noticed that satisfaction ratings seem to be pretty high. Are you confident that the small business gateway has been a success?

Charlie Woods: Your point about targets is right. People pay a lot of attention to what we target and identify as a priority. That is one of the reasons why we have kept

"Businesses assisted in achieving recognised environmental standards"

among our priority targets in the draft operating plan, to demonstrate the fact that that is important. We will consider the sustainable development agenda and how it should feed through into targets.

The small business gateway has been a success. One of the points that is coming out of the local economic forums is the suggestion that we could extend some of the things that have been done in the small business gateway to impact on all businesses.

Robert Crawford: A board paper is going to the board tomorrow evening on extending the small business gateway to create, in essence, a business gateway for all businesses. I do not want to sound complacent or arrogant, but the evidence so far is that the small business gateway is proving to be a success among the people that use it.

Richard Lochhead (North-East Scotland) (SNP): I thank the convener for giving me the opportunity to ask a couple of quick questions.

I want to ask about the funding for local enterprise networks, in particular Scottish Enterprise Grampian, which covers North-East Scotland, which I represent. The dependency on the oil and gas sector in Grampian is a big issue in the region. As you will be aware, the region does not qualify for any of the other grant schemes, such as regional selective assistance. Scottish Enterprise Grampian has consistently received the lowest level of funding from Scottish Enterprise of all local enterprise networks. There is a concern in the region to diversify and get away from oil and gas so that the region does not become dependent on that sector. In recent months, the manufacturing sector has taken a hammering. How does Scottish Enterprise work out how much it will give the enterprise companies? Are you taking those factors on board in the context of Grampian?

Robert Crawford: I will ask Charlie Woods to answer the specific question. You will appreciate that, given the nature of the network, we get immense pressures from people in regions that confront a decline in their economy for one reason or another. We have to balance opportunity and need.

Charlie Woods: In order to allocate the discretionary budgets to local enterprise companies, we consider a set of criteria that we think demonstrates an area's potential to contribute to the aims that are set out in "A Smart, Successful Scotland". The criteria include the number of businesses; the number of assisted areas; the amount of vacant and derelict land; the population; and the number of employees. We take on board a number of criteria. That reflects our current situation and there are issues about how we factor the future into that assessment. However, we think that it is a robust and transparent way of allocating the budgets. Those are reasonable issues to take into account.

Robert Crawford: Inevitably, the process creates problems because some parts of the country feel that they are receiving insufficient investment compared with other parts of the country.

The Convener: I have several questions on the budget. First, the projections on Careers Scotland show £16 million for each of the next three years. That is a freezing of the budget, which I find difficult to understand. I presume that the head count will not go down dramatically and I presume that there will be pay rises in Careers Scotland, as there will be elsewhere in the public sector.

Secondly, the presentation has improved from last year, but in the budget breakdown for 2002-03 we really need a spending breakdown under the aims. For example, under the first aim, the figure of £45.2 million is shown for business competitiveness and innovation. Where is that money being spent? I could go through other examples, such as the aim on internationalisation of Scottish organisations. How much of that sum is spent on export promotion and how much is spent on working with companies in Scotland? If we are to scrutinise the figures properly, we need a breakdown of where the money is spent.

A related point is that nowhere in the documentation can I find a table that tells me the spend, the targets and the baseline. If we are to be able to scrutinise budgets properly in future years, we need such correlated information. Could you supply that to us?

Charlie Woods: Certainly. We have attempted to break down the information into the aims. One of the issues when it comes to allocating the budget is that doing something in one area has an

impact on another area. Chopping up the budget and unambiguously saying that a certain part is for business development and has nothing to do with exports or skills is difficult. Nevertheless, we can do that.

11:00

The Convener: We are interested, for example, in the breakdown of the spend item beside the new business start-up targets.

Charlie Woods: We will do that analysis for the committee.

Iain Carmichael: On Careers Scotland, we have taken this year's budget and rolled it forward for three years. As I said, we want to get into the budgets, keep them separate and understand the true cost of the services that are provided by Careers Scotland. We want to understand the opportunities for further efficiencies and find out what cost increases there could be in the system. No assumptions are made about increases or reductions in the careers budget; it is a rolled-forward projection.

The Convener: That is because you have not yet got a handle on how Careers Scotland is likely to develop.

Robert Crawford: Correct.

Iain Carmichael: We have a reasonable handle on it, but we want to tackle the budget now that we are running it as one organisation as part of Scottish Enterprise.

Robert Crawford: We need to see how Careers Scotland operates in practice. We need to understand how we can use new technologies effectively and use overheads more effectively. We had to get Careers Scotland up and running on time. We do not know enough yet about its operational effectiveness.

The Convener: Obviously, we will get breakdowns within the £16 million.

Robert Crawford: Yes.

Charlie Woods: I will have to respond to Andrew Wilson's question after the meeting.

The Convener: We are discussing public documents, so your response will be circulated to the whole committee. All follow-up should be done through Simon Watkins, the clerk.

I thank the witnesses. We will have a five-minute break to allow Wendy Alexander to come in for a cup of coffee before we start a marathon evidence-taking session.

11:01

Meeting suspended.

11:09

On resuming—

The Convener: I welcome to the committee Wendy Alexander, the Minister for Enterprise, Transport and Lifelong Learning. The minister is here to give evidence on two separate items—the budget and local economic forums. I will let the budget discussion run until 11.55 and I hope that we will finish the discussion on local economic forums by 12.30 at the latest. Perhaps you can introduce your team, minister.

The Minister for Enterprise, Transport and Lifelong Learning (Ms Wendy Alexander): Thank you, convener. I have revised my introduction several times so my speaking notes are a work in progress.

The Convener: Would you like me to introduce your team while you finish?

Ms Alexander: No, thank you. I did not amend the first paragraph, which contains the introduction.

This is my first appearance before the committee in its consideration of the Scottish budget. On previous occasions, my deputy has appeared before the committee. However, it is not a first for some of my more experienced colleagues. The committee will know Ed Weeple, head of the lifelong learning group in the Scottish Executive enterprise and lifelong learning department. Graeme Dickson is head of the department's economic development, advice and employment issues group, but in a previous incarnation he was in the finance department—that is always helpful on occasions such as this. I should also introduce Douglas Baird, who is the department's finance representative.

As I understand it, at this stage of the process, the Parliament is being asked to take a strategic view. That seems to be particularly appropriate given that we are about to enter a spending review. We should have genuine dialogue at the highest level about what should happen in the next round.

Since devolution, there has been a modest rise in spending on enterprise and lifelong learning, as I am sure the committee's advisers have told members, and as set out in the Scottish Parliament information centre note, on which we will reflect later. That means that we have had to constrain the budgets of the enterprise networks in order to provide growth for further and higher education. Next year's budget for Scottish Enterprise, for example, is down in real terms compared to this year's budget, although not in cash terms.

Although most of the budget coverage related to health, members will know that the Chancellor of

the Exchequer signalled that the share of national income that will be devoted to education throughout the United Kingdom will rise significantly. He made it clear that that increase will cover universities and colleges as well as schools. I therefore hope that there will be substantial consequential to the Scottish budget.

