The Committee will meet at 10.00 am in Committee Room 4 to consider the following agenda items:

1. **2003/04 Budget Process:** The Committee will take evidence from—
   
   Campbell Christie, Convener, Scottish Civic Forum;
   
   Stuart Duffin, Treasurer, Scottish Civic Forum;
   
   Iain McMillan, Director, CBI Scotland;
   
   Grant Baird, Retired Chief Economist, Royal Bank of Scotland
   Retired Chief Executive, Scottish Financial Enterprise;
   
   Peter Wood, Head of Public Policy, DTZ Pieda Consulting.

2. **2003/04 Budget Process:** The Committee will consider the Stage 1 budget reports of the Parliament’s subject committees.

3. **External Research:** The Committee will consider a proposal for external research in relation to its review of financial scrutiny arrangements.

4. **Meeting outwith Edinburgh:** The Committee will consider a paper on the arrangements for its meeting in Orkney at Stage 1 of the 2003/04 Budget Process.

5. **PFI/PPP Inquiry (in private):** The Committee will consider an issues paper.
The papers for this meeting are:

**Agenda item 2**

Papers from the subject committees  
(FI/02/10/2 – 8)

(Paper from the Education, Culture and Sport Committee, and the Transport and Environment Committee, to follow)  
(FI/02/10/1 & FI/02/10/9)

(Paper by Professor Midwinter to follow)

**Agenda item 3**

Paper from the Clerk and SPICe  
(FI/02/10/10)

**Agenda item 4**

Paper from the Clerk  
(FI/02/10/11)

**Agenda item 5**

PPP/PFI issues Paper by Professor Peter Jackson  
PRIVATE PAPER

PPP/PFI – paper by the Clerk  
PRIVATE PAPER
The Committee reports to the Parliament as follows—

Background

1. The Enterprise and Lifelong Learning Committee considered Section 4 of the Scottish Executive publication "The Scottish Budget", relating to the Enterprise and Lifelong Learning Department.

2. The Committee agreed to amend the way in which it has approached the budget consideration process in order to provide the opportunity for more in-depth examination of the longer-term issues. In order to achieve this, the Committee agreed on 12 December 2001 to examine the budgets of the 5 quangos which absorb 85% of the budget in turn and to examine the budget of Scottish Enterprise in much more detail this year.

3. The Committee took evidence from the Minister for Enterprise, Transport and Lifelong Learning, Scottish Executive officials and Scottish Enterprise officials on Wednesday 1 May 2002. In addition to oral evidence, the Committee received further written information from both the Scottish Executive and Scottish Enterprise.

4. In general the Committee found that the budget information presented by the Scottish Executive and Scottish Enterprise was a big improvement on previous years with much more detail provided in both the level of figures and in the explanations of changes.

5. The Committee also found that the use of informal briefing sessions from both the Scottish Executive and Scottish Enterprise was of great benefit enabling the Committee to understand and more closely focus on specific areas of the budget.

6. The Committee duly expresses its gratitude to both the Scottish Executive and Scottish Enterprise for their co-operation and participation during this stage of the process.

Scottish Executive

7. In 2003/04 the Enterprise and Lifelong Learning budget will be £2184 million compared with £2092 million in 2002/03. This represents a cash increase of £56 million or 2.6% or in real terms an increase of £4 million or 0.2 %. The Committee agreed to confirm its request to the Scottish Executive for provisional out turn figures for 2001/02, prior to consideration of Stage 2 of the budget process.

8. In relation to the total Enterprise and Lifelong Learning Budget, the Committee recognised the long-term change in the budget with an increased proportion of the budget (currently 80%) being allocated to Lifelong Learning as opposed to economic development. The Committee believes that this is generally consistent with the increasingly important role of a skilled workforce to the Scottish Economy as a whole.
9. The Committee noted that in the budget for the Student Awards Agency, £48 million for bad debts together with £52 million for Capital Charges had been removed from the budgets for 2002-04. These alterations appear to be due to changes in the way in which these budget items were treated under Resource Accounting and Budgeting. The Committee draws the attention of the Finance Committee to the treatment of these funds.

