FINANCE COMMITTEE

AGENDA

4th Meeting, 2005 (Session 2)

Tuesday 1 February 2005

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. Declaration of interests: The new member of the Committee will be invited to declare any relevant interests.

2. Budget Process 2005-06: The Committee will consider the Executive’s response to the Committee’s Stage 2 Report and seek further information from—

   Tavish Scott, MSP, Deputy Minister for Finance and Public Sector Reform; and

   Richard Dennis, Team Leader, Finance Co-ordination and Iain Dewar, Efficient Government Team, Scottish Executive Finance and Central Services Department.

3. Budget (Scotland) (No.2) Bill: The Committee will consider the Bill at Stage 2.

4. Cross Cutting Expenditure Review on Economic Development: The Committee will consider a paper by the Adviser on the issues which have arisen from the Committee’s evidence as part of the review.

5. Charities and Trustee Investment (Scotland) Bill (in private): The Committee will consider its draft report.

Susan Duffy
Clerk to the Committee
The papers for this meeting are:

**Agenda Item 2**


PRIVATE PAPER

**Agenda Item 3**

Budget (Scotland) (No 2) Bill

Budget (Scotland) (No 2) Bill Supporting Documents

Paper by the Clerk

**Agenda Item 4**

Cross Cutting Expenditure Review on Economic Development

**Agenda Item 5**

Note from the Clerk – Additional Submissions

PRIVATE PAPER

Charities and Trustee Investment (Scotland) Bill - Memorandum
Dear Des

The Finance Committee’s report on Stage 2 of the 2005-06 Budget Process, published on 15 December 2004, made a number of recommendations to the Executive on the budget process.

I now attach the Executive’s response to the report’s recommendations at Annex A. If you have any questions about the response, or require any additional information, please let me know.

I look forward to continuing to work with you on improving the budget process.

Best wishes

Tom McCabe

TOM MCCABE
Finance Committee: Report on Stage 2 of the 2005-06 Budget Process

Extract of Recommendations

Background

1. The Committee supports this change [new arrangements whereby resources which are deliberately set aside for future years are held in the Central Unallocated Provision (CUP)] as it provides for more accurate and realistic measurement of expenditure slippage in EYF (paragraph 23).

We are pleased to note the Committee’s positive response to the introduction of the new CUP mechanism.

2. The Committee supported this decision last year [to use additional funding which had been set aside following additional funding from the Treasury in 2003] as financially prudent and notes the impact on the new spending plans (paragraph 24).

We are pleased to note the Committee’s support for the Executive’s prudent financial management.

Executive Response to Stage 1 Report

3. The Committee believes that further improvement in the presentation of this information [cross-cutting themes, block grants to health and local government and efficiency and value for money] is required and the Committee will continue its dialogue with the Executive on this (paragraph 30).

We are pleased to see the Committee’s positive comments about the improvements we have made to the format of budgetary documents. We will work with the Committee to make further improvements to the presentation where changes would be beneficial to increase transparency. Further details on the specific areas highlighted by the Committee are given in the responses to the relevant recommendations.

4. The Executive should consult with the Committee on developing an appropriate target [for economic growth] (paragraph 34).

In line with our top priority of ‘growing the economy’, we have given precedence to programmes which promote economic development, and the Committee has commented positively on this. We have a responsibility to create the conditions for the economy to grow – in terms of education and skills, research and development, infrastructure, a climate for entrepreneurial dynamism and managing our resources effectively – and we have set targets for specific improvements in all these areas in the Spending Review.

However, economic growth depends on wider factors than the Executive’s programmes such as fiscal and monetary policy, the actions of the private sector, the business cycle and conditions in the global economy. For this reason, we do not consider that it would be appropriate to set a Spending Review target for a specific level of GDP growth. We believe it is more suitable to set targets in
areas where the Executive can have a direct impact, as described above, and which can contribute to the achievement of our top priority.

5. The Committee had recommended in its Stage 1 report that there should be a more streamlined Budget Process. The Executive agreed there should be clearly differentiated two year cycle with the AER and longer term strategy only covered in Spending Review years (i.e. every second year). Therefore, next year there will be no AER (paragraph 36).

We agree that the budget process should be streamlined, and officials are already in discussion to consider options to take this forward. As confirmed by the Deputy Minister for Finance, Public Services and Parliamentary Business during the debate on 23 December 2004, with the move to a clearly differentiated two year cycle, there will be no AER this year.

Summary of Subject Committees’ Reports

6. The Committee recommends that [the Executive] considers how the timetable for the budget could be revised to provide the flexibility required to ensure adequate time is available for committee scrutiny following Spending Reviews in situations where there is slippage in the process (paragraph 44).

We regret that the timing of the Spending Review announcement gave subject committees a more limited timeframe to undertake their scrutiny of the draft budget. The delay to the announcement was due to the publication of the Fraser Inquiry report and the need to set aside time to debate it, not to negotiations over the Partnership Agreement. We will review the timetable to try and ensure that sufficient time is available for committee scrutiny in the event of later Spending Review announcements. However, a certain amount of compression is inevitable. We are happy to discuss how this can best be managed and will look in particular at the balance of scrutiny between Stage 1 and Stage 2 of the process.

