1. **Scottish Solutions Inquiry**: The Committee will conduct a stock-taking session on the evidence it has received to date on its Scottish Solutions inquiry.

    Not before 4pm

2. **Budget Process**: The Committee will take evidence from-

    Mr Jim Wallace MSP, Deputy First Minister and Minister for Enterprise and Lifelong Learning

    accompanied by:
    Graeme Dickson, Head of Enterprise and Industrial Affairs, Scottish Executive;
    Mark Batho, Head of Lifelong Learning, Scottish Executive;
    Douglas Baird, Enterprise Networks Division, Scottish Executive; and
    Chris McCrone, Head of the Enterprise and Lifelong Learning Finance Team;
    Scottish Executive

    on the Scottish Executive’s 2004/05 budget proposals.

3. **Budget Process**: The Committee will consider issues to be included in a report to the Finance Committee.
The following meeting papers are enclosed:

**Agenda Item 1**

Paper on evidence received on the Scottish Solutions inquiry  
EC/S2/03/06/1

**Agenda Item 2**

Cover note  
EC/S2/03/06/2

SPICE briefing paper  
EC/S2/03/06/3

Extract from Draft Budget 2004-05 (paper copy only)  
EC/S2/03/06/4

The Draft Budget is available online at:
http://www.scotland.gov.uk/library5/finance/db05-29.asp

Paper from Professor Arthur Midwinter on the Draft Budget  
EC/S2/03/06/5

Guidance from Professor Arthur Midwinter on the Draft Budget  
EC/S2/03/06/6

The Committee’s webpage is at;
http://www.scottish.parliament.uk/enterprise/index.htm
Introduction

Committee members had agreed that this meeting, the last before the October recess, would provide an opportunity to review the evidence taken to date in the Scottish Solutions inquiry.

Issue

In order to assist this process a paper has been produced summarising the main issues raised to date in the Committee evidence sessions. This could form the basis of discussion at the meeting.

In addition members will receive separately:

- a set of the written evidence received by the deadline (30 September)
- follow-up written evidence from oral evidence sessions.

All this material will also be published on the Committee’s web page.

Recommendation

Members are invited to:

- discuss the evidence received to date;
- identify any additional written and/or oral evidence requirements.

Alasdair Morgan
Convener
Enterprise and Culture Committee
Meeting 7 October 2003
Scottish Solutions Inquiry: Evidence to date

Background
This paper attempts to set out the key arguments made by witnesses to date, to enable members to discuss the way forward for the inquiry.

Evidence

English White Paper proposals

1. The Committee has heard from all witnesses to date that the English White paper proposals contain three key elements which could lead to competitive disadvantage for Scottish higher education institutions. These are:

   - **differential top-up fees**: whereby universities in England and Wales would be allowed to charge additional up-front tuition fees up to a limit of £3,000 per annum;

   - **increased selectivity in research funding**: including the creation of a 6* Research Assessment Rating (created outwith the Research Assessment Exercise process, which last reported in 2001), and the concentration of research funding on 5 or 6 institutions.

   - **a substantial increase in research infrastructure funding**: which will be worth £500 million per year by 2004-05.

2. The White Paper proposals are predicated on the view that higher education is essential to economic development, and that England needs to increase participation from currently under-represented groups to develop its full potential. It should be noted that the English target for participation is slightly less than Scotland’s current position of around 51% participation by age cohort.

3. These proposals constitute a different approach to that taken in Scotland, where up-front tuition fees were abolished in 2001, and where research funding has been concentrated on excellent research wherever it takes place, rather than on particular institutions. Similarly, capital funding for universities has been subsumed into the main grant for some years, so that there is no similar ring-fenced funding for capital investment.

4. Were the proposals in the White Paper to be fully implemented, there would clearly be a major potential impact on Scottish higher education. This does not appear to have been taken into account to date - the Committee has
heard from several witnesses (including the Association of University Teachers (Scotland) (AUT(S)), the Scottish Higher Education Funding Council (SHEFC), and the NUS (Scotland)), that there was a lack of consultation from the Westminster government and departments prior to the publication of the white paper.

Impact of proposals

5. The major overall impact on Scottish higher education would be that some English and Welsh institutions could have access to significantly increased income streams.

6. The Committee has heard a number of different estimates of the total additional amount potentially available to the sector; the total additional amount per head of student population; and the total additional amount per institution. The Committee has also received evidence to suggest that such estimates are, at this stage, not robust, largely because much of the detail of the white paper is unclear. For example, the use to which additional fee income may be put by institutions has not been specified.

7. Regardless of the final figure, any substantial increase in resource to universities in England and Wales which is not available to universities in Scotland raises the issue of competitive disadvantage. According to some witnesses, including SHEFC and Universities Scotland, Scotland's universities, which the Executive has identified as key drivers of its economic strategy ‘Smart Successful Scotland’, risk becoming ‘second class’ in comparison with their English competitors.

8. The specific areas of concern raised with the Committee have been:
   - Scotland’s ability to conduct world-class research
   - cross border flows of students
   - the general need for additional resource for Scottish higher education.

9. These are discussed in more detail below.

World-class research

10. The Committee has received evidence from a number of witnesses on Scotland’s current ability to deliver world-class research in a number of fields. Scotland punches above its weight in terms of public research funding gained per head of population, and has done for some years.