10. The Committee recognised that in some areas of economic development overlap occurred between the departmental budgets of Enterprise and Lifelong Learning and Rural Development e.g. Rural Development has provided financial support to the rural economy after the foot-and-mouth outbreak, and also provides funding for agricultural colleges. However, the Committee agreed that it was unclear in the budget where such budgetary overlap occurred and what the rationale was behind the current split of the budgets between Enterprise and Lifelong Learning and Rural Development in such areas. The Committee recognises that initiatives such as the Science Strategy have given an overview of activities across departmental boundaries and welcomes this. The Committee would welcome from the Scottish Executive examples of cross cutting budget work below this level.

11. The Committee welcomed the plans to change the way Regional Selective Assistance (RSA) is allocated with grants being given for research, design, development and technology and the move away from old style inward projects. The Committee recognises that the implementation of the new RSA will require careful management and would welcome details of the rules changes once available.

12. In relation to the Scottish Renewables Obligation, the Committee recognises the significant opportunity that this creates for indigenous businesses. The Committee welcomes the Scottish Executive commitment to the development of an energy institute. However, the Committee questions whether adequate emphasis is being given to developing and supporting an indigenous renewables industry, and through links with universities, to take advantage of the opportunities for development of renewable energy created by the Scottish Renewables Obligation. The Committee believes that it would be beneficial to monitor the growth of businesses in this sector and is minded to return to this issue in due course.

Scottish Enterprise

13. As Scottish Enterprise's detailed Operating Plan budget is published much later in the budgeting cycle, the Committee opted to examine the draft Operating Plan for 2002/03.

14. The Budget for 2002/03 includes many of the changes that will feed through into the 2003/04 budget as part of its business transformation process. Scottish Enterprise has therefore provided information on its budget at a level significantly below that previously considered at this stage of the budget scrutiny by the Committee. The Committee thanked Scottish Enterprise for providing this information but agreed that at Stage 2 of the budget process, information at a lower level would be required. The Committee also finds that the Level 3 budget heads employed by
Scottish Enterprise to present their budget are not helpful in judging the impact of funding.

15. The Committee welcomes the switch in emphasis from inward investment to support for indigenous business and the thrust of the business transformation process.

16. The Committee found that although there were improvements in target provision, information on targets was not compared with the baseline levels. As a result the Committee agreed that there was insufficient evidence to consider whether the targets provided were realistically achievable. In turn this information was not presented against relevant spend. The Committee recommends that Scottish Enterprise should provide the baselines for each target in the budget. The Committee also recommends that target and baseline figures are presented in the budget together with proposed spend, and that sustainable development targets be incorporated.

17. Whilst acknowledging that the figures provided by Scottish Enterprise were detailed, the Committee agreed that in the budget figures for 2002/03 the Committee needed more comprehensive detail on the spending breakdown (to operational programme level e.g. implementation of the Atlas project, Business Growth Fund etc.) to enable it determine where the money for each aim was actually being spent. The Committee recommends that Scottish Enterprise include more detailed information, to the operational programme level, in their budget.

18. The Committee welcomed the progress that Scottish Enterprise has made in its business transformation process but registers some concerns regarding the potential saving that would be made. In particular it was unclear in the network plan where such future savings would appear and where Scottish Enterprise would reinvest such savings. In addition, some concern was expressed on where staff changes would be made, whether this would be in ‘front line’ staff or in management, for instance. The Committee requests further information on where future potential business transformation savings would appear in the budget and which areas of the budget could potentially benefit in future from such savings. The Committee also requests further clarification on the level at which staff changes will be made.

19. The Committee recognised that the partnerships between Scottish Enterprise and other agencies are important. The Committee also recognised that Scottish Enterprise has undertaken considerable work in developing its relationships with other agencies which in turn maximises the public benefit. However, the Committee noted that in the Scottish Enterprise Network plan, it was difficult to evaluate how Scottish Enterprise evaluated and measured its relationship with other agencies. In its response Scottish Enterprise indicated that it was developing a partnership satisfaction index. The Committee recommends that the operating plan incorporate softer targets which measure Scottish Enterprise’s relationship with other agencies and that Scottish Enterprise provide further information on its partnership satisfaction index.

20. The Committee sought further information from Scottish Enterprise on its administration costs. Members expressed concern that it was unclear from the
figures provided what amount of the administration budget related to staff and what related to other overheads. The Committee requests further information on this and how the expenditure on consultants is handled within the Scottish Enterprise budget.

21. Scottish Enterprise indicated that the figures for administrative spend were consistent with other similar organisations. The Committee has undertaken some preliminary comparative benchmarking between Scottish Enterprise and other similar organisations which is attached.