In addition to that high-level point, I would like to say something about two broad aspects of my enterprise and lifelong learning portfolio. A significant fact that is often missed in public debate is that about 70 per cent of my budget goes to the higher and further education funding councils and the Student Awards Agency for Scotland—SAAS. We back Scottish Enterprise all the time, but in relative terms, it gets £400 million from a budget that is currently more than £2 billion. If we include funding for skills and learning in the enterprise networks, the percentage of the department's budget that is spent on lifelong learning, education, training and skills rises to about 80 per cent.

I will be interested to see the committee's deliberations on its strategic view of the budget. That will be important in shaping the Executive's response to the spending review, particularly on budget neutrality and redistribution, which were touched on in the committee's report. The department seeks further guidance on those matters. We hope that the committee will be part of a coalition that encourages growing investment in learning and skills. It would be difficult to make significant changes in the short term, but the spending review is not for the current or the next financial years; rather it commences in the year after that.

I have a couple of comments on elements of the budget that are pre-committed. Through the SAAS, we are committed to student support arrangements and there is little flexibility there. Similarly, the exceptional performance in the last research assessment exercise has led to the need for sustained investment in science. Finally, one of the shifts in enterprise has been that half the £400 million that Scottish Enterprise receives is now spent on the learning and skills agenda. That is what has allowed us to beat our target of 20,000 modern apprenticeships.

We are developing a transition to metrics that will measure the success of our strategy, "A Smart, Successful Scotland: Ambitions for the Enterprise Networks". In the old days, we took an audit-type approach to asking how inputs were used. We were not as focused on outputs or on linking our strategic directions to Scottish Enterprise to its operational plan. We are tying both those processes much more closely together. As the committee knows, the joint performance team that has come up with the performance

framework for "A Smart, Successful Scotland" has used member countries of the Organisation for Economic Co-operation and Development as appropriate benchmarks for our performance. We hope that that will give us a more strategic perspective on spending of the enterprise budget.

11:15

I hope that the committee will take a close interest in monitoring the new framework and the extent to which we are meeting the metrics that the joint performance team has developed for outcomes as well as for the narrower accountancy issues, which are perhaps the matter for debate today. I have detected such interest during the past hour. Obviously, significant changes are taking place in departmental assistance; for example, the big strategic changes to regional selective assistance during the past 12 months, on which we might want to touch.

The Convener: I am conscious that some members got squeezed in just at the end of the previous item. That often happens to the same members, because they do not indicate early enough that they want to speak. Members should put their hands firmly in the air. I will give priority to members whom I just squeezed in the last time. As I was squeezed the most, I will start.

I will ask a quick question on further education. The increase that was announced last weekend and the additional 50,000 applications were very welcome. Enrolments for 2000-01 totalled 487,341, but the spending plans for 2002-03 assume that there will be only 454,000 enrolments, which suggests that there will 7 per cent fewer applications. Will you explain that?

Ms Alexander: Yes. The apparent decline in the budget reflects the fact that Bell College has moved from further education into higher education, which represents a transfer of £7 million in the budget. The apparent decline also reflects the fact that we have, through the creation of Communities Scotland, technically moved another £5 million into the development department's budget, because that department sponsors Communities Scotland and the enterprise and lifelong learning department does not. We have moved £13.5 million out of our department's budget without changing that money's function. We have also been given back £1.5 million for child care. The shift that relates to accountancy changes is about £10 million.

The number of students is a more substantive point. As the committee knows, over the lifetime of the Parliament, we have increased funding of further education. We have done that in cash terms by 50 per cent, although most of that was front-loaded in the first half of the parliamentary

session, hence the levelling off this year. What has happened in the figures has not yet been reflected in the expenditure round, but members will have seen that change in an answer to a parliamentary question this week. Our intention was to put 40,000 extra students through further education—compared with fewer than 3,000 extra through higher education—so that 95 per cent of the increase would be in further education. Astonishingly, there have been about 50,000 entrants in the past year, which also reflects what has happened with individual learning accounts. A large proportion of that increase is the result of people doing the European computer driving licence.

It is interesting that more than 80 per cent of people in further education study part time. We talk about continuous professional development and the further education sector is delivering that. The 50,000 increase does not represent people doing higher national certificates or higher national diplomas, but largely represents people doing the European computer driving licence. Nevertheless, it indicates a significant level of demand that has perhaps previously been suppressed. That is why I remarked earlier that the indications are that education as a whole will benefit from the spending review. Universities and colleges got a special mention. I am alert to the need for us to acknowledge what those extra 50,000 students are doing so that we can resource the sector properly.

The Convener: What impact does all that have on unit costs in the FE sector?

Ms Alexander: We were talking about that before we came in. We provided a profile. The unit cost oscillates between £920 and £904 per student at the moment, as I recall. If we say that we have had 20,000 extra enrolments on a base of 400,000 students, the impact on the unit cost has been about 5 per cent. Members can figure out that that means that we artificially depress the cost per head by about £50.

More significantly, what are the extra 50,000 students doing? We do not have a handle on that yet. That is where information technology and the European computer driving licence, and whether the right mechanism for funding is through ILAs or further education, come in. When we discuss ILAs mark 2 and business learning accounts mark 2, I should probably come back to the committee to discuss the character of the uplift, what it does to FE funding and the right funding route for suppressed demand.

The Convener: What impact does that have on capacity utilisation? There are stories of courses in some colleges being substantially under-subscribed, which in other colleges are substantially over-subscribed. Over the piece, are we making best use of the FE capacity?

Ms Alexander: When I appeared before the committee previously, we touched on that issue. There are two fundamental issues in respect of the lifelong learning space. First, if there are two markets—the learners and the economy—how do we ensure that the system as a whole is responsive to both? The second issue concerns the extent to which we try to plan the system and the extent to which it is demand led. It is true that a less planned system would be more responsive. I hesitate to mention hairdressers again. I recollect that the word “fashionable” rather than “fluffy” was used. We will not say that “fluffy” is not a Wendy word and that “fashionable” is. We must think more systematically about whether to move away from a slightly more planned system to a slightly more demand-responsive system. Again, we will be interested in what the committee’s report says.

I want to say one more thing about capacity utilisation. Members know that we do not separate out capital and current spend for higher education. We continued to do so in relation to further education and all the evidence from the sector is that it would like us to continue to preserve that split, so that there can be the investment in infrastructure that we seek. The sector itself estimates that we need to put in £120 million over the next decade. At the moment, we are putting in about £21 million a year, which means that about £200 million will be put in. That will allow us not just to make up the backlog of £120 million that the sector has identified on current maintenance, but will give about £100 million for new capacity over the next decade.

Rhona Brankin: I want to ask about spending on industry support and specifically the changes to RSA. As you know, I am particularly interested in the bioscience sector and the development of the cluster strategy approach. How can realignment support the development of a cluster strategy?

Ms Alexander: I will give a breakdown, which we have not previously done. Members will have seen ill-informed speculation in the newspapers. The papers have asked, “How dare you cut industrial support?” The truth is that for most of the past five years, old RSA—which was demand led—ran at between £60 million and £70 million a year. That money was put aside in the annual expenditure report. It was probably slightly more under the Tories. However, demand for old-style inward investment simply does not exist. Even should we wish the likes of Chungwa to come to Scotland again, they will probably not because of the nature of their technology and considerations of the right location.

I will share with the committee what we think the plan will be. What could be described as traditional RSA, but modernised because of the passage of time, will take about half the budget—between £30

million and £40 million. Money will go into research, design, development and technology, which is intangible support and is the issue in the biotechnology sector. There will, to acknowledge that salary costs are not just capital expenditure, be job grants for software projects and biotechnology projects. High-growth, high-risk projects would get another £2 million directly. That means that we will put about £10 million into new RSA initiatives.