11. The English proposals could affect Scottish research in at least two ways:

   - lower funding: which would affect both the volume of research and the quality of research facilities, leading in turn to a drain of qualified researchers away from Scotland; and
• **perception of lower quality**: the fact that Scotland has not adopted 6* ratings for research could indicate to international clients and potential students that the overall quality of research in Scotland is not as high as in England.

12. The combined impact of these factors could mean that Scottish universities would fall into a cycle of decline, where lower funding and poorer facilities mean recruitment and retention of high quality staff becomes more difficult, leading in turn to a lowered ability to gain funding for research from both public and private sources.

13. The English scheme of highly selectivised research funding, which has already begun to be implemented by the Higher Education Funding Council for England (HEFCE), gives the bulk of funding to a small number of institutions. The Scottish model focuses on rewarding excellence and on growing excellence.

14. None of the Committee’s witnesses to date has suggested that increased research selectivity in line with the English model should be adopted in Scotland; indeed the English model has been described as ‘fatally flawed’ by the Chairman of SHEFC.

15. The Committee has heard that research collaboration offers opportunities for Scotland to continue to compete internationally, and that Scotland’s size and national identity contribute to a more open attitude to collaboration. Witnesses have also stated that additional funding will be required both to kick-start collaboration and more generally to sustain the research infrastructure in Scotland.

**Cross-border flows**

16. As Committee members will be aware, Scottish students at Scottish universities do not pay up-front tuition fees. Instead, once their income reaches a set threshold (currently £10,000 per annum), they contribute a fixed amount to the graduate endowment fund.

17. At present, English students at Scottish universities pay a means-tested up-front fee for three years, while the Executive pays their fees for the final year. Scottish students at English universities also pay a means-tested up-front tuition fee. There are some exceptions for particular types of courses, but broadly speaking this is the position.

18. The Committee has heard evidence that the introduction of tuition fees up to £3,000 per annum, more than double the current amount, could have a number of potential effects on Scottish higher education.

19. Depending on the operation of the system, Scottish students might be liable for £9,000 fees if they studied for three years in England. This would mean that Scottish students would face additional financial barriers to study at the
university of their choice, or undertake the course of their choice, as some specialist courses are not available in Scotland.

20. English students might consider that, even with an additional year of living expenses, £9,000 less debt at the end of their course would be an attractive option, and might apply in higher numbers to Scottish universities. The Committee has heard from the NUS that there may be a perception among some admissions tutors that A levels are a more desirable entry qualification than Scottish Certificates of Sixth Year Studies or Highers, and that there might therefore be a ‘squeeze’ on Scottish applicants to Scottish university places.

21. The Committee has heard some evidence which suggests that, at the last time of fee uncertainty, English applications to Scottish universities actually fell, and therefore more Scots students took up Scottish places.

22. Students from other EU countries are not eligible to pay fees in Scotland. The expansion of the EU has been presented to the Committee as both an opportunity and a threat – a threat in terms of the possibility of a large number of highly qualified applicants from accession countries recognising that Scottish universities would be less expensive than English ones, but an opportunity in terms of marketing Scotland and potentially in terms of expanding Scotland’s skilled workforce in the longer term.

23. It has been pointed out to the Committee that the notion of ‘cheaper’ universities would militate against recruitment of overseas students, who may perceive that higher fees equal higher quality of education. According to Universities Scotland, overseas students bring in around £195M a year to the Scottish economy, as well as ensuring that universities maintain a global perspective and international student community.

Resources

Overview

24. The Committee heard from Universities Scotland that Scotland currently spends around 3.6% more per head of student population on higher education than England.

25. The proposals in the White Paper, both for fee income and research infrastructure, were to be implemented, the Committee has heard that this advantage would very quickly be eroded and then overtaken.

26. The bulk of the evidence received by the Committee has suggested that additional resources will be required for Scotland to maintain its competitive position both within the UK and internationally.

27. Members will be aware that top-up fees have been ruled out by all the political parties in Scotland. One of the main reasons for this view is the desire to maintain Scotland’s record of access to higher education. The Committee
has heard that research shows that debt-aversion is higher in Scotland than elsewhere in the UK, and that fear of debt is one of, if not the, major barriers to participation in higher education.

28. The Committee has heard evidence that the Executive’s overall budget has increased by a higher percentage than has the higher education budget (this figure does not include funding for higher education provided in further education colleges).

29. There may therefore be a case for additional investment in higher education – and potentially further education – if the Executive is to make good its claim that lifelong learning is a key priority.

Graduate Endowment Fund

30. The graduate endowment fund has been highlighted as a potential additional source of income; however almost all witnesses are opposed in principle to the use of this money to replace core university funding, and most witnesses told the Committee that the money should continue to be used to promote wider access, eg through bursaries.

31. There was some debate in meetings about both the threshold at which graduates become liable to contribute to the graduate endowment fund, and the total amount of contribution they should make. Members will recall that the Cubie Committee recommended that the threshold should be £25,000, to reflect the additional benefit a degree would be assumed to give. The actual threshold implemented by the Executive, in conjunction with the UK government, was £10,000. The English White Paper proposes that this threshold be raised to £15,000 – again this would apply to Scottish students as well as those in England and Wales. There was broad support for this aspect of the White Paper, although several witnesses were still of the view that the threshold should be at least £25,000.

32. In general, witnesses were opposed to increasing the burden of debt on students by increasing graduates’ contribution to the endowment fund, although Andrew Cubie considered that the issue should be raised again.