22. The Committee expressed concern that the budget for Careers Scotland was not ring fenced within Scottish Enterprise’s budget but was split between the administration budget and the miscellaneous budget. In its response Scottish Enterprise indicated that it was its intention to keep the Careers Scotland’s budget separate in future. The Committee would recommend that Scottish Enterprise ring fence any spend for Careers Scotland to ensure that its finding allocation remains clear and transparent.

23. The Committee considered that there might be merit in presenting the budget from Scottish Enterprise in a different way than by Strategic aims. One such approach would be to look at the clusters of related sectors e.g. Biotechnology, to reveal how much was spent on these priorities.

24. The Committee noted that within Scottish Enterprise’s Network Budget there was provision for local opportunities. It was unclear from the budget what these ‘local opportunities’ were and where the money would be allocated. The Committee would recommend that more detail be provided within the budget on the nature of local opportunities.
STAGE 1 REPORT TO THE FINANCE COMMITTEE ON THE 2003/04 BUDGET PROCESS

The Equal Opportunities Committee reports to the Finance Committee as follows—

Introduction

1. The annual expenditure report (AER) of the Scottish Executive “The Scottish Budget 2003-04”1 was published on 2 April 2002. The Equal Opportunities Committee has considered the AER and reports its views to the Finance Committee.

2. The Committee's scrutiny of the AER has been considerably assisted, as before, by SPICe and this year by Professor Arthur Midwinter, the Standing Adviser to the Finance Committee.

Key Findings

3. The 2003-04 AER represents an overall improvement on the previous versions, and shows encouraging signs that the political will to mainstream equality remains within the Scottish Executive.

4. Certain sections of the AER demonstrate admirably the clarity of information and approach the Committee wishes to see eventually permeate throughout the budget process. However, there are more sections where there is no evidence that the promised work has been done. This is particularly disappointing where it is clear that there is, in fact, excellent work that has been done which has not made it into the AER.

5. The absence of any timescale on progress made on mainstreaming equality is regretted.

6. The Committee will accept the offers made to work with the Scottish Executive in this respect, with due regard to the need to maintain its position of eventual scrutiny.

7. The Committee welcomes the work on the pilots in education and housing. However, not only do these need to be extended, further work needs to be done to refine the policies which feed into the budget.

8. Given recent assurances from the Executive, the Committee notes with concern an inconsistency in the approach to equalities issues throughout the report.

9. The Scottish Executive Equality Unit is seen as crucial to the effective mainstreaming of equality into Executive actions (and thus, by direct associations, into the wider public sector within Scotland). On this basis, the

1 “The Scottish Budget 2003-04 Summary”, Scottish Executive, April 2002
2 “The Scottish Budget 2003-04 Detail”, Scottish Executive, April 2002
Committee believes that the current funding level of £1m over three years appears inadequate.

10. Mainstreaming equality is a long-term process, which cannot be carried into an equality proofed budget in isolation. The work is new and such models and methodologies which are available for comparison from around the world, do not fit the Scottish context sufficiently well to enable their rapid adoption. Clearly the Committee does not wish to attempt to impose a “patchwork” solution. As such it believes that the Scottish executive has made some progress towards the implementation of the Equality Strategy goals by, inter alia, the establishment of the Equality Proofing Budget Advisory Group (as announced in the last AER round).

11. Nevertheless, the Scottish Executive has failed to deliver an AER which is consistent in detailing even basic levels of equality relevant information throughout the detail document. Those areas that do so are to be commended and cited as the basis upon which this Committee extends limited approval of the 2003-04 AER.

12. The Committee agrees that the promises given by Ministers on the manner in which new resources will be subjected to a rigorous bidding process (including equality) offer much hope as to the possible future development.

Background

13. In addition to the normal, albeit emerging, scrutiny process, the Committee this year also sought to examine the issue of equality proofing budgets, within the wider context of its work on mainstreaming equality into the activities of the Scottish Parliament.

14. Prior to the introduction of this AER, the Committee heard oral evidence on 5 March 2002 from the Scottish Executive on the manner in which mainstreaming equality work in general, and the two pilots in education and housing, had been performing. Following the publication of the AER on 2 April 2002 the Committee took further oral evidence from the following organisations:

- Commission for Racial Equality;
- Engender Women’s Budget Group;
- Equal Opportunities Commission;
- Scottish Gypsy Travellers Association;
- Disability Rights Commission;
- Disabled Persons Housing Service;
- Equality Network;
- Scottish Trades Union Congress.