Beyond that, there is a variety of other measures that add up to the original £60 million, which include venture capital support and the fund of funds. We are embarked upon a variety of other initiatives, including the centre for intellectual property excellence. There will be a little bit more for the small firms merit award for research and technology—SMART—and for support for products under research, or SPUR. There will also be a little bit more for the technology transfer process that will be operated by the technology institutes that were mentioned by Scottish Enterprise.

The budget has, because of reduced demand, decreased from £70 million to £30 million for traditional support. The wider range of initiatives is responsible for the other £30 million to £40 million, which will be phased in over the next two years.

Rhona Brankin: Do you anticipate that that will give you the flexibility to support the cluster approach?

Ms Alexander: Yes. It comes back to the point about transparency and how much is provided for growing businesses, for learning and skills and for global connections. If the figures are aggregated by sector it can be shown that, for example, the biotechnology sector is due about £40 million, which will be drawn from those three budget heads over three years. It is important for the committee that we can break down the spend in management accounting and financial accounting terms.

The Convener: David, you were squeezed, so now is your opportunity.

David Mundell: I seek clarification. In budgetary terms, what is your relationship with Ross Finnie? Mr Finnie certainly would never be described as fluffy, but he is squeezable. What is your relationship with Mr Finnie with regard to budgetary responsibilities? There is not, in the budget or in any other documentation that we have received, any mention of the interaction between your responsibilities and his. I have never been clear about that.

Ms Alexander: Let me share some—no, I had better not say that. I was going to say something hugely complimentary about Ross Finnie, but it might have been misinterpreted.

We have recently thought more systematically and strategically about priorities. This year, the total grant in aid for Scottish Enterprise is £377 million, compared with European agricultural support in Scotland of £385 million. Of course, much of that grant in aid is provided under European programmes. It supports 1.2 per cent of the Scottish economy and 2 per cent of the population.

We have also seen a rising line on discretionary agricultural spend in the past three years, which contrasts with the line for industrial support. The profile of agriculture spending has risen year in, year out for the past five years, but industrial support has levelled off or, indeed, diminished because it is demand led. That raises interesting questions, in particular when the £385 million is compared with the budget for Highlands and Islands Enterprise, the grant in aid for which is £77 million—those are nice round numbers.

Ross Finnie is stewarding the Land Reform (Scotland) Bill through Parliament. We expect that the bill will generate more demand for community ownership in Scotland. Most of the money that goes into community ownership in Scotland comes from two sources. The first is the New Opportunities Fund—NOF—with which we set up the Scottish land fund. There is no equivalent in England, but the fund uses UK money amounting to £10 million. The second source is the community land unit in HIE, to which we have given a budget of about £3 million. Communities of all sorts have thought about community land ownership. It is widely recognised that HIE has done much of the spadework and the NOF has provided the money.

If the Land Reform (Scotland) Bill stimulates the interest that I saw in Gigha, a significantly larger sum of money will have to be set aside in the spending review than that which has been available through the NOF and the £3 million HIE budget. I would like to examine how we can work more closely with the Scottish Executive environment and rural affairs department to support community land ownership outcomes from the land reform process.

The orders of magnitude should interest this committee and the Transport and the Environment Committee. In another part of my budget, I am pretty sure that the total rural transport fund this year is a mere £6 million, although I am not absolutely certain of the figure. If members think about the figure of £77 million for HIE, it relates to a discretionary spend in the order of magnitude of 2 per cent of the population. Those are interesting figures on which we should reflect.

David Mundell: That is a very interesting answer, from which—

The Convener: There are a lot of heavy hints in that reply, David.

David Mundell: Yes. There are a lot of things to think about in the answer, but I will leave them for another day.

I do not want us to get bogged down in the relative value of putting money into community land ownership—

Ms Alexander: Nor do I.

The Convener: Perhaps the member could get to his question.

David Mundell: The question is about the relationship between the minister's enterprise budget and her transport budget. How are you determining the relative allocation? As the minister knows, it has been said in the Parliament that many people believe that there would be a greater and more immediate direct impact on Scotland's economy if more money from your overall budget were spent on transport than is spent on enterprise initiatives.

11:30

Ms Alexander: There are two answers to that question. The politician's answer is that I can see from the SPICe note that—other than in local government—the largest increase in the last budget was in social justice. At that time I was not the Minister for Enterprise, Transport and Lifelong Learning; I was the Minister for Communities. When the occasion demands it, one can be aggressive in the interests of growth in the Scottish economy—this time round, I relish the prospect of being so. Do we need to care about the growth agenda and is transport part of that? The answer to that question is, "Without a shadow of a doubt." I am whole-heartedly committed to making a strong and powerful case for that, but that is the politician's answer.

The real answer is that the challenge is to decide what you want to do, to build a consensus around that and to spend accordingly. Members have seen the difficulties of the underspends that we face in some of our programmes. I will give some examples of that. Until we have parliamentary provisions in 2005, we cannot spend on the Borders rail link. Because of planning considerations, we cannot spend on the Glasgow or Edinburgh airport links until 2005-06. It will be considerably later before we can think about addressing the missing links on the A8 and the A80.

As members know, the decision on the M74 was taken in Cabinet in October 2000—indeed, Tom McCabe was there. The Executive provided directly £214 million of the £250 million that was required, but even if we work as fast as we can,

we cannot get the road built until 2008. Tomorrow, I will announce details of when and how we will do that. We cannot work faster because of issues such as compulsory land purchase, consultation and design decisions.

If people take the 10 transport projects that we outlined, the two big ones that I could spend on in this review are the ScotRail franchise and the Waverley station train alignment. The ScotRail franchise, which needs to be renewed in 2004, gives an opportunity to spend, as does the Waverley station project. In the current spending review, it is almost impossible to get through the planning and design stages to spend on the Borders rail link or the airport rail links.

One of the issues about the spending review is that it provides only for three-year time horizons. That is why we said, "Here are the 10 things that we need to do to fix urban congestion over the next decade." It is important to lock in the projects. Even if I said that I was going to take the skills budget of Scottish Enterprise, I would not be able to spend it tomorrow on the Glasgow airport rail link because the route, the planning and the design phases are not in place. I hope that we can win that argument with the Scottish public—we will commit to specific projects as soon as possible. The constraints are planning, design and land purchase; they are not financial.

The Convener: I remind members that this is not the Transport and the Environment Committee. We must stick to the minister's enterprise and lifelong learning budget. Does David Mundell have a final question?

David Mundell: No. The minister's reply answered my question.

Mr Macintosh: I have two points to make. The first is to pick up on the point that the convener made about funding of further and higher education. If we examine the figures, the broad categories of spending show that the largest increase is in higher education spending, which is great. However, the gap between spending on further and higher education is increasing. Does that reflect the relative numbers of students who are entering further and higher education? Although we have not finished our report on lifelong learning, its general thrust is to try to establish parity of esteem between further and higher education. I want to discover whether we have the balance right between the two sectors.

Ms Alexander: The figures are desperately misleading because they show only one year-on-year change. The significant issue is what we have done over the lifetime of the first Parliament. In that time, the cash increase for further education has been 50 per cent, but the increase for higher education has been considerably less—I

think about 26 per cent, but please do not hold me to that figure. The profiling of the spend meant that further education received more of its money earlier, while higher education has had a slightly smoother profile. Examination of the one-year figure genuinely distorts perception of the spend.