7. The Committee recommends that the Executive reconsiders how it presents portfolio budget priorities in the Draft Budget (paragraph 53).

Officials will discuss the format and presentation of information in the budget documents. We will consider the Committee’s suggestions on how portfolio activities are set out to make it clearer which are priorities.

Equality Proofing

8. The Committee regrets, therefore, that this year’s approach reflects the other cross-cutting sections’ information of previous years rather than the equality model. Further, the equality model itself contains mostly information on uncosted activities, which is of dubious relevance in a budget document, and last year’s progress has been rescinded by this outcome (paragraph 60).

The Executive is disappointed that the Committee has taken this view. Our goal has always been to provide year on year progress in improving the coverage of gender equality and other equality work in the budget documents and to achieve a greater level of consistency between equality and the other three cross-cutting priorities: growing the economy; closing the opportunity gap; and sustainable development. In the latest Draft Budget document, in response to recommendations made by the Finance Committee and the Equal Opportunities Committee, we have improved the level of consistency in the coverage and presentation of equality issues across all Departments.
The Committee will understand that with every document there is a need for consistency and clarity while being as concise as possible. We have attempted to improve consistency and clarity on equality issues to ensure that all Departments have been able to contribute in a meaningful manner. This does mean that some Departments who gave a large amount of detail about equality work in the Draft Budget 2004-05 have had to reduce the length of their entries on equality in the Draft Budget 2005-06 in order to accommodate longer sections on the other cross-cutting priorities and longer equality sections from Departments that previously had shorter or no sections on equality issues. We note the Committee’s position on this issue, however we do believe that the overall approach taken in the Draft Budget 2005-06 – summary sections on the four cross-cutting priorities in the introduction plus a section on each of them within each portfolio chapter, represents a further overall improvement.

9. The Committee recommends that the Executive implements the recommendation [for developing national performance targets in relation to equality] from the Equal Opportunities Committee (paragraph 62).

The Committee recommended this year that the Executive reduce the total number of its budget targets. Most Departments already have some equality targets, and we will continue to work to improve and refine all of our target setting to include where possible more disaggregation and sub-targets for equality groups.

The Scottish Executive as an employer has set a number of equality targets for its own workforce and is encouraging local authorities, NHSScotland and other public sector employers to increase the diversity of their own workforces through a range of measures.

For example, since the introduction of the Local Government in Scotland Act 2003, local authorities are under the duty of Best Value, and this includes a duty to discharge their functions in a manner which encourages equal opportunities and, in particular, the observance of existing equal opportunities law such as the public duty under the Race Relations (Amendment) Act 2000 to promote race equality. In relation to the NHS, the Diversity Task Force was set up earlier this year to provide strategic leadership and guidance to NHSScotland managers to ensure compliance with equal opportunities legislation and to create a more diverse NHSScotland workforce. As the Equal Opportunities Committee has recognised, the Scottish Executive does not have the competence to set employment targets for any independent employer, and it would be more appropriate for any such targets to be published in an employer’s own publication. However, we will consider what more can be done to draw together information about what public bodies are doing to promote equality within their own workloads.

10. The Committee accepts that an incremental approach [in respect of gender impact assessment studies] offers the most realistic prospect of progress, but is concerned at the apparent loss of momentum (paragraph 63).

We will continue to keep the Committee informed about progress in this area and in relation to the other areas of work being taken forward under the auspices of the Equality Proofing Budget and Policy Advisory Group.
11. The Committee recommends that the Executive examines the impact of lower than average increases in grant support year by year for local government on council tax bills, especially as council tax increases bear disproportionately on low/ fixed income households above the rebate threshold. The Committee is particularly concerned at the impact of proposed grant support levels at the end of the Spending Review period which it believes are likely to cause very considerable problems for local government (paragraph 70).

The Spending Review 2004 settlement for local government is robust, but it builds on the large increases provided to local government in previous settlements. By the end of the current settlement period, core funding through AEF will have increased by 55% since 1999-2000. The total funding now announced, of around £30 billion over the next 3 years, will allow local authorities to increase their spending to new record levels. The setting of council tax levels is, of course, a matter for local authorities. However, as we have repeatedly said, the Executive expects councils to keep council tax rises to reasonable levels and sees no reason for any council tax levels to rise above 2.5% for 2006-07 and 2007-08. For the coming year, we expect councils to keep rises as low as possible and urge them to take all steps possible to improve their council tax collection rates. For those who may have difficulty in paying, the Council Tax Benefit Scheme provides relief to over half a million households in Scotland, representing almost one quarter of all households in the country.