15. To further maximise the effectiveness of the scrutiny, the committee agreed to classify the budget into four categories as follows:

(a) budgets and programmes where there is no meaningful equality dimension in policy and practice, and whose equality matters are confined to employment practice within the department;
(b) budgets and programmes where there is an equality dimension, but this is reflected mainly in policy and practice rather than resource allocation;
(c) budgets and programmes where the distinctive demands of equality groups are reflected in resource allocation amongst other factors; and
(d) budgets and programmes which are directly allocated on equality groups.

16. Scrutiny would therefore examine the extent to which mainstreaming equality had taken place in categories (c) and (d), whilst also looking at whether the underlying assumptions governing (a) and (b) were evidence based. The Committee would also examine the extent to which the AER demonstrated a cross cutting approach towards equality, one of the eleven crosscutting areas established by the Scottish Executive.

17. To assist in this the Committee also commissioned two SPICe Briefings: an overall paper on the budget\(^2\) and one dealing with local government.\(^3\)

**Working Assumptions**

18. The Committee also set working assumptions on the component parts of the budget process.

19. There is widespread interest in the work of mainstreaming equality within the budget process but there is no practical model of equality proofing the budget which is applicable to the Scottish context.

20. The Committee recognises that the budget process is primarily a mechanism for parliamentary scrutiny of the Scottish Executive use of resources.

21. The Committee further agrees that the AER is not the sole document which can deal with resourcing equality issues. The Committee would be content for the AER to refer to other documents (e.g. Scottish Household Survey, Equality Data Sources etc.) to support discussion on targets etc. rather than attempt to have the AER as some encyclopaedic resource.

22. The Committee agrees with the view expressed by, inter alia, the Scottish Executive that budget process in general and the AER in particular are not the point at which to make or review policy: the AER sets out the targets and funds associated with policy. The level of resources (including no resources) is the issue to discuss within the Stage 1 process.

23. The Committee though does strongly believe that that the AER and the Stage 1 scrutiny of the budget process do represent a point at which to make interventions in order to move towards the delivery of an "equality proofed" budget. Whilst accepting that the AER is relatively late in the process, nevertheless the resources being allocated via the AER are developed in different ways, for different reasons and at different speeds.

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\(^2\) “Equal Opportunities and the Scottish Budget”, SPICe Briefing SB 02-37
\(^3\) “Equal Opportunities and the Local Government Budget”, SPICe Briefing, SB 02-36
24. As such, the opportunity exists at Stage 1 to examine the language and substance of the proposed budget and the resources allocated. Within budgets, as with legislation, “equality proofing is most likely to be effective when it builds upon earlier integration of equalities consideration into policy design and development, and where it consists of one part of an on-going series of checks and interventions”.4

25. The better results in the short-term for the Scottish Executive would therefore seem to accrue from examination in detail of those new areas being funded under categories (c) and (d). This is also related to the manner in which Peter Peacock has said that new bids for funds will have to demonstrate within the Scottish Executive, inter alia, how the policies are seeking to close the equalities gap:

“Through the finance function and the budget scrutiny process, every bid for new expenditure will be assessed, in part, against an equality criterion. Departments know that, if they do not address that issue, they are likely to score lower than departments that address it. We are building in such incentives”.

26. At the end of Stage 1 last year the then Finance Minister had agreed to provide a range of further information to assist scrutiny of the AER this year and, specifically, differentiation between new and existing resources, details of committed and uncommitted expenditure and capital spend.

27. The absence of this information has been a considerable gap: what opportunity there is to make interventions to inadequately proofed policies will realistically centre around new resources. Similarly, without evidence of the approach adopted for new resources, there can only be limited confidence in the manner in which the reallocations under the 2002 Spending Review are eventually made, despite the welcome statement of intent made by the Deputy Minister for Finance and Public Services.

“As I said, we have just started the three-year forward look on our budgets and departments are beginning to prepare submissions for the next three-year spending period. We plan to use that forward look explicitly to scrutinise bids against equality criteria. Each department's bid for every new item of expenditure for the coming spending period will be tested against whether it contributes to closing the equalities gap. That will help to roll forward thinking on equality through the budget process and will have an impact for at least the next three years.”