Implicit in Mr Macintosh's question is one matter on which I did not touch in my answer to David Mundell. If I leave nothing else with the committee, I will leave this insight: 80 per cent of my total ELL budget goes on learning and skills. If we try to squeeze ELL to pay for transport, the loser will be lifelong learning, because it receives 80 per cent of the spend. The budget for the Scottish Enterprise network is declining because there ain't any more fat left.

Five years ago, 80 per cent of the spend was not on higher and further education and student support. The committee asked SPICe to examine how much went into learning and skills five years ago and how much goes into it now. I apologise—I should have done that myself. The losers from the glib notion of cutting the enterprise budget to pay for transport would be learning and skills, and further and higher education. That is the realpolitik of how the situation will play out in coming months.

In England, one department deals with all education, which means that uplifts in the education spend apply to the whole education budget. It also means that colleges, universities and schools benefit. We must be careful that the alignment of portfolios and departments in Scotland does not get in the way of ensuring that all parts of education are awarded appropriately.

Mr Macintosh: My second question is a semi-technical one about science. How can I follow the budget for science through the budget document? On page 77 of the document, there is a reference to the science strategy. The Scottish science advisory committee is being set up under the Royal Society of Edinburgh, which receives funding of £1 million. Apart from asking you, minister, how can I find out how much has been devoted to science and where it all happens?

Ms Alexander: That is a total nightmare. Those figures are the hardest for the department to produce. When we launched the science strategy last year, I said that I would not have been prepared to produce it unless we knew how much we spent on science. I wanted something similar to a "Government Expenditure and Revenue in Scotland" report. I drew an analogy—which the SNP has drawn on occasion—with the GERS report. The figures were not perfect in every respect to start with but, over a decade, every possible query that could be made about GERS has been built into the system to produce the robust figures in the report.

I wanted the same process to be undertaken in relation to science. When we began that process last year, I knew that we would get it wrong in terms of attribution. How would we decide whether spend on science teachers in schools is science spend? How would we discover how much of the money that is spent by agricultural colleges is science spend? I knew that we would get it wrong to start with, but unless we measured what matters, how would we know?

We did the exercise for the first time last September, but the information has not been fully collected. As with the issue that Rhona Brankin raised about biotechnology, it is legitimate for people to know about the matter even though the figures do not appear in the published accounts. The exercise showed that, over the lifetime of the Parliament, spending on science will increase by 15 per cent, which is 1 per cent more in real terms than the increase of 14 per cent in the overall budget. The exercise also showed that the total spend on science at the hand of the Scottish Executive will be £1 billion over the lifetime of the Parliament, compared with the £700 million that UK-funded research councils will spend. That was news to all of us and was one of the drivers for the Scottish science advisory committee, which will start its deliberations shortly.

Tavish Scott: Page 97 of the budget document contains a detailed section on renewables. Given that the Executive, as part of its overall energy policy, is serious about the development of renewables, and given the medium and long-term gap that might arise depending on wider policy issues in the UK, are renewables adequately resourced? I refer to the themes that you have talked about consistently. Are you considering, for example, links to commercialisation through universities? How are we approaching renewable energy, both in terms of the budget and through commercialisation and links to university funding, which is another element of the budget?

Ms Alexander: That is a big issue and I suspect that we will want to talk a lot more about it next year. Rhona Brankin asked an appropriate question about the energy institute and the focus that it would have on renewables, for which Ross Finnie has ministerial responsibility.

The significant decision that we made was to raise the target for the proportion of renewable energy in Scotland above that of the UK, as we were producing so much energy through hydro anyway. We have set the bar so high for 2010 that we have no choice but to rise to that challenge by saying, "We want 18 per cent generated by renewables in Scotland." The big, important political decision this year was that we did not just stick with the UK target that we were close to meeting through hydro.

That decision demands that we do more. In my view, the key commitment is the notion that the first energy institute should have a strong focus on renewables. In the past, we talked about wanting Aberdeen to be a centre of oil and gas expertise that we could export to the world. Some of those companies are now migrating that technology into energy renewables. Therefore, the way in which we talk about a centre of energy expertise should not focus only on oil and gas extraction technologies for the North sea. We should consider wider energy renewables.

Tavish Scott: The second part of my question is whether it is possible to follow the funding that your department allocates to research, in its different manifestations, through to renewables, which is a sector that most people would agree is vital for the future.

Ms Alexander: We have decided that energy will be the first of the technology institutes. We want to have world-beating technology, and the technology institutes will be key instruments in getting ideas out of the laboratories and into business. It is fair to say that the UK energy minister, Mr Brian Wilson, takes an incredibly strong interest in Scotland and in renewables in general. An issue for us is how we leverage the Department of Trade and Industry's interests in renewable technology into Scottish interests in that field.

I should mention that another issue into which we have put a lot of time is the decommissioning of Dounreay, which carries a high degree of responsibility and which offers the north of Scotland the opportunity of becoming a world-class leader in decommissioning technology. The decommissioning of power stations of whatever kind, but particularly of nuclear power stations, will have a huge, and growing, market in eastern Europe and the former Soviet Union. Ross Finnie and Brian Wilson will be up in the north of Scotland again this summer, and I was there last summer, to discuss how we can encourage the growth of that capability around the Dounreay experience. Dounreay was first to be decommissioned, so we are ahead of the game.

Ed Weeple (Scottish Executive Enterprise and Lifelong Learning Department): Universities Scotland recognises that issue and has recently attempted a mapping exercise across the universities to find out what capacity they have in that field. It is about to make proposals that should answer the second part of Tavish Scott's question and that should tie in with, and complement, the idea of the energy institute.

Tavish Scott: I have a final question. Did I understand your opening remarks correctly, minister, in that you said that the consequential for education that would flow from south of the

border would go to your budget in Edinburgh? Is not the ultimate follow-through from that approach that the Scottish Executive will always take the line that the consequential that come north will go to the budget areas to which they are allocated?

Ms Alexander: Depending on the circumstances, I do not think that consequential should necessarily go to the same area, because that may not be appropriate. There is no point in having devolution if we slavishly follow what happens south of the border. However, the position in England is very clear. England is driving a productivity-led growth agenda by investing in science and skills, which requires recognition of the role played by further and higher education. In the context of the spending review, as a minister, I would make that case forcefully, because it is difficult to know how to drive technology-led productivity growth without recognising the place of education and research institutes in that agenda.

Marilyn Livingstone: My question follows on from the minister's answer to Tavish Scott's question. I have two questions, the first of which is about the whole issue of growth in skills. As you said, the further education sector has played a huge part in bringing people back into learning and encouraging personal development. As far as consequential are concerned, are you considering making continued increases in the amounts of money to the further education sector? I am not concerned only about its balance, but about ensuring its sustainable growth.

11:45

Secondly, there have been significant reductions in the number of young people choosing to take science courses. It is worrying that, as evidence that we have taken shows, people do not see any career pathways or any prospect of permanent employment after undertaking PhDs or post-doctoral research. As a result, graduates become reluctant to take on such research. Is there anything that the Executive can do about that? At the lifelong learning convention, we were told that that was not always the case; however, when universities went through lean times, they made savings in research and development. It is about time that we redressed the balance and said that research and development in our universities is very important to our economy.