Business Contributions

33. Members raised the issue of potential private sector contributions to higher education. The Committee heard evidence from Universities Scotland that significant effort was directed by universities to this area of funding, but again that this type of support tended to be directed at specific outcomes and could not be used as a replacement for core funding.

Endowment Income

34. The Committee has received evidence that endowment income, whilst useful to universities, is often, like private research funding, linked to specific outcomes. In addition, recent falls in the stock market have meant that some
universities have seen significant losses to their endowment funds, and again witnesses were largely agreed that endowments could not replace core public funding.

**Impact on further education**

35. The Committee has not heard evidence to date suggesting that further education will be significantly affected by the White Paper proposals; however, the Association of Scottish Colleges has provided substantial written evidence which has been circulated separately.

36. One issue which has been raised is the extent to which the changes proposed in the White Paper might threaten Scotland’s existing world-leading developments in credit transfer and articulation between further education colleges and universities. Witnesses held the view that it was crucial that this distinctive element of Scottish tertiary education be maintained.
Introduction

The Draft Budget 2004-05 was published in September 2003. The Enterprise and Culture Committee is responsible for scrutinising the Enterprise and Lifelong Learning budget, and the Tourism, Culture and Sport budgets. This meeting will focus on the Enterprise and Lifelong Learning budget and the Deputy First Minister and Minister for Enterprise and Lifelong Learning will attend the Committee meeting to give evidence. The Minister for Tourism, Culture and Sport will attend the meeting on 28 October to give evidence on that budget.

Papers

To assist members in scrutinising the budget, the following papers have been attached:

- a SPICe paper giving an overview of the sections of the budget relevant to the Committee’s remit (EC/S2/03/06/3)
- the Enterprise and Lifelong Learning section of the Draft Budget 2004-05 (EC/S2/03/06/4)
- a paper from Professor Arthur Midwinter, Adviser to the Finance Committee, giving an overview of the Draft Budget 2004-05 (EC/S2/03/06/5)
- guidance for subject committees from Professor Arthur Midwinter (EC/S2/03/06/6)

Members should note that the papers from Professor Midwinter were prepared using an earlier version of the Draft Budget, so there may be some minor changes.

Scrutiny process

Members will recall that they agreed to focus on the ‘other’ section of the ELL budget for consideration at this meeting. Professor Midwinter has also highlighted the growth of the ELL budget compared to the overall budget growth as an issue members may wish to examine.

Following the meeting, the clerks will prepare a draft report to the Finance Committee on this section of the budget which will be brought to members for consideration on 28 October. The full report on both sections of the budget will be brought to members for consideration on 4 November.
A summary of the recommendations of the previous Enterprise and Lifelong Learning Committee’s last report on Stage 2 of the 2003-04 budget is attached to this paper as Annex A.

**Recommendation**

Members are invited to:

- scrutinise the draft budget proposals for 2004-05
- identify issues to be included in a draft report.

Alasdair Morgan
Convener
Annex A

Recommendations on Stage 2 2003-04 draft budget

- The Committee welcomes the draft outturn figures for 2001-02 for Stage 2, and looks forward to the provision of these figures being incorporated as part of the Stage 2 scrutiny process in future, preferably at level 3.

- The Committee recommends that future budget documents contain clear information on the amount of funds released by the Scottish Enterprise business transformation project, and the budget headings to which these funds have been diverted. The Committee recommends that its successor keep a watching brief on the development of this process.

- The Committee recommends that the Executive review the potential for three-year budgeting to be extended to Highlands and Islands Enterprise, and the Scottish Funding Councils for Further and Higher Education.

- The Committee welcomed the Minister’s commitment to provide figures at level 3 which would identify each budget heading under ‘other’ of more than £1 million.

- The Committee recommends that future budget information should contain clear information on policy-driven cross-cutting budgets, to enable members to scrutinise policy drivers as well as Departmental spend.

- The Committee seeks additional information on the Executive’s analysis of the scale and impact of the loss of European Structural Funds, and the measures proposed within the ELL budget to alleviate this impact.

- The Committee seeks additional information on plans and performance for the Improving Regulation in Scotland (IRIS) unit.

Extracted from the Enterprise and Lifelong Learning Committee’s report, published 15 November 2002
This paper provides a summary and analysis of the Enterprise & Lifelong Learning and Tourism Culture and Sport aspects of the Scottish Executive’s Draft Budget 2004-05. It has been produced to assist the Enterprise and Culture Committee in its scrutiny of the Draft Budget 2004-05 at stage 2.
**THIS YEAR’S BUDGET PROCESS**

Due to the Parliamentary election in May of this year, the budget process for 2004-05 has been truncated. In practical terms, this means that scrutiny of the Executive’s spending plans for financial year 2004-05 has moved directly to stage 2 following the publication of *Draft Budget 2004-05* (Scottish Executive, 2003b). For further information on the Budget process, see SPICe Briefing 03-24, *Guide to the Scottish Budget – Subject Profile*.

The *Draft Budget 2004-05* does not include the allocation of money via End-Year Flexibility (EYF) although the *Draft Budget* does state that £34.40m of EYF money will be allocated to the Enterprise and Lifelong Learning (ELL) budget and £0.60m to the Tourism, Culture and Sport (TCS) budget (Scottish Executive, 2003b, p7). This represents 7.8% of total EYF money (this year, £441m) being allocated to ELL and 0.14% of total EYF money being allocated to TCS.