Objectives and Targets

12. The Committee recommends that the Executive reconsiders the merits of the following targets prior to Spending Review 2006, with a view to further reducing process-based targets. These are:

- COPFS (Target 2)
- Education and Young People (Targets 1-3)
- Health (Target 3)
- Food Standards Agency (Targets 1, 5, 6 and 7)
- Communities (Targets 2 and 9)
- Finance (Target 4)
- GRO (Targets 1 and 4)
- NAS (Targets 2 and 3) (paragraph 73)

We are pleased to see the Committee’s recognition of the improvements we have made in the targets set in Spending Review 2004. We are committed to making our targets as outcome-focused as possible. It would not be appropriate to change targets during a Spending Review period, but we will certainly review the targets highlighted by the Committee as process-based when we begin consideration of the targets for Spending Review 2006.
13. The Committee recommends that the Education, Social Work and Roads and Transport GAEs should be published in the Draft Budget, in the same way as Police and Fire (paragraph 76).

We are happy to comply with the Committee’s request to include details of GAE provision in the relevant portfolio chapters in future budget publications to help inform the Committee’s scrutiny of the budget process. However, we must stress that provision for GAE is not money, nor is it a spending target. It represents the level of expenditure which the Executive is prepared to support through grant and is used as a mechanism for distributing revenue funding using the needs-based methodology. Councils are, of course, free to incur additional expenditure over and above GAE levels, if they make commensurate savings in other areas of their budgets, or they may chose to spend less than GAE in one area to free up savings for use elsewhere. Alternatively, they can fund additional expenditure from tax, or use savings to lower tax, if they can justify it to the electorate.

In Spending Review years, GAE figures may need to be provisional and are unlikely to be available below portfolio level until after final decisions have been taken by portfolio Ministers and advised to CoSLA. We will discuss this in more detail with the Committee in the run-up to Draft Budget 2006.

Efficient Government

14. The Committee recommends that, in future, all portfolios should be treated in the same way in the application of cash-releasing efficiency targets (paragraph 90).

As the Committee is aware, we applied a general efficiency saving of 2% to local government during the Spending Review. This reflects the fact that local government is autonomous and not accountable to Ministers – for other parts of the public sector, portfolios can require or expect public bodies to deliver savings in identified ways, but we cannot do so for local government. For other portfolios, we took account in broad terms of the potential for savings in different portfolios in making financial allocations. This does not mean that local government has been unfairly treated. Furthermore, we are confident that the level of assumption set for local government is achievable, and we have identified other opportunities for savings where local government can retain the money realised.

15. The Committee recommends that the arrangements for planning, managing and reporting efficiency targets and performance should be considered jointly with the Executive as part of the review of the Agreement on the Budgeting Process between the Scottish Parliament and the Scottish Ministers agreed for next year (paragraph 91).

We have already committed to reporting progress to the Finance Committee on a regular basis and agree that the Executive and the Finance Committee should consider how this can best be done.

16. The Committee recommends that, in order to provide transparency in the Draft Budget 2005-06, the Executive should provide a complete list of the savings items per portfolio which are included in the £405m of cash releasing savings shown for 2005-06. To further clarify the position, the Executive should provide a similar list of the savings items per portfolio which are included in the £582m of cash releasing savings available for reallocation to front line services in 2006-07. The Committee would then have a full picture of savings items across the Spending Review period. (paragraph 100).
The technical notes on the cash-releasing savings, which we will publish by March 2005, will set out further details of the year on year savings to be delivered in each portfolio. We are discussing with Audit Scotland how best they can undertake scrutiny of the technical notes and targets.

*Scottish Parliamentary Corporate Body*

17. The Committee signalled that it would like to monitor this situation [of efficiency reviews within the Parliament] (paragraph 109).

18. The Committee recognised that there was a pressing need to consider having a much more detailed protocol which would set out every step of the scrutiny process and the responsibilities of the bodies involved [in the scrutiny of commissioners’ budgets]. The first step toward this is to set up a meeting between representatives of the Committee and the SPCB and the various commissioners and this is currently being actioned (paragraph 111).

*Audit Scotland*

19. The Committee notes the recommendations of the SCPA that the Parliament should approve Audit Scotland’s bid for a budget of £6.525 for the year 2005-06 (paragraph 113).

The recommendations in paragraphs, 109, 111 and 113 are not identified to the Executive, and it is, therefore, not appropriate for the Executive to respond to them.

January 2005
1. This paper sets out the procedure which must be followed in dealing with Stage 2 of the Budget Bill. The Budget Bill was published on 20 January 2005 and the Stage 1 debate took place on 27 January 2005.

2. The Bill is handled by the Parliament within strict timescales. In particular, it has to be passed by the Parliament no later than 30 days after the date of introduction. This means that Stage 3 has to take place this year no later than 19 February (and the written agreement between the Finance Committee and the Executive states that where possible, the Executive will timetable a debate prior to 14 February). As the Parliament will be in recess on those dates, the Stage 3 debate will take place on 9 February. Therefore, Stage 2 is being taken at today’s meeting.

3. Many members will probably be familiar with handling Executive legislation. Budget Bills, however, fall into a category of their own and procedures relating to them are governed separately by Rule 9.16 of standing orders.