Ms Alexander: I want the further education sector to benefit from more resources, because it has proved very market-responsive. As we have discussed before, the difficulties in further education centre largely on management capability. SHEFC is about to publish information about the number of colleges that are in deficit. We have turned that trend around, and that number is starting to decrease.

However, Audit Scotland's report on Moray College rightly pointed out that although a Scottish Further Education Funding Council is necessary, it also needs to be strong enough to step in and sort out the kind of problems that we saw at Clydebank College, Moray College or Reid Kerr College. The short answer is: the further education sector has proved itself to be responsive; it needs more money; but we still face challenges in strengthening the management and financial capability of colleges. Although there has been some turnaround, we need to make more progress.

I have recently been examining the issue of science, but until now no one has asked me a question to let me reveal all the data that we have collected. After studying the number of applications from the Universities and Colleges Admissions Service, we have discovered that, interestingly, the number of applications to chemistry courses and to parts of mechanical engineering has been going down and down. However, applications to IT, biological sciences and physics courses are all up. People talk glibly about the sciences, but one level down, a fascinating pattern is emerging.

One of the issues we have raised through the higher education review is how SHEFC can reach a deeper understanding of why applications to chemistry and mechanical engineering are down—although it should be pointed out that, in some cases, there are good market reasons for that decrease—and why applications to biological sciences, IT and some parts of maths and physics are up. It is not all bad news. We simply need to understand the situation better.

I want to turn to your question about science graduates having the opportunity to stay on and undertake research. As members heard me say the last time I was before the committee—and again no one has asked the question that will allow me to publish these figures—what is interesting about the issue of migration and immigration, which has recently been in the news, is that about 10 per cent more Scottish-domiciled graduates stay on and study in the country than did 15 years ago. The percentage figure has increased from about 62 per cent to approximately 74 per cent. We seem to be winning the battle in so far as more people believe that they can build their future in Scotland.

As for the question of how we give such research and development more status, the enterprise fellowships and the proof of concept fund already help to recognise that some young scientists are heroes. Furthermore, through the higher education review, we are asking how we make it easier for senior professors to twin-track. Indeed, we have had an interesting dialogue on

this subject with David Lane, who runs an outstanding clinical science department at the University of Aberdeen. The last thing we want is for David Lane or Sir Alan Langlands, the principal of the University of Dundee, to walk out the door, because they will take their senior staff and their capacity to attract research income with them. The question of how we can make it easier for people to twin-track by being involved both in the commercialisation agenda and in sustaining their department will be addressed, I hope, by the higher education review.

Marilyn Livingstone: I am less worried about the professors than the post-docs. What career path will there be for the latter group? According to the evidence that we have received, those people must jump from one one-year contract to the next. In the conditions for the grant or in some other way, can a message be sent about the need for improvements?

Ms Alexander: I completely agree. One thing that has come out of the higher education review is that we need career paths for academics. At one level, European legislation will make the pattern of contract research simply illegal, but we must have a more positive and proactive agenda to create those career paths. Enterprise fellowships are one part of the solution, but they are no means all of it.

Andrew Wilson: I welcome your earlier comments about the use of OECD benchmarking, which I think will improve greatly on what has been done. However, although the enterprise and lifelong learning section of the budget contains various targets and benchmarks, it does not have anything about the bottom line, which is economic growth. Given the fact that the figures that were published today show that Scotland's growth is one third of the UK rate and—even more worrying—one third of our trend rate, should not a target for growth be included? Will you comment on the performance?

Ms Alexander: I might say that, for the fourth quarter of last year, Scotland was up while England was down. However, we cannot uninvent 11 September. If I had come to the committee last year and made a prediction about Scotland's growth rate, I could not have known that 11 September would happen—that would have been outwith my control—just as I could not have known that foot-and-mouth would happen. I am more interested in setting a framework for the things that the Government can directly influence rather than have people believe that simply setting a target will do the work for us. We should be more rigorous about the galvanising effect of targets.

Andrew Wilson: I agree with that, but 11 September surely had the same effect on the rest of the UK as it did on Scotland. It is unsustainable

that our rate of performance should be one third of that of the UK. The figures that were released today show that our growth rate is one third of our trend rate, which was already mediocre in comparison with our international competitors.

Ms Alexander: I do not think that 11 September had the same impact on the rest of UK as on Scotland. We have a much more open and smaller economy. We are much more exposed to tourism and—because of the extent to which our manufacturing exports are concentrated in the technology sector—to exports. Also, our largest services export is financial services, which is closely tied into the US and European markets. That sector was particularly badly hit. Our manufacturing base is significantly concentrated in areas such as aerospace. For example, I know that one reason that we had to work so hard to get Rolls-Royce to continue in Scotland was that the company had experienced a falling off of 50 per cent in new aircraft orders.

Partly because we are a small and open economy and partly because of the way that those events interacted with the structural readjustment in the electronics sector, we found ourselves much more exposed than other parts of the UK.

Andrew Wilson: So growth is not a problem.

Ms Alexander: Of course it is a problem. Let me take that argument head on. In the early and mid-1990s, our gross domestic product per head relative to the rest of the UK looked better because of the fact that England was in recession while Scotland was not. The issue is that we made the wrong policy decisions. We were still trying to attract inward investors to come here from Taiwan to provide low-cost assembly jobs. In 1993-94, we were doing better on GDP per head because of the cycle elsewhere at the time, but we were making what were still the wrong policy decisions.

We are now in a position in which we are looking at what will drive productivity-led growth in Scotland. Evidence of that can be seen literally daily. For example, we said that we would support Hoover when it moves to the top end of the market. Also, as Rolls-Royce has said that it wants to be a centre of excellence in aircraft manufacturing, we have said that it will get the biggest support in the whole of the first parliamentary session. We have assisted shipbuilding to reposition itself at the top end of the naval marine market so that we can try to ensure that the aircraft carriers are built in Scotland.

One response to 11 September is that international financial services companies have said that they do not want to have 11,000 people sitting in London in a labour market that is too volatile, too risky and too high-cost. There has

been interest in Glasgow as a financial services centre. We are doing the right thing. We should not be glib and say "We did all right" or "In 1994, our GDP per head was slightly better than it is now." I would rather be where we are now and pursue the right strategy for the long term.

Brian Fitzpatrick: Today of all days, it is a great pleasure to welcome a Labour minister as part of our budgetary ambitions for fairness in enterprise.

You mentioned that we had got sidetracked to other elements of the spend, but the recent budget introduced strong incentives for incorporation. I am sure that will be feeding into small and medium-sized enterprise through advice. Could you touch on what the Executive and enterprise companies will be expected to do about taking up those incentives?

As far as fairness and learning are concerned, I was interested in what you had to say about the spending round consequentials. I was looking at the level 3 spend figures on education maintenance allowance pilots. Could you take us through some of the detail and tell us where you sit in comparison with Estelle Morris, your counterpart in the south, in relation to the groups that you serve?

Ms Alexander: If you want to have technology-led productivity growth, you have to introduce a research and development tax focus for large companies. The budget was good for Scotland. The single greatest weakness of the Scottish economy is our inability to innovate in our largest companies. The highest percentage of R and D is going on in our universities and the lowest percentage is going on in our companies. Therefore, that is a hugely important tax incentive.