The Minister for Finance and Public Services made no specific mention in his speech to Parliament as to how these extra funds to the ELL and TCS budgets will be allocated. The incorporation of EYF monies into the ELL and TCS budgets will result in changes to the figures from those published in the *Draft Budget*. Committee members may wish to obtain evidence from the Scottish Executive regarding allocation of EYF monies within the ELL and TCS budgets.

**BUDGETARY STRUCTURE**

The Enterprise and Culture Committee remit covers two main budget portfolios: Enterprise and Lifelong Learning; and Tourism, Culture and Sport. *Draft Budget 2004-05* plans Total Managed Expenditure (TME) for ELL to be £2,351.29m in 2003-04, rising to £2,561.60m in 2005-06 – this represents an increase of 8.9%. The Total Managed Expenditure (TME) for TCS in 2003-04 is planned to be £206.06m rising to £265.38m in 2005-06, representing an increase of 28.8%.

The Enterprise and Lifelong Learning portfolio covers eight level 2 programmes:

- Student Awards Agency for Scotland (SAAS) – this covers spending on tuition fees, grants and bursaries, student loan subsidies, and Student Loans Company administration costs
- Scottish Higher Education Funding Council (SHEFC) – this provides funding for education and research in 20 higher education institutions
- Scottish Further Education Funding Council (SFEFC) – this provides financial support to Scotland’s 46 further education colleges, but not the Scottish Agricultural College or the North Atlantic Fisheries College which are funded by the Environment and Rural Affairs Department
- Scottish Enterprise – Scottish Enterprise is funded to advance the aims set out by the Scottish Executive in a *Smart, Successful Scotland* and its budget covers spending on the main projects outlined in that document: “growing business,” “global connections” and “skills and learning”
- Highlands and Islands Enterprise (HIE) – HIE is funded to promote economic and social development in the Highland and Islands of Scotland, and its budget covers “growing businesses,” promoting “global connections,” promoting “learning and skills” and “strengthening communities”
- Regional Selective Assistance – is designed to assist companies’ investment projects in the assisted areas of Scotland
Enterprise and Lifelong Learning Other – covers a number of projects including “Learndirect Scotland,” “Energy Efficiency,” “Scottish Renewables Obligation,” “Innovation Support,” “Scottish Qualifications Authority” and “improving transitions to education, training and employment”

European Structural Funds – the Scottish Executive have devolved responsibility for implementing European Structural Funds programmes in Scotland, and the spending covers schemes like the European Social Fund, the European Regional Development Fund, and the non-scheme elements of the European Agricultural Guarantee and Guidance Fund

The Tourism, Culture and Sport spending plans are divided into six level 2 components of expenditure: VisitScotland, National Institutions, the Scottish Arts Council, Other Arts, sportscotland and Historic Scotland. The Draft Budget 2003-04 outlines the Executive’s aims for “what the Budget does” for Tourism, Culture and Sport. The overarching aim is:

to enhance everyone’s quality of life in Scotland through widening participation in sport and culture and building on a successful and sustainable tourism sector to create jobs and opportunity (Draft Budget 2003-04, p 53).

KEY TRENDS IN DRAFT BUDGET PLANS

ENTERPRISE AND LIFELONG LEARNING

The current spending plans for ELL are outlined in tables 1 and 2 below.

Table 1: Level 2 Enterprise and Lifelong Learning Spending Plans (£m)

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Awards Agency for Scotland</td>
<td>360.35</td>
<td>370.31</td>
<td>371.27</td>
</tr>
<tr>
<td>Scottish Higher Education Funding Council</td>
<td>737.52</td>
<td>781.57</td>
<td>815.61</td>
</tr>
<tr>
<td>Scottish Further Education Funding Council</td>
<td>428.45</td>
<td>465.45</td>
<td>503.45</td>
</tr>
<tr>
<td>Scottish Enterprise</td>
<td>461.2</td>
<td>448.7</td>
<td>440.7</td>
</tr>
<tr>
<td>Highlands and Islands Enterprise</td>
<td>91.55</td>
<td>92.05</td>
<td>92.05</td>
</tr>
<tr>
<td>Regional Selective Assistance</td>
<td>43.21</td>
<td>40.21</td>
<td>48.21</td>
</tr>
<tr>
<td>&quot;Other&quot; Enterprise and Lifelong Learning</td>
<td>90.51</td>
<td>119.31</td>
<td>151.81</td>
</tr>
</tbody>
</table>

European Structural Funds

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government expenditure</td>
<td>86.9</td>
<td>83.95</td>
<td>82.9</td>
</tr>
<tr>
<td>Central government support to local authorities</td>
<td>51.6</td>
<td>62.8</td>
<td>55.6</td>
</tr>
</tbody>
</table>

Total                      | 2351.29 | 2464.35 | 2561.6  |

Source: Scottish Executive, 2003b
Table 2: Level 2 Enterprise and Lifelong Learning Spending Plans in REAL TERMS at 2003-04 prices (£m)