4. Unlike other legislation, where amendments can be lodged by any member, at Stage 2 of a Budget Bill, amendments can only be lodged and moved by a member of the Scottish Executive.

5. Proceedings on amendments to Budget Bills are identical to those for other Bills. Where it is the case that no amendments are lodged to the Bill, the Committee is still required to agree each section and schedule of the Bill as well as the long title. As with other Bills, where sections and schedules to which no amendments are proposed fall to be considered consecutively, a single question can be put on those sections or schedules.

6. It is worth pointing out that it is not possible to leave out a section or schedule of the Bill by disagreeing to it. The Guidance on Public Bills states:

   Paragraph 4.77
   The Question on a section or schedule is only put if there is no amendment to leave out the section or schedule. In other words, any substantive decision on whether the section or schedule should remain in the Bill is taken on an amendment.

   Paragraph 4.78
   If no amendment to leave out the section or schedule has been lodged in advance, any member may lodge a manuscript amendment to leave it out. So long as such an amendment is admissible, the convener should always consent to it being taken.

7. Since the standing orders only allow amendments to a Budget Bill to be moved by a member of the Scottish Executive, Committee members would have to persuade the Minister to move a manuscript amendment to leave out the section or schedule in question. As it is unlikely that the Minister would agree to do so, the end result is that
there is no alternative for the Committee but to agree to the sections and schedules. The Parliament does, of course, have the option at Stage 3 of voting down the whole Bill.

Susan Duffy
Clerk to the Committee
Finance Committee

4th Meeting 2005, 1 February 2005

Cross Cutting Expenditure Review on Economic Development

Issues Paper

Peter Wood
1 Introduction

1.1 This paper is intended to summarise for discussion the principal issues which have arisen from the work to date of the Finance Committee’s investigation of Public Spending on Economic Development in Scotland. The paper draws on the review of expenditure on economic development undertaken by Peter Wood and on the evidence – oral and written – heard by the committee. It is proposed that the issues discussed form the main focus of the Committee’s report.

1.2 The issues are discussed under the following headings:

- Medium term trends in public spending on economic development activities in Scotland
- The balance between “urban” and “rural” spending
- Priorities for economic development spending in Scotland
- The influence of economic development considerations on public spending in general
- The relationship between the Executive’s “priority” to economic development and spending decisions.
2 Trends in spending on economic development

2.1 The review of spending levels and trends was based on a division of public spending into three categories – Primary spending, Support spending and Spending un-related to economic development.

2.2 Primary spending was classified as that which has the primary purpose of encouraging or increasing the level of economic activity. Support spending consists of spending on those public services which have most significance to economic development.

2.3 Tables 1.1 and 1.2 provide details of the specific elements of Scottish Budget spending which have been included in the first two categories listed above. A number of these expenditure elements have been switched between departmental budgets over the period of the study.

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2.4 Economic development is also supported by spending from Whitehall departments and by local authorities. This relates mainly to expenditure on “Trade, Industry, Energy and Employment” and “Agriculture, Fisheries, Food and Forestry”.

2.5 So far as Scottish Local authorities are concerned, direct support to economic development is provided through activities which mirror those of the development agencies – mainly support of advisory services, provision of premises and promotional activities. These items are included in the category “Planning and Economic Development” in the Local Government Financial Statistics. Capital spend on industrial premises can be identified separately. Elements of local government spending which were classified as supportive of economic development were:

- Leisure and recreation
- Culture and related services
- Education.
The preliminary research undertaken for the committee found that both Primary and Support spend have fallen as a proportion of the Scottish Executive budget over the life of the parliament. The decline in the relative importance of Primary spending has been even greater than in the case of support spending.

The relative decline in the share of the Budget allocated to economic development activity reflects, of course, the relatively slow growth of that element of expenditure. Over the period 1999 - 2005, the Scottish Budget has grown by 41% in real terms – a compound rate of 7% pa. In contrast, Primary economic development spend has grown by just 10% over the period and Support spend by 30%.

Data on spending on economic development and on support to economic development by Scottish Local Authorities were analysed for the year 2001-02. This is the most recent available and the first in which economic development spend was separated out from other planning and development.

Primary spending on economic development by local authorities is just over 10% of the equivalent spending by the Executive. If one excludes agricultural subsidies though CAP, then local government spending is about 14% of the corresponding Executive figure.

The pattern is very different in relation to support spend. Local government spending is broadly equivalent to Executive spending in this category – though that conclusion depends heavily on the inclusion of all education spending in the local government figure. Because of data limitations it is only possible to provide an analysis of total spend on economic development in Scotland for 2001-2002. The overall total for Primary spend in that year was £3,120 million. If one takes out agricultural support, this falls to £1,576 million. So far as support expenditure is concerned, the figure was £8,870 million. Over the period since the creation of the Parliament, Primary expenditure on economic development has grown more slowly than other elements of spending and has fallen from 7.4% to 5.5% of spending. If CAP spending is excluded from the analysis, the decline in the spending share of economic development is less sharp – from 5% in 1999 to 4% in 2004.