Secondly, as we try to raise our rate of entrepreneurship, the other shortcoming in Scotland is new business start-ups. Let me be slightly controversial. The reason that that incorporation was created, that we have limited liability, that we say that the risk should not accrue to the owner, that we make personal bankruptcy different from corporate bankruptcy is because we need an incorporated structure in order to grow well. I do not think that we should glory in the fact that many of our businesses are unincorporated. Creating the most favourable regime for small-start incorporated businesses is a prerequisite of growing global companies.

The other thing to note when you are talking about the five-year anniversary is that Scotland is in a period of significant structural adjustment. We are transitioning from being a European regional player around markets to being a global player in technology. To have done that in circumstances where there are 100,000 more jobs in Scotland than there were five years ago is a remarkable

achievement. It would be remiss of me not to notice that that is the strength of the labour market while we are executing that sort of structural shift.

On the final question about EMAs, the notion that we used to pay people to leave school and go on the dole but we do not pay people to stay in school is offensive to every instinct of the democratic intellect or the Scottish education tradition. It is about time we fixed that. We only do it for 10 per cent of kids in Scotland and at least we chose the three worst areas in terms of staying-on rates. It was right to start with Dundee, East Ayrshire and Glasgow and one of the Dunbartonshires.

I am anxious that that can become a policy that extends around Scotland, the spending review permitting, because when we talk to people they tell us that it costs money to stay on in fifth and sixth year if you have to buy things such as printer cartridges or materials for art and design classes. That is truer now than when any of us were at school. It is therefore important to have an income top-up for people in fifth and sixth year.

The Convener: I will give the last word to Annabel. Her question might be about the budget.

Miss Goldie: Thank you, convener.

Minister, you said earlier that when you were Minister for Communities and an aggressive person, you secured an increase in the budget for that department. Personally, I have not observed any diminution in the minister's propensity for pugilism. If we consider the budget's percentage share for the enterprise and lifelong learning department from 2001-04 and we consider the drop of 1 per cent, is that a reflection of your personal priorities? Is that diminishing proportion likely to continue beyond 2004?

Ms Alexander: Annabel is the only person I smile at when we talk about aggression. There is a gender-specific vocabulary into which comes words such as "fluffy", "aggression" and "tantrums". However, we will leave that aside.

You make an important point about big government not necessarily being better government. One of the things that I am most proud of is that, in the context of housing in the communities budget, we would have gone ahead and said that community ownership was right irrespective of the position on debt. As an Administration, as a Parliament and as a country, we think about better government rather than bigger government, and I certainly try to reflect that with respect to transport. The way in which we get speed on transport depends on the quality and calibre of project management rather than how much money we make available. It is not simply a question of resources.

I take it that what you are hinting at is the issue of student loans. Do you want to expand on that?

12:00

Miss Goldie: I was asking a broad question, looking at the overall three-year picture represented by the departmental budget, which shows a decrease of 1 per cent in relation to the whole Scottish Executive budget. What I want to know is whether that is a reflection of your personal priorities in relation to that portfolio responsibility and whether you anticipate that that diminishing percentage will continue beyond 2004.

Ms Alexander: Let me choose my words carefully. I am whole-heartedly committed to a growth agenda for Scotland. One of the challenges for Scotland is how it has been administered for most of the past 100 years. The challenge that faces us collectively in the Parliament is how to govern Scotland and, particularly with my portfolio, how to get Scotland growing again.

In driving a growth agenda, what we do in the enterprise and lifelong learning sphere is critically important, but education in schools and health are also critically important. There has been much reflection on the burden that would be placed on employers by national insurance contributions. However, if that is contrasted with ill health, loss to businesses through sickness and absence and the time spent by people waiting for hospital appointments, it is difficult to see the net economic efficiency gain in terms of policy instruments.

I am whole-heartedly wedded to a growth agenda. We must be alert to how we put growth at the top of the political agenda in Scotland, because that has not been the character of governance in Scotland for much of the past decade. Looking forward, we have started to spend on the right things. Without making too much of a party-political point, spending £50 million on three technology institutes is likely to be immeasurably more important in driving growth than £50 million spent on one itinerant investor that does not keep the promises that it made when it arrived.

Miss Goldie: Before I ask my next question, I should declare an interest, as I am a member of the court of the University of Strathclyde. My question is about the budget allocation for the Scottish Higher Education Funding Council. As you will be aware, many universities are operating in a potential deficit situation on a year-on-year basis. Do you anticipate that universities will resolve that difficulty by trying to generate additional revenue from outside the public sector, or will they be forced to make staff cuts?

Ms Alexander: Let me say two things. What I have to say may answer more precisely your previous question. We have seen a significant increase in funding for universities in the rest of the United Kingdom. However, in the rest of the UK, some 35 per cent of school leavers go on to higher education, whereas in Scotland the figure is now 48 per cent. If substantial resources are being made available to universities south of the border, that is likely to go into expanding access, because England and Wales want to increase the access figures to the level that we have in Scotland.

One of the choices that the Executive will have in the spending review will be about whether, even though we have already met the access targets, we deem that there are other important things that we want to do in higher education to preserve our advantage in science and skills and the global position of Scottish higher education. That takes us back to the question of what is a consequential and what is not. If we already have 15 per cent more of our school leavers going on to higher education, how do we reward universities?

Miss Goldie: I also asked whether you anticipated that universities would try to generate more external revenue or whether they would face staff cuts.

Ms Alexander: In the higher education consultation that we published last week, we sought to identify six or seven new revenue drivers for Scottish education that were not Government sponsored. I hope that there will be an increase in spending on higher education in Scotland, and I see how the sector could spend the money.

However, we also have an opportunity to make it easier for higher education institutions to access other revenue drivers. For example, in Scotland there has been a 30 per cent increase in the number of overseas students, compared with a 20 per cent increase in the rest of the UK. We could do more to boost the number of overseas students, who are a revenue driver for universities. We could also improve universities' approach to the continuous professional development agenda, which would attract further income.

If technology institutes create a defined shop window, we expect that business will spend more money to support research and development in higher education institutions. The higher education consultation document identifies a variety of revenue drivers besides increased public support. We may want to debate and discuss those further next winter.

The Convener: Thank you, minister. That completes consideration of item 2 on our agenda.

Local Economic Forums

The Convener: Item 3 concerns local economic forums. I ask the minister to make some introductory remarks.

Ms Alexander: We welcome the committee's scrutiny of the local economic forum process. This is the right moment for that, about 14 months after the forums' inception. I am keen to use this meeting as an opportunity to hear what the committee thinks the next steps for local economic forums should be, given that they owe their establishment to a committee report.

We have seen successes in the co-ordination of local economic development efforts, making local partnerships work more effectively. Some money that can be saved and reinvested has been identified. There has been a stronger focus on putting the business community and service users at the forefront when designing services.

A number of local economic forums are now considering how organisational structures in their areas should be changed. Others have given particular attention to making savings. Some forums are focusing on promoting best practice across the various participant organisations.

Yesterday I spoke again to representatives of the Federation of Small Businesses. I think that forums could do more to engage with and inform businesses. We may want to discuss how the non-accountability of individual business participants can be balanced with the need to have at the table the community that forums are seeking to serve. I would welcome hearing the committee's views on that matter.