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Awards Agency for Scotland</td>
<td>360.35</td>
<td>361.28</td>
<td>353.38</td>
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<tr>
<td>Scottish Higher Education Funding Council</td>
<td>737.52</td>
<td>762.51</td>
<td>776.31</td>
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<tr>
<td>Scottish Further Education Funding Council</td>
<td>428.45</td>
<td>454.1</td>
<td>479.19</td>
</tr>
<tr>
<td>Scottish Enterprise</td>
<td>461.2</td>
<td>437.76</td>
<td>419.46</td>
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<tr>
<td>Highlands and Islands Enterprise</td>
<td>91.55</td>
<td>89.8</td>
<td>87.61</td>
</tr>
<tr>
<td>Regional Selective Assistance</td>
<td>43.21</td>
<td>39.23</td>
<td>45.89</td>
</tr>
<tr>
<td>&quot;Other&quot; Enterprise and Lifelong Learning</td>
<td>90.51</td>
<td>116.4</td>
<td>144.49</td>
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<tr>
<td><strong>European Structural Funds</strong></td>
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<tr>
<td>Central government expenditure</td>
<td>86.9</td>
<td>81.9</td>
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<tr>
<td>Central government support to local authorities</td>
<td>51.6</td>
<td>61.27</td>
<td>52.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2351.29</td>
<td>2404.25</td>
<td>2438.16</td>
</tr>
</tbody>
</table>

Source: Scottish Executive, 2003b

- Over the planning period, the Enterprise and Lifelong Learning budget will grow by 3.7% in real terms
- This compares with a 7.3% real terms increase in the Total Managed Expenditure of the Scottish Executive over the planning period
- Over the planning period, the ELL share of the budget will decrease from 10.33% in 2003-04 to 9.99% in 2005-06
- The biggest increases within the ELL budget are: other enterprise and lifelong learning which will grow by 59.64% in real terms, Scottish Further Education Funding Council which will grow by 11.84% in real terms, Regional Selective Assistance which will grow by 6.20% in real terms and Scottish Higher Education Funding Council which will grow by 5.26% in real terms
- The budget of the Student Awards Agency will decrease by 1.93% in real terms, Highlands and Islands Enterprise will have their budget reduced by 4.30% and the Scottish Enterprise budget will decrease by 9.05%
- European Structural Funds stemming from “Central Government expenditure” will decrease by 9.19% and “Central government support to local authorities” will increase by 2.56%

Given that the Executive Partnership Agreement states that “growing the economy is our top priority,” (Scottish Executive 2003a, p6) the Committee may want to ask the minister why the ELL budget will increase at a lower rate than Total Managed Expenditure over the planning period. The Committee may also wish to seek an explanation from the Minister for the real terms decrease in the Scottish Enterprise and Highlands and Islands Enterprise budgets over the planning period.
TOURISM, CULTURE AND SPORT

The current spending plans for TCS are outlined in tables 3 and 4 below.

**Table 3: Level 2 Tourism, Culture and Sport Spending Plans (£m)**

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>VisitScotland</td>
<td>31.76</td>
<td>33.77</td>
<td>36.77</td>
</tr>
<tr>
<td>National institutions</td>
<td>58.86</td>
<td>60.43</td>
<td>62.23</td>
</tr>
<tr>
<td>Scottish Arts Council</td>
<td>36.42</td>
<td>41.87</td>
<td>43.67</td>
</tr>
<tr>
<td>Other arts</td>
<td>26.34</td>
<td>28.7</td>
<td>34.2</td>
</tr>
<tr>
<td>sportscotland</td>
<td>15.39</td>
<td>28.51</td>
<td>46.61</td>
</tr>
<tr>
<td>Historic Scotland</td>
<td>37.29</td>
<td>39.7</td>
<td>41.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>206.06</td>
<td>232.98</td>
<td>265.38</td>
</tr>
</tbody>
</table>

Source: Scottish Executive, 2003b

**Table 4: Level 2 Tourism, Culture and Sport Spending Plans in REAL TERMS at 2003-04 prices (£m)**

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>VisitScotland</td>
<td>31.76</td>
<td>32.95</td>
<td>35</td>
</tr>
<tr>
<td>National institutions</td>
<td>58.86</td>
<td>58.96</td>
<td>59.23</td>
</tr>
<tr>
<td>Scottish Arts Council</td>
<td>36.42</td>
<td>40.85</td>
<td>41.57</td>
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<tr>
<td>Other arts</td>
<td>26.34</td>
<td>28</td>
<td>32.55</td>
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<tr>
<td>sportscotland</td>
<td>15.39</td>
<td>27.81</td>
<td>44.36</td>
</tr>
<tr>
<td>Historic Scotland</td>
<td>37.29</td>
<td>38.73</td>
<td>39.88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>206.06</td>
<td>227.3</td>
<td>252.59</td>
</tr>
</tbody>
</table>

Source: Scottish Executive, 2003b

- Over the planning period, the TCS budget will increase by 22.58% in real terms, substantially higher than the planned 7.3% real terms increase in Total Managed Expenditure of the Scottish Executive.
- Over the same period, the TCS share of the Scottish Budget will increase from 0.91% to 1.03%.
- All aspect of the TCS are set to increase, with the largest increases going to sportscotland whose budget will increase by 188.24% from £15m to £44m, other arts whose budget will increase by 34.97% and a 14.14% increase in the Scottish Arts Council budget.

“OTHER” ENTERPRISE AND LIFELONG LEARNING

At its meeting on 9 September 2003, the Enterprise and Culture committee agreed to “focus its evidence session for Stage 2 of the 2004/05 budget process on the ‘Other’ category of spending within Enterprise and Lifelong Learning” (from meeting minutes). As is mentioned above, the Draft Budget 2004-05 shows that the “Other” ELL budget is set to increase from £90.51m to £151.81m over the planning period, representing an increase of 59.64% in real terms.
Table 5 provides more detailed categories of spending for the Other ELL budget, and it reveals that the areas with the largest increases in spending are Education Maintenance Allowance, Enterprise in Education and Miscellaneous.