The expenditure analysis set out above has been discussed with economist and budget specialists from the Executive. These discussion have uncovered a number of anomalies and inconsistencies in the data series used in the analysis and revised figures will be included in the Committee report. However, these corrections do not alter the conclusions set out above.

The concepts of Primary and Support spend used above have been challenged by some evidence submitted to the committee. Some local authority evidence in particular argued that a far wider range of local government spending was supportive of economic development and the Minister for Finance argued in his evidence that a very wide range of public spending – including for example spending on social housing – was supportive of economic development.
2.13 The Scottish Executive’s economists argued that rather than analyse spending by departmental categories, it would be more appropriate to identify specific economic development objectives and then identify all the expenditure which supported those objectives. However, the Executive did not put forward any analysis on these lines and did not deny the very substantial practical and conceptual difficulties confronting this proposed approach.

2.14 Notwithstanding these criticisms, the main conclusions of the initial analysis remain robust. Over the period since devolution, expenditure on activities which involve direct promotion of or intervention in economic activity has grown more slowly than is the case for public spending as a whole and much more slowly than spending on health. There are possible alternative explanations of this pattern in the context of the Executive’s assertion that the economy is its first priority. These are:

- That other policy objectives – e.g. improving health or social housing or raising school performance have, in fact, been higher priorities
- That the Executive considers that the level of direct economic development spending which it “inherited” was broadly adequate and did not need to be substantially increased
- Following from the above, that the Executive does not consider that increased spending on economic development activities (such as those of Scottish Enterprise) would necessarily be effective in promoting economic development and that this objective is better pursued in other (unspecified) ways

2.15 The evidence of ministers did not produce a clear indication as to which of the above statements accorded with the position of the Executive – though the Finance Minister’s responses might be taken to imply the third argument.
3 The balance between urban and rural spending

3.1 The preliminary research undertaken for the committee found that spending on economic development activities which benefited rural areas appeared to be high relative to the share of Scotland’s population located in rural areas.

3.2 In particular it was concluded that:

- The greater part of the direct spend on economic development in Scotland (£3120 million in 2002) – 60% - is on activities which mainly benefit rural areas (i.e. agricultural price support under CAP, rural development and agricultural research)
- If CAP expenditure is excluded, programmes focussed mainly on rural areas account for 47% of the expenditure – rural Scotland accounts for 27% of the Scottish population according to Scottish Executive statistics

3.3 The Scottish Executive raised some objections to this analysis. Dr. Goudie (the chief Economist) suggested that not all spending classified as rural was solely of benefit to rural areas – though no specific instances were given. It was also argued that CAP spending should be excluded from the analysis on the grounds that the parliament has no effective control over this spending. It was also suggested that “support” spending, e.g. on transport, might be of more benefit to rural than to urban areas – again no specific evidence was presented on this point.

3.4 It is clear that over the life of the Scottish Parliament, spending on rural economic development has risen by 88% in real terms while the budget of Highlands and Islands Enterprise has risen 10% in real terms. In contrast, the budget of Scottish Enterprise (whose focus is more on urban Scotland) has fallen by 20% in real terms and spending on Regional Selective Assistance (again, mainly of benefit to urban areas) has fallen by 50%.

3.5 There may be sound reasons for the shift in spending patterns described above but they have not been revealed by any of the evidence presented to the committee.
4 Economic development priorities

4.1 The committee received evidence on economic development priorities from a number of non-governmental witnesses as well as from the Scottish Executive, Scottish Enterprise and Highlands and Islands Enterprise.

4.2 The witnesses from Government and government agencies made reference to the Framework for Economic Development in Scotland (FEDS) and to Smart Successful Scotland (SSS) as the key documents in setting out the Executive’s economic development priorities. However, it was clear from the evidence and from reading of these documents that while FEDS and SSS discuss the factors determining economic growth and, indeed the role of public sector investment, they do not set out specific spending priorities. For example, FEDS argues that six aspects of infrastructure are important to economic growth:

- Planning and the housing market
- Transport
- Schools
- Lifelong learning
- Electronic infrastructure
- Health care

4.3 FEDS discusses – in fairly general terms - the ways in which these elements impact on economic growth (e.g. ill-health leads to lost working time), but it is not possible to derive from FEDS any clear message as to where spending should be increased in relative or absolute terms. Thus the strong growth that has occurred in health spending over recent years may or may not be in part a reflection of the perceived importance of health care to economic growth.

4.4 The oral evidence from the Scottish Executive witnesses did not indicate that FED (or SSS) were playing a major role in shaping spending. Indeed, Dr. Goudie suggested that the relationship between the priorities in FEDS and public spending patterns was a subject which merited research (the implication being that this relationship is not presently known).