If forums did not exist, we would have to invent them. With community planning coming over the horizon, it would be crazy not to have a forum that brings together around the same table all the players involved in local economic development. As Scottish Enterprise has begun to drive the business transformation process down to creating a business gateway at local level through the local enterprise companies, we need to think more systematically about the responsibility of LECs and LEC boards for providing quality business advice and about the strategic role of local economic forums. Those are live issues for us.

I will end my remarks there and invite questions from members.

The Convener: Do you see local economic forums as a permanent feature of the landscape in Scotland?

Ms Alexander: Not necessarily. That remains an open question.

The Convener: Do you think that, over the piece, the forums have achieved the objective of beginning to eliminate duplication and waste and identifying cost savings that can be channelled back into front-line services?

Ms Alexander: They have achieved some of their objectives. I have the same difficulty as committee members in knowing what is happening in 22 local economic forums. Over the past week, knowing that I was due to give evidence to the committee, I mentioned that problem to a number of people and asked them to tell me what they think. The message that they gave me is perhaps the most important insight that I will share with the committee, although I do not know whether other members feel the same way. Three years ago, when all of us were running for election, we could not go to a business breakfast without hearing people say that there was a ridiculous amount of duplication and that everyone was trying to do the same job. People criticised the fact that there were 420 organisations and asked us what we would do to sort out the mess.

I am not sure that the local economic forums have been the only drivers. People have read the runes in their own organisations. For example, most local authorities have ensured that their services complement the work of the LECs. Duplication has disappeared because chief executives in local authorities and LECs have said, "There's no point in us both doing the same thing." Both sides continue to participate but there is more complementarity. Customer responsiveness is important, as is the redirection of services to new areas, but duplication is not the problem that it was. People are aligning their activities more effectively.

The Convener: We have only 20 minutes and five members have indicated a wish to speak, so can we make the questions and, ideally, the answers fairly short and sharp?

Miss Goldie: I think that I speak for those of us who were on the committee when it produced the proposal for local economic fora—I think that only Marilyn Livingstone and I remain—when I say that the unanimous feeling of members was that local flexibility was essential. That was the underpinning ethos, but how is it possible for the fora to operate as originally conceived if your department prescribes how they are driven?

Ms Alexander: I do not think that they can act responsively if they are driven prescriptively by our department, but I really do not think that that is happening. We have asked them to identify savings and redirect the money. Five of the local economic forums have done that and the sum of money comes to about £2 million. HIE is about to identify savings of more than £300 million. A fair question, Annabel, would be to ask what we

should ask them to do next. There I think—

Miss Goldie: Minister, you have spoken about tasks—for example, appointed tasks for year 1 and forum tasks for year 2. How can the ingredient of localness, in any independent and autonomous sense, come through if there is ministerial direction from the Scottish Executive?

Ms Alexander: There is no direction on what people should save money on. The committee told the Executive about the degree of duplication and we have said that we want people to sit down together and get a handle on who is doing what. There has never been a forum for that before. That process has almost run its course. The question for the future is what a smart, successful Scotland looks like in a particular geography. If I asked you, "What does a smart, successful Scotland look like for Ayrshire or Renfrewshire?" the answers would be different. We are asking people to tell us what a smart, successful Scotland looks like in their geography. Robert Crawford made the point that how it looks in Edinburgh will be different from how it looks in Ayrshire.

Having started by trying to get a handle on the savings issue, local economic forums may in future focus on high-level strategic issues—asking what things look like for their geography and asking what they should do. That may be a way of reflecting the seniority of the players round the table at local economic forums.

Brian Fitzpatrick: I am pleased to hear you say that. We should not ignore the complexities of the tensions over stewardship of taxpayers' money, local diversity and national priorities—I am sure that Annabel Goldie was not suggesting that we should.

The LEF from my area has spoken about problems between West and East Dunbartonshire and said that what may be considered duplication and waste over a large area in and around Glasgow may actually be a resource for the LEF in a much smaller area. Have you had a chance to reflect on feedback? Have you considered—although not in a prescriptive fashion—the next steps for the LEFs?

Ms Alexander: From the feedback, I think that the desire is to have the opportunity to be strategic. Over the past year, we have asked LEFs to focus on the relationship with the LECs and to consider, for example, how to provide business services and the small business gateway.

The focus of local economic forums in the coming year should be on considering their relationship with local government in the community planning process. I want them to consider what the framework of "A Smart, Successful Scotland" means for their part of the country. If we were discussing community

planning for health or community care, we would start with the health plan and if we were discussing social justice, we would start with the social justice action plan.

I met businessmen earlier this week. They said that "A Smart, Successful Scotland" is great, but only the enterprise network knows about it and owns it. "A Smart, Successful Scotland" has to be an economic strategy for all the players in Scotland, whether small businesses, local government or the voluntary sector. I would like the committee to consider and give me advice about whether local economic forums could helpfully use the framework of "A Smart, Successful Scotland".

12:15

Tavish Scott: I attended a deeply practical meeting of a local economic forum in Shetland at the beginning of the year. I appreciate that the issue is different in my part of the country, as we do not have the same duplication problems that other parts of the country have, because of geography—that is the advantage of being surrounded by sea.

In the context of community planning, have you thought about the practicalities of joining up local enterprise companies and the economic development departments of local authorities? Shetland is planning that kind of one-stop shop approach.

The Convener: That has been done in Clackmannan.

Tavish Scott: I was interested in the minutes of the most recent meeting of the task force, which decided not to consider a paper on learning and skills at the moment because of the committee's work.

People in my part of the world are considering where the skills shortages are. I hope that LEFs will do that, for example by feeding into Future Skills Scotland.

Ms Alexander: Over the past year, LEFs have been very practical. We have told them to sort out the duplication and who does what. Some have risen to that challenge and now want to move on to do something else, but some areas have not risen to the challenge.

Once the local economic forum has made a strategic decision about who should do what, it is up to local government, the enterprise trust or the LEC to make it happen. That has created a bit of a vacuum around what LEFs will do next.

Tavish Scott raised a point about community planning. I am not sure that the economic development of the community plan is best done by just the LEC and the local authority, without the

LEF at the table. Consideration of the economic part of community planning should not just be a dialogue between the LEC and local government, given that we have local economic forums. We have to consider whether they might be central to the process in parts of Scotland that are slightly less joined up than Tavish Scott's part of the country.

Careers Scotland is four weeks old. The new institutional structure that we have created and the operational initiatives that the committee has come up with need time to bed down a wee bit. The LEFs might tackle the learning and skills agenda more easily a year further down the line. People would then know what we are doing with people in apprenticeships and how the funding streams for further education will be directed. My instinct is for people to wait until the committee has finished what it is doing. However, the community planning issue is live and topical.

Rhona Brankin: To what extent is there the willingness and capacity in local government to engage with LEFs in the community planning process? Have you had any discussions with your counterparts in local government?

Ms Alexander: I have had informal discussions with the Convention of Scottish Local Authorities and I have asked for formal discussions. We want to avoid the economic section of the community plan being drawn up by local government without participation from anyone else. Whatever architecture we are trying to create, it is not that. However, unless we take a view on the matter and set a framework, that is where we could end up.

It is good that the committee is offering its views. I have formally asked COSLA to come and see me and I have spoken informally to leading players in economic development in COSLA. One opportunity will be at the LEC board members conference over the next two days. Every LEC board includes at least one councillor, so talking to them about how they are thinking of doing the economic component of the community plan is a way to trial some of this stuff.