Table 5: Level 3 Other Enterprise and Lifelong Learning spending plans (£m)

<table>
<thead>
<tr>
<th></th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Maintenance Allowance</td>
<td>5</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>Learn Direct Scotland</td>
<td>8.4</td>
<td>8.65</td>
<td>8.9</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>6.1</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Renewable Obligations (Scotland) (SRO)</td>
<td>18.9</td>
<td>18.9</td>
<td>18.9</td>
</tr>
<tr>
<td>Innovation support</td>
<td>7.43</td>
<td>7.6</td>
<td>7.8</td>
</tr>
<tr>
<td>New initiatives</td>
<td>4.5</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Research</td>
<td>1.31</td>
<td>1.31</td>
<td>1.31</td>
</tr>
<tr>
<td>Royal Society of Edinburgh</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Digital inclusion</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Scottish Qualifications Authority</td>
<td>1.5</td>
<td>1.55</td>
<td>1.6</td>
</tr>
<tr>
<td>Scottish Credit and Qualifications Framework</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Enterprise in education</td>
<td>7</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>Beattie Inclusiveness</td>
<td>1.48</td>
<td>1.68</td>
<td>1.88</td>
</tr>
<tr>
<td>Adult literacy and numeracy</td>
<td>2.35</td>
<td>2.95</td>
<td>3.35</td>
</tr>
<tr>
<td>Scottish Union Learning Fund</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Sector Skills Council</td>
<td>0.65</td>
<td>0.65</td>
<td>0.65</td>
</tr>
<tr>
<td>Export Partnership</td>
<td>0.72</td>
<td>0.72</td>
<td>0.72</td>
</tr>
<tr>
<td>HQ and training grants</td>
<td>0.44</td>
<td>0.64</td>
<td>0.64</td>
</tr>
<tr>
<td>ILA Scotland</td>
<td>15.4</td>
<td>18.4</td>
<td>18.9</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5.93</td>
<td>14.16</td>
<td>17.96</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90.51</strong></td>
<td><strong>119.31</strong></td>
<td><strong>151.81</strong></td>
</tr>
</tbody>
</table>

Source: Scottish Executive, 2003b, p118

The Draft Budget documents outline what each of the headings is responsible for attaining (pp118-120), and makes a statement of priorities (p120), but there is no costing of these priorities, making them difficult to monitor. These are issues that members may wish to raise with the Minister.

**BUDGETARY ISSUES**

This section summarises the concerns expressed by the Committee in last year’s process. These were:

- Whilst looking at expenditure allocated to Scottish Enterprise, the Committee was concerned that the amount of funding released back into the budget from the business transformation project, and the budgetary headings into which these funds had been diverted, was not presented as clearly as it could have been. The Committee recommended that its successor ensure that future budgets present such details in a transparent manner.
• The Committee recommended that future budgets should provide clear information on policy-driven cross-cutting budgets, to enable members to scrutinise policy drivers as well as departmental spend.
• The Committee requested additional information on the Executive’s analysis of the scale and impact of the loss of European Structural Funds, and the measures proposed within the ELL budget to alleviate this impact.

The committee may wish to consider whether these issues have been adequately addressed in the Draft Budget 2004-05 document.

OBJECTIVES AND TARGETS

The ELL budget portfolio lists 8 Objectives and 14 Targets (pp 95-96) and the TCS portfolio has 6 Objectives and 9 Targets (pp 59-60). In addition individual agencies and NDPBs have their own targets for service delivery, for example, “process 50% of applications within 12 days of receipt” (SAAS), or in support of organisational objectives, for example, the number of FTE students in HE institutions 2004-05 is planned to be 133,350 (SHEFC). The supporting text also describes a number of smaller programmes, for example, “a pilot training course in leadership skills for head teachers” (p97).

As with most government programmes it is easier to quantify inputs and express these in money terms than it is to quantify and value outputs. The Committee may wish to consider whether the Budget document provides adequate quantification of outputs and progress towards desired outcomes.

POLICY DEVELOPMENTS – BUDGETARY IMPLICATIONS

The Executive’s Partnership Agreement stated that “growing the economy is our top priority” (Scottish Executive 2003a p6). The Enterprise and Culture Committee may wish to assess whether the budget documents allow for effective measurement of the priorities outlined by the Executive in the Partnership Agreement (Partnership Agreement, p6-7). For example:

• Has the Executive placed enough emphasis on cross-cutting priorities in their expenditure proposals?
• Is it clear in the draft budget where the money to meet targets and outputs will come from?
• How useful are the targets set out by the Executive in the partnership agreement and also in the Draft Budget 2004-05? In particular, are they measurable and do they provide a mechanism to monitor performance and aid accountability?

In looking at the Draft Budget 2004-05, the Committee may also want to think about the Budget in the context of their inquiry into Higher Education funding, and indeed the other policy priorities the Committee have outlined in their Work Programme. Do the spending priorities of the Executive’s Budget documents reflect the collective priorities of the Committee?
REFERENCES


Enterprise and Culture Committee

Meeting 7 October 2003

Draft Budget 2004-05

The relevant section of the Draft Budget 2004-05 is attached.

Simon Watkins
Clerk
Introduction

1. The Draft Budget for 2004-05 has a number of stylistic changes which bring a tighter focus to the presentation of information, and greater consistency across departments than the 2003-04 report.