4.5 The overall conclusion with regard to this topic is that it has not been demonstrated that a policy framework exists which strongly influences the pattern of public spending so as to align spending with economic development priorities. Moreover, it is not evident from the available documents nor from oral evidence what the Executive regards as the main economic development priorities within the many elements identified in FEDS.
4.6 The views of non-government bodies and local authorities on economic development priorities and their relationship with public spending were varied. The balance of responses was to the view that spending had not grown sufficiently – particularly given the priority to be afforded to economic development and the growth of other spending. This view was qualified by several respondents on the grounds that not enough was known about the effects of spending.

4.7 It was very notable that areas identified by respondents as requiring increased spending tended to be closely aligned to the activities of those respondents – education sector respondents argued for more spending on skills and research, local authorities for more spending through local partnerships.

4.8 The most distinctive view on spending levels was provided by the Scottish Chambers of Commerce – this body argued for cutting back direct spending on economic development projects with funds diverted to spending on transport, on reducing regulatory burdens and on reducing business rates.

4.9 It remains the case, however, that there is no evident consensus among non-governmental bodies and local authorities concerning the priorities for public spending in relation to economic development.

4.10 The difficulties of achieving a consensus are not underestimated. Witnesses from the East Midlands Development Agency and from the Welsh Development Agency provided useful insights into the operation of decision-making around economic development issues in their areas. While witnesses were able to cite examples of agreement on priorities between stakeholders, it was not the case that in either area there was a clearly superior economic development model to that operating in Scotland.
5 The influence of economic development considerations on public spending

5.1 It is stated in FEDS that public expenditure proposals are evaluated for their social, economic and environmental impacts and that in this way spending decisions are supportive of the aims of FEDS.

5.2 The appraisal process so described is what may be termed standard good practice and is in line with established guidance produced by HM Treasury. This does not, in itself, establish that economic development is receiving any particular degree of priority in decision-making since it is not known how economic development impacts are being measured nor what weight is being given to those factors in the decision. Moreover, this appraisal procedure is essentially a tool for informing decisions to undertake specific projects or investment - e.g. whether or not to build a particular road or expand a particular programme. This does not illuminate the much higher level strategic decisions which precede individual project decisions – e.g. the relative priority to be given to spending on transport or to health care.

5.3 The written and oral evidence gave few insights into this process. For example, FEDS states that health care is important to economic development but there is, from available information, no way to establish readily to what degree the observed growth in health spending (up 55% in real terms between 1996 and 2005) is on services which will improve the health of working people.

5.4 Transport was identified by a number of witnesses as an area of great importance to economic development. Executive spending on transport grew in real terms by 66% between 1996 and 2005. However, growth in trunk roads spend over this period was almost nil while expenditure on public transport (which includes concessionary fares) grew by 350%.

5.5 It may be argued that spending on public transport contributes more to economic growth than spending on roads but this view would be contested by many of those who submitted evidence to the committee. The Minister for Transport stated in evidence that appraisals of road projects tended to show higher economic gains than did appraisals of other types of transport project. Despite this, the transport programme has seen a marked shift away from road building. This suggests either that the appraisal procedures are regarded as deficient or that factors other than economic growth – e.g. environmental factors or social inclusion – are being given considerable weight in decision making in relation to transport projects.

5.6 The evidence received by the committee has not demonstrated that the priority of economic growth is exerting a powerful impact on decisions made concerning the level or composition of public spending in areas which FEDS identifies as important to economic development.
6 Summary – the economic development “priority” and public spending

6.1 The Scottish Executive, in the person of the first minister, has stated that the growth of the Scottish economy is the first priority of the Executive. The principal tool available to the Executive in pursuing that priority is the Executive’s £23,000 million budget. Although issues of definition are disputed, research undertaken for the committee concluded that just 6% of that budget is spent on activities which are intended to promote directly economic development and, moreover, that the share of this item in the Scottish budget has been falling.

6.2 A notable feature of this “direct” spend on economic development is that a relatively high proportion is allocated to activities which assist rural economies.

6.3 From this pattern we may derive two key issues or implicit questions which have not been fully addressed or resolved in the evidence heard by the committee:

- Does the slow growth in direct economic development spend demonstrate that priority has not been given to economic growth or does it indicate that an increase in this type of spending is not regarded as the most effective means of promoting the growth of the economy?
- Are rural economic activities (or activities in rural areas) in relatively greater need of direct assistance than are businesses in other parts of Scotland?

6.4 The evidence in relation to what has been termed “support” spending is more mixed. Some elements of this spending (e.g. on transport) have grown strongly. However, this spending serves a wide range of aims and client groups. In the transport area, spending growth has been greatest in activities which, it may be argued, are of lesser importance than are road improvements to economic development. The importance of economic development considerations in decisions to increase spending on health, schools and housing are even less clear. The issues arising from this evidence are:

- That there is a lack of evidence that the overall pattern of spending on and investment in public services has been strongly influenced by economic development priorities
- That there is no evident framework of spending priorities linked to economic development aims
- That spending growth in transport has been most strongly driven by priorities other than economic development.
Finance Committee

4th Meeting 2005 – Tuesday 1 February 2005

Charities and Trustee Investment (Scotland) Bill - Financial Memorandum

Written Submissions

1. The Committee has now received supplementary correspondence from the Scottish Executive on the Financial Memorandum for the Charities and Trustee Investment (Scotland) Bill:

   Development Department
   Voluntary Issues Unit

   Thank you for your e-mail of 19 January 2005 highlighting the information requested by the Committee. I have set out this information below using the report references as headings.