David Mundell: I was not a member of the Enterprise and Lifelong Learning Committee when it produced the report, so I do not have to pretend that I like it—I do not.

Ms Alexander: That is admirably candid. The report was my first engagement as a minister, on day one.

David Mundell: I always felt that the report fudged the line between local government, the enterprise companies and others. Do you not think that it is important to establish ownership of who is responsible for delivering the vision of, as you put it, "a smart, successful Scotland," in a particular geographical area? In my own area, I am

ultimately unclear about who is responsible for delivering a smart, successful Dumfries and Galloway. Who is responsible? Is it the council, the enterprise company, or the tourist board?

Ms Alexander: It is all of them.

David Mundell: It is all very well to say that it is all of them, but if there is no mechanism that allows someone to own the task—

Ms Alexander: You have hit on the kernel of the argument, which is that “A Smart, Successful Scotland” is a strategy document for the enterprise networks. That invites the possibility that you could have other economic strategies for a particular geographical area. That does not seem to be in the spirit of the work that this committee has sought to do. The committee must think about how it would like that to be addressed.

All I would say is that I talked to businessmen this week and they are relieved that we are not rewriting “A Smart, Successful Scotland” every year or sending annual guidelines to Scottish Enterprise. They are happy that we are sticking with an unchanged strategy and that we will give people time to think about what it means for their part of the world.

On your point about duplication and local government—yes, local government spends £90 million, but it spends some of that in different ways now and it employs many people. Not much money is spent on duplicated aspects. There has been a shaking out of who does what. We can drive that process a bit further, but doing so depends on the political will within a council and the political will within a LEC.

It is not about the political will within a LEF, because that is ultimately not the accountable body. That fact causes some frustration to the business people on the LEFs. LEFs are not statutory bodies, so whether the LEF’s insights are acted on is the responsibility of its constituent bodies.

David Mundell: The committee’s evidence shows that flexibility and circumstances vary. I return to a point that I have raised repeatedly in the committee. Local government, the health service and public services generally are important economic actors in rural Scotland and they must be engaged in the community planning process as such, not just as agencies that provide services. How will we get that factor into the process?

Ms Alexander: I agree wholeheartedly. I would like guidance from the committee on two issues. How hard do we drive down the savings agenda on non-statutory bodies that just have not lived up to that promise? We must collectively take a view on that. I think that there is a case for the stick-and-carrot approach. How robust should we be

with those that we think have not met the challenge? However, if we are robust with voluntary bodies, will we destroy the goodwill that allows the LEF to be a significant body in its local community, although it does not have statutory responsibilities?

That begs the second question. Can we allow there to be no national guidance on economic development at all? Can we allow the smart, successful Scotland vision to be exclusively for the enterprise networks in circumstances in which community economic planning and many other factors are emerging? That issue has recently come on to my agenda and the committee should take a view on that.

The Convener: The last word goes to Marilyn Livingstone.

Marilyn Livingstone: Your comments on “A Smart, Successful Scotland” and allowing localities to develop it for their areas answer Annabel Goldie’s point about local flavour and flexibility. As you know—I have said it to you before—that is the big worry. Local economic forums told us that although the current system has worked well in the main, they need more teeth to undertake that task. They do not want to be talking shops.

More important, local economic forums say that all bodies are equal players around the table and that neither the enterprise network—“A Smart, Successful Scotland” could be considered its strategy—nor any other player is the main driver of the forum. How do we ensure that all players feel part of the forum and the community planning process? That relates to how we deliver the agenda for our communities and for Scotland.

Ms Alexander: The community planning process is serviced by local government, so local government officers—not LEC officers—will draw up the economic section of a community plan. That is a not insignificant dynamic in deciding the strategic framework under which those considerations are made. We will reflect on that.

If people want to offer me sticks, I will be happy to think about using them. One carrot is status, because a problem is the varying quality of business representation. It has been suggested to me that we should ask for chairs and chief executives of chambers of commerce and of the Federation of Small Businesses, because they have some authority to speak on behalf of their organisations, unlike any old member, who does not have authority at the table. I am attracted to that suggestion.

Another issue is the number of business reps that is required for the voice of the market to be sufficiently heard. The committee may want to take a view on that.

The Convener: We all feel that the private sector has too many business organisations competing with one another. It would be more effective if some of them joined together and had one voice.

That was a long session on the budget and the LEFs. I thank the minister for attending; we look forward to seeing her again soon.

Ms Alexander: Not that soon.

The Convener: That was not too aggressive.

Item in Private

The Convener: Do members wish to consider item 7 in private? My inclination is not to take the item in private. Is that agreed to?

Members *indicated agreement.*

The Convener: That agreement means that we will have to change the order of items on our agenda, as item 6 is in private. Is that agreed?

Members *indicated agreement.*

University of St Andrews (Postgraduate Medical Degrees) Bill

The Convener: Item 5 is consideration of whether to discuss the draft stage 1 report, which is on the general principles of the bill, in private. We are not discussing the report today.

Simon Watkins (Clerk): The committee has always considered draft reports in private.

The Convener: We are discussing not the bill, but our report on the bill. Is the matter at our discretion?

Simon Watkins: It is at our discretion, but in the past three years, the committee has considered every report in private before it has been published.

Brian Fitzpatrick: Is any controversy expected?

The Convener: There is no controversy. I received a letter from the minister that said that the Executive is happy with the bill, provided that the court of the University of St Andrews is happy with it.

Brian Fitzpatrick: I am fundamentally agin discussing matters in private when they do not need to be in private.

The Convener: That is my instinct, too, but I do not want to set a precedent. If we agree to take the discussion in public, it will be a one-off, because it would be anarchic to draft reports in public.

Miss Goldie: That helps me with the point that I was about to make. The bill concerns a technical matter that has become the subject of statute because of the university's mechanism for creating new degree courses. For that reason, I support Brian Fitzpatrick's view.

The Convener: Shall we strike a second blow for transparency and take the discussion in public?

Brian Fitzpatrick: That would be nice for the people who have stayed on.

The Convener: I hope that that decision will be recorded by those who have reported that this committee is one of the most secretive. As the meeting is on camera, I hope that *Business a.m.* in particular has noted that we have decided twice to take matters in public and not in private. Is that agreed?

Members indicated agreement.

Highlands and Islands Local Economic Forums

The Convener: Item 7 has now become item 6. We must decide from which three local economic forums we will take evidence. A paper has been circulated to members to suggest that as we are visiting Shetland, it would be logical to speak to Shetland local economic forum. Tavish Scott's remarks have reinforced the case for considering Shetland.

The paper also recommends taking evidence from Moray, Badenoch and Strathspey local economic forum, which has a peculiar local economic area, as it covers a lowland area and the Highlands and Islands, and Argyll and the Islands local economic forum, which covers a mixture of the mainland and small islands. Is that agreed?

Tavish Scott: It might be useful to hear from a representative of HIE. You may have considered that.

The Convener: We will take evidence from HIE, as we did from Scottish Enterprise.

Tavish Scott: We have heard from Scottish Enterprise and it would be useful to have HIE's perspective on the scheme.

The Convener: Sorry—we did not take evidence from Scottish Enterprise.

Tavish Scott: We took evidence from the minister—that is even better than Scottish Enterprise.

The Convener: Is the recommendation agreed?

Members indicated agreement.

The Convener: We will go into private to consider our report on the budget.

12:30

Meeting continued in private until 12:53.

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