2. The five functional priorities – health, education, crime, transport and jobs – receive little attention. The Draft Budget refers to BABS as “setting out the priorities for each budget area”, and emphasising “the Executive’s commitment to cross-cutting issues such as closing the opportunity gap, sustainable development, and equality”. This appears to infer that the ‘peoples priorities’ refer to their own programme objectives and priorities, rather than being political priorities for resource allocation. The Finance Committee last year took the view that the Executive had too many priorities to be meaningful as a guide to budget decisions.

3. There are sections in each portfolio on opportunity, sustainability and equality. However, the first two tend to be discussed in the form of statements of policy and practice, rather than as specific items with costs which contribute directly to these broad priorities. Equality, by contrast, provides a more useful model in that it highlights specific funding decisions which target equality groups.

4. The Draft Budget also reports a change in the cost of capital charges under RAB, from 6% to 3.5%. This may make sense in terms of accounting theory, but it further disrupts the time series of spending data – making four different price bases in use since 1999 – which makes monitoring performance and priorities problematic.

5. EYF funding is presented separately, to assist comparisons with 2003-04. This is consistent with a previous agreement between the Minister and the Committee. Moreover, transparency is further enhanced by the absence of cumulative accounting from the document.

6. The description of the methodology for accounting for changes over the Spending Review period is consistent with the commitment made by the Deputy Minister last year over this issue – to set these out clearly in resource
terms. Moreover, the proposals for using new resources are set out in a discrete section as the Committee requested. The chapter framework is:

- objectives and targets
- spending plans 2003-06
- what the budget does
- portfolio priorities
- new resources
- closing the opportunity gap
- sustainable development
- equality
- level 2 programmes
- performance

Budget Trends and Priorities
7. The Draft Budget reports a change to the provision under Resource Accounting and Budgeting to the cost of capital charges, thereby reducing budget provision for this in contrast with last year’s Draft Budget – but as it also states – this change does not effect the Executive’s actual cash expenditure on its programmes. However, it can effect changes in departmental shares of the Budget at the margins, and makes strict comparisons with last year's documents impossible. I have, therefore, simply calculated the increases using 2003-04 as the baseline year. The Scottish Budget will grow by 12.3% over two years, and as the Executive is assuming inflation of 2.5% pa, this confirms the trend in real terms identified last year.

8. In terms of budget portfolios, the major programme increases are in education and young people, tourism, culture and sport, health and community care, and transport – all receiving above average increases – whilst justice, communities, enterprise and lifelong learning; and finance and public services all receive below average increases. This seems somewhat inconsistent with the stated priorities (Table One).

9. Comparisons are complicated by the block allocation system for local government. In Table Two, I set out the spending provision for the major services by local government, and this provides average increases for education and police, and below average for roads. Once the roads GAE is added to the transport budget, then the increase falls to 11%, just below average. The low increase for communities also seems inconsistent with making closing the opportunity gap a spending priority.

10. Finally, the low increase for enterprise and lifelong learning – which mainly funds tertiary education, training, and economic development – seems inconsistent with the renewed emphasis on economic growth – even though the Minister states that the spending plans will help create the conditions for improved economic growth. In the light of our Dunkeld discussions, I have
examined the balance of capital to operating expenditure. These figures show an increase over last year’s Draft Budget, which will grow from £1580 millions to £1645 millions by 2005-06, or 4.1%. Last year, the growth over the Spending Review period was in line with the overall rate of budgetary growth, but the lower rate of growth in this budget may reflect the additional funding provided for 2003-04 or £143 millions over SR2002 plans. Members should also note that payments under PPP are broadly stable over the period, an issue which concerned the Committee in the first term.

11. The report also announces additional funding of £328 millions, from accounting changes to the arrangements for council housing transfers and an overprovision for appeals in Non-Domestic Rate Income (NDRI). These sums will be spread over three years. The full announcement over EYF will explain this further, and be dealt with at that time.

**Issues for discussion by Members**

- the need for clarification over Executive priorities, and possible ranking;
- the low increases for Justice, ELL and Communities budgets;
- the balance of capital to revenue spending;
- the problem of linking objectives and targets with budgets;
- the handling of crosscutting issues;
- the ‘new resources’ allocations;
- the practice of highlighting staffing changes from an equalities perspective in the administration portfolio.
- any other strategic issues.

Professor Arthur Midwinter
### Table 1: Budget Increases 2003-04 to 2005-06

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Justice</td>
<td>10.0</td>
</tr>
<tr>
<td>2. COPFS</td>
<td>5.2</td>
</tr>
<tr>
<td>3. Education and Young People</td>
<td>44.4</td>
</tr>
<tr>
<td>4. Tourism, Culture and Sport</td>
<td>28.8</td>
</tr>
<tr>
<td>5. Health and Community Care</td>
<td>17.6</td>
</tr>
<tr>
<td>6. Food Standards Agency</td>
<td>59.0</td>
</tr>
<tr>
<td>7. Enterprise and Lifelong Learning</td>
<td>8.9</td>
</tr>
<tr>
<td>8. Communities</td>
<td>8.5</td>
</tr>
<tr>
<td>9. Transport</td>
<td>17.5</td>
</tr>
<tr>
<td>10. Environment and Rural Development</td>
<td>3.7</td>
</tr>
<tr>
<td>11. Finance and Public Services</td>
<td>10.1</td>
</tr>
<tr>
<td>12. Capital Modernisation Fund</td>
<td>n/a</td>
</tr>
<tr>
<td>13. Administration</td>
<td>4.0</td>
</tr>
<tr>
<td>14. Scottish Parliament and Audit Scotland</td>
<td>n/a</td>
</tr>
<tr>
<td>15. Contingency Fund</td>
<td>+50</td>
</tr>
</tbody>
</table>