   Col 2207-8

   The charities that have ceased to be NDPBs are:

   The Macaulay Land Use Research Institute
   The Hannah Research Institute
   The Rowett Research Institute
   The Moredun Research Institute
   The Scottish Crop Research Institute
   The Scottish Hospital Endowments Research Trust.

   Col 2209

   A copy of the letter sent to the sponsor divisions of the NDPBs in August 2002 is attached as are the responses from the sponsor divisions. The figures deriving from this were included in the regulatory impact assessment and published for comment along with the draft Bill in June 2004.

   Col 2218-2219

   Charities enjoy financial support from the public in three principal ways. In the time available we have been unable to obtain any comparative data other than that for England and Wales included below.

   The first is in the form of donations and funding. It is estimated by SCVO that in Scotland this amounted to some £258m from the general public, £54m from the private sector and £62m from charitable trusts in 2001. NCVO estimate that for the UK this figure came to almost £10 billion.
Secondly charities, along with other voluntary sector bodies also receive grants from government. In 2003-04 the Executive provided, both directly and indirectly some £374m to the voluntary sector in Scotland.

Together the two sources above account for about half of the income of Scottish charities, most of the remainder being self generated by for example trading.

The third way in which charities are supported is through government – primarily using tax reliefs and non domestic rates relief. Provisional Inland Revenue figures for the cost of all reliefs to charities in the UK during 2003-04 totalled some £2,360m. Of this some £760m was through non domestic rates relief. Non domestic rates relief to charities in Scotland during the same year came to between £78m to £85m. While we do not have a separate figure for the other tax reliefs for Scotland, as there are about 7 times as many charities in England in Wales as there are in Scotland, a very rough estimate of about £200m may be derived by apportioning this cost. This means that an estimate of the total cost of tax and rates reliefs for charities in Scotland appears to be about £280m. The actual figure is likely to be less rather than more than this as the profile of the charity sector in England and Wales differs from that in Scotland in that there are a higher proportion of large charities.

The estimated annual cost to the public purse of the regulatory regime set out in the Charities and Trustee Investments (Scotland) Bill will be some £4m per annum. The budget of the Charity Commission for England and Wales for next year is some £30m. The figure above does not include the possible cost of charitable status being lost by NDPBs.

I hope that the Committee members will find this helpful.

Your sincerely

Quentin Fisher
Charity Bill Team
Finance Committee

4th Meeting 2005 – Tuesday 1 February 2005

Charities and Trustee Investment (Scotland) Bill - Financial Memorandum

Written Submissions

1. Subsequent to its meeting on 18 January, the Committee has received supplementary submissions from the following:

- Scottish Council for Voluntary Organisations
- Office of the Scottish Charities Regulator

The Scottish Executive will also submit a further submission in due course.

SUBMISSION FROM SCOTTISH COUNCIL FOR VOLUNTARY ORGANISATIONS ON SECTION 7 (3) (B) OF THE CHARITIES AND TRUSTEES INVESTMENT (SCOTLAND) BILL AS IT PERTAINS TO THE NATIONAL COLLECTIONS OF SCOTLAND

SCVO understand that under the Charities and Trustee Investments (Scotland) Bill as drafted\(^1\) the National Collections, as Non-Departmental Public Bodies (NDPBs), would be able to choose to remain as NDPBs or as charities but not as both. This is for two reasons:

a) For several of these NDPBs their constitutions or other founding documents do expressly permit Ministers to direct their actions\(^2\)

b) Even when Ministerial involvement is limited to the appointment of trustees there is a legal argument that this in itself is a form of direction and is certainly a way of otherwise controlling the body\(^3\)

SCVO acknowledges that the bodies concerned are adamant that both NDPB and charitable status are fundamental to their effective operation and to lose either would be hugely damaging for a number of reasons, which they have set out in their evidence to both the Finance and the Communities Committees of the Scottish Parliament.

In its response to the Scottish Executive consultation and its written submission to the Communities Committee SCVO advocated dealing with the question of NDPBs by adopting Recommendation 5 of the Scottish Charity Law Review Commission 2001 (the McFadden Commission):

\(^1\) ‘A body… does not… meet the charity test if its constitution expressly permits a third party to direct or otherwise control its activities’ Charities and Trustee Investments (Scotland) Bill, Section 7 (3) (b)

\(^2\) ‘The legislation (that founded NMS) also provides that NMS may be subject to Ministerial direction.’ Written Evidence to the Communities Committee of the Scottish Parliament from National Museums of Scotland 19 January 2005

\(^3\) ‘…under the Bill as I read it, it could be stated that an organisation such as the National Galleries of Scotland, whose trustees are appointed by the First Minister, is under Government control.’ Oral evidence to the Communities Committee of the Scottish Parliament from Douglas Connell of Turcan Connell 15 December 2004
‘We recommend that where an organisation has been established by local or central government, such an organisation should not be accorded the status of Scottish Charity if the constitution of that organisation allows more than one third of the trustees to be directly or indirectly appointed by the establishing organisation.’