**Total Budget** +12.3
<table>
<thead>
<tr>
<th>Service</th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>3409</td>
<td>3686</td>
<td>3852</td>
</tr>
<tr>
<td>Social Work</td>
<td>1629</td>
<td>1740</td>
<td>1815</td>
</tr>
<tr>
<td>Police</td>
<td>889</td>
<td>938</td>
<td>998</td>
</tr>
<tr>
<td>Fire</td>
<td>233</td>
<td>248</td>
<td>262</td>
</tr>
<tr>
<td>Roads and Transport</td>
<td>426</td>
<td>442</td>
<td>458</td>
</tr>
<tr>
<td>Leisure and Recreation</td>
<td>269</td>
<td>280</td>
<td>291</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>850</td>
<td>790</td>
<td>816</td>
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<tr>
<td><strong>Total GAE</strong></td>
<td><strong>7703</strong></td>
<td><strong>8124</strong></td>
<td><strong>8492</strong></td>
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</table>
Table 3: New Resources in Draft Budget 2004-05 (£m)

<table>
<thead>
<tr>
<th>Category</th>
<th>2003-4</th>
<th>2004-5</th>
<th>2005-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Justice</td>
<td>0.5</td>
<td>13.5</td>
<td>25.0</td>
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<tr>
<td>2. COPFS</td>
<td>-</td>
<td>0.4</td>
<td>0.7</td>
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<tr>
<td>3. Education and Young People</td>
<td>-</td>
<td>29.0</td>
<td>49.0</td>
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<tr>
<td>4. Tourism, Culture and Sport</td>
<td>1.0</td>
<td>1.0</td>
<td>14.0</td>
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<tr>
<td>5. Health and Community Care</td>
<td>12.0</td>
<td>36.5</td>
<td>32.0</td>
</tr>
<tr>
<td>6. Food Standards Agency</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7. Enterprise and Lifelong Learning</td>
<td>20.0</td>
<td>10.0</td>
<td>15.0</td>
</tr>
<tr>
<td>8. Communities</td>
<td>15.0</td>
<td>n/a</td>
<td>45.0</td>
</tr>
<tr>
<td>9. Transport</td>
<td>5.0</td>
<td>36.7</td>
<td>43.0</td>
</tr>
<tr>
<td>10. Environment and Rural</td>
<td>8.6</td>
<td>9.4</td>
<td>9.4</td>
</tr>
<tr>
<td>11. Finance and Public Services</td>
<td>62.6</td>
<td>36.1</td>
<td>41.2</td>
</tr>
<tr>
<td>12. Administration</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>124.7</strong></td>
<td><strong>172.6</strong></td>
<td><strong>274.3</strong></td>
</tr>
</tbody>
</table>
Enterprise and Culture Committee

Meeting 7 October 2003

2004-05 Draft Budget: Guidance to Subject Committees
Paper by the Finance Committee’s Budget Adviser

1. The budget process this year has been truncated because of the May elections. There has been no Annual Expenditure Report, although Committees had some opportunity to discuss strategic priorities prior to the 2002 Spending Review.

2. This means that no spending recommendations have been made at Stage One for Ministers to consider, and that as this is the midway point between Spending Reviews, there is only limited scope for adjusting the budget at the margins. There is, therefore, no need to ask for spending recommendations in the event of additional funding becoming available, as last year. Rather, the Committees should consider whether the pattern of expenditure within its portfolio is acceptable, or whether it wishes to recommend transfers between programme budgets.

3. Thirdly, it appears from messages emerging from the Treasury that next year’s Spending Review will bring the first tight settlement since devolution. The Finance Committee, therefore, advises the subject committees to be forensic in their questioning of Ministers, with a view to obtaining the best available supplementary evidence on the financial and policy assumptions underpinning the draft budget, so that they can begin to develop a systematic and rigorous ranking of their own spending priorities for the Spending Review 2004.

4. With these comments in mind, the Finance Committee would welcome responses from the subject committees on the undernoted key questions:

   a) Is the committee satisfied that any outstanding issues from last year have been addressed in the budget proposals (where appropriate)?

   b) Is the committee content with the additional funding proposals made by the Executive under the Partnership Agreement, or would it suggest alternative uses of such funding? (This relates to the new resources section.)

   c) Does the committee wish to recommend a spending priority for use of unallocated EYF funding in its portfolio?

   d) Does the committee wish to recommend any specific changes to programme budgets within the portfolio? If so, where should
programmes be increased, and where should compensatory reductions be made?

e) Does the committee feel that the portfolio priorities are appropriate and are reflected in the budget proposals?

f) Is the committee satisfied with the performance information contained in the chapter, and does it feel that the links between aims, budgets and targets are properly integrated?

g) Does the committee have any comment on the sections covering the cross-cutting issues of closing the opportunity gap; sustainable development and equality?

h) Further to the above, each chapter contains a new section of specific initiatives under equality. Does the Equal Opportunities Committee have a view on the utility of the information in this section, and does it wish to make any comments or recommendations regarding specific spending proposals to enhance equality?

Professor Arthur Midwinter
September 2003