SCVO suggests that adopting the McFadden approach may provide a resolution for the National Collection NDPBs. SCVO does not have access to all the detail of the relationship between the Scottish Executive and these NDPBs but based on what we do understand of their status we submit that:

- Both charitable status and a meaningful link to government could be maintained while ensuring the degree of independence of governance crucial to the integrity of charitable status and the ‘charity brand’.
- As charities the constitutions of these bodies could contain whatever relevant provisions were required to retain public and donor confidence such as restrictions on powers of acquisition and disposal.
- They would continue to be eligible for government indemnity insurance, as we understand this to rely on the existence of a substantial dependence on government funding rather than the proportion of government appointees on the board.
- Appropriate conditions of grant or contract funding arrangements would allow a high level of accountability to Ministers with respect to the expenditure of public funds.
- The Executive could commit under TUPE to transferring and protecting identical staff conditions and benefits (including pension schemes).

For example, the board of the National Library of Scotland currently has a minority of board members appointed by central or local government and this does not appear to compromise the ability of the body to enjoy the major advantages of NDPB status.

SCVO commends this approach to the Finance and the Communities Committees as a means of not only resolving these few cases but of doing so without excepting organisations from the sound principles of independence and public benefit contained in the ‘charity test.’

SUPPLEMENTARY SUBMISSION FROM OFFICE OF THE SCOTTISH CHARITY REGULATOR

1. The Committee requested clarification of the position regarding Acceptance in Lieu, and how a possible change to their status might impact on the National Institutions ability to receive gifts and loans.

2. The Acceptance in Lieu scheme applies to works of art, manuscripts, inherited objects and historic documents which are “pre eminent”. The objects must be of particular historical, artistic or local significance, either individually or collectively. This would include objects which are of interest to both the National Institutions and to local organisations.

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4 ‘NLS is governed by a Board of up to 32 Trustees appointed as follows: 5 are appointed by the Scottish Executive... 2 by COSLA...’ Written Evidence to the Communities Committee of the Scottish Parliament from National Museums of Scotland 19 January 2005
3. Offers in lieu are made to the Inland Revenue. They must be approved by the Secretary of State for Culture Media & Sport, or the appropriate Minister in the devolved Government in Scotland. The Minister is advised by the Acceptance in Lieu panel, operated by MLA (Museums Libraries and Archives Council). The panel consists of independent experts, who seek specialist advice on the object offered. The panel recommends whether or not the object in question is pre eminent and advises on market value. The Minister decides whether or not the object should be accepted.

4. Objects accepted under the scheme can be allocated to any organisation, as defined in section 16 of the National Heritage Act 1980. This includes “any museum, art gallery, library, or other similar institution having as its purpose or one of its purposes the preservation for the public benefit of a collection of historic, artistic or scientific interest. Eligible organisations are therefore not restricted to the National Institutions, but can include any organisations with a relevant purpose. This would include local authority museums and galleries and independent museums and galleries.

5. Often items offered which have a strong link with a historic building of particular ownership, such as the National Trust or National Trust for Scotland property. AIL guidelines are that these items will be transferred to the owner of the building, so that they can remain in or return to their historic setting, provided there is sufficient public access.

6. In principle, therefore, the status of the current National Institutions such as the National Museums of Scotland and National Galleries of Scotland would not be affected by a loss of charitable status or alternatively loss of status as an NDPB. However, an offerer can make an offer conditional upon allocation to a specific institution and the AIL panel takes into account any wishes which have been expressed before offering advice to Ministers on appropriate locations. The status of the institution, as well as the importance of the recipient collection, might be a factor which potential donors would take into account. At this stage, this can only be a matter or speculation.

7. In terms of importance, the AIL report 2003-04 details the items offered in the year ending 31 March 2004. Twenty-four items, valued at £21.7m were accepted under the scheme and are available for public benefit. Of those, the allocation of 6 had yet to be decided. Of those listed as having been allocated, the single Scottish item was allocated jointly to the National Trust for Scotland and Paisley Art Museum and Galleries. Since the publication of the report, the Scottish Minister has agreed to one other item being allocated to a Scottish institution, although, for the moment, this remains confidential.

8. One area of the AIL Scheme where Scottish national institutions might be adversely affected if they were to lose charitable status is in the case where the item offered in lieu can settle a larger amount of tax than is actually payable by the offering estate. If a painting by Rubens can settle £5m of tax but the actual liability on the estate is only £2m, the Scottish gallery would have to raise the £3m to make good the difference to the
offering estate. In attempting to find this funding, an organisation which did not have charitable status could not take advantage of the Gift Aid provisions to help raise the sum.