Mainstreaming Equality and Equality Proofing

28. The Committee does not see that equality proofing and/or mainstreaming equality will necessarily alter the budgetary process. The effective integration of mainstreaming will instead alter the manner in which resources are competed for

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4 “Equality proofing procedures in drafting legislation: International Comparisons”, Scottish Executive, Central Research Unit, 2002
5 Equal Opportunities Committee, 5 March 2002, Official Report, col.1381
29. The Committee recognises that effectively mainstreaming equality in the policy development cycle should, eventually, result in the equality issues becoming apparent within the budget process, a view shared by the Scottish Executive:

The key to making progress on the budget side of the equation is making progress on the things that Margaret Curran was talking about—mainstreaming equalities in everyday Executive policy. That is particularly important in relation to new initiatives, where it is relatively easy to address questions on devising policy and how policies will impact on equalities. Mainstreaming is the key. If mainstream policy thinking addresses equality issues, the budget process will simply provide the cash to implement those policies. If the policies include equality measures, the budget will also automatically include equality measures.\(^7\)

30. The Committee does not wish to criticise without offering a steer as to what it would wish to see in the manner of improvements: it recognises the close working relationship that is beginning to emerge. However, it would be inappropriate for the Committee to seek to define outputs and tools at this stage, without working with the Executive to define the requirements of other, relevant stakeholders.

31. The Scottish Executive has made considerable progress in examining and defining the manner in which mainstreaming equality activity may be applied to its work, including the budget process and the AER. Whether such work has been finalised too close to the stage of putting the finishing touches to this AER is unclear: there are certainly elements which both witnesses and the Committee commend.

32. Equally, there appear to have been missed opportunities as highlighted by the Equal Opportunities Commission:

"Under the "Objectives" heading on page 270, there is the following objective: "Work towards reflecting our commitment to promoting equality in our policies and budgets." However, that objective has no entries under the headings of "Target", "Baseline Measure" and "Progress", which are also on page 270. I thought, perhaps naively, that that was a mistake and that those entries had been missed out, but I do not know whether I am right about that. However, it seems to me that thinking should be done to provide information for the objective under those headings."\(^8\)

33. The steer therefore from this Committee is dependent on further research to establish the extent to which (i) the current, committed, expenditure in the AER will at some stage be re-presented for examination under an equality proofing mechanism and (ii) further work on the manner in which delegated expenditure is governed by equality proofed formula and evidence based distribution mechanisms.

\(^7\) Equal Opportunities Committee, 5 March 2002, Official Report co. 1377
\(^8\) Equal Opportunities Committee, 30 April 2002, Official Report, col. 1440
34. Given these caveats the Committee must accept the position offered by the Scottish Executive and work towards an initial step of an equality proofed finance function in respect of new resource allocation:

“I am not sure that there is yet a clear understanding between the committee and the finance function about precisely what is meant by an equality-proofed budget. What would it look like and what would its attributes be? At what level should such matters be addressed—a high level or a detailed, line-by-line level in the budget process? To what purpose would we put such documents? Would they be intended just for scrutiny purposes or to bring about change in future policy? What are our priorities? Do we want to equality proof every new bid, which we can do with relative ease, or do we want to go into the whole of the existing expenditure and equality proof that? How much time would that take?”

35. Similarly the suggestion from Ministers (to questioning on potentially making the receipt of resources from the Scottish Executive, dependent on building in equality targets) was most useful in suggesting a future way of working to be explored:

For example, in the wider public sector, through the annual or triennial agreements that ministers come to with all the quangos, it would be possible to build elements into the quangos’ work to ensure that they address equalities questions. That would be a matter for agreement.

Pilots

36. The Committee welcomes the work on the pilots in education and housing as far as they go. However, there are still significant omissions where the data is available and could have been included. Generally the reaction to the pilots from the witnesses was good. However, as part of this was due to the fact that the pilots had eventually been started, the final results from the pilots require to be evaluated. The Scottish Executive were at pains to point out that the results in the AER represented interim work from the pilots:

“We are still only part of the way through the process. The pilots are not scheduled for completion until the end of the year. We are beginning to see some results, but we wish to broaden and deepen the approach as much as we can. We are beginning to draw lessons from the pilots and to integrate those lessons into the other work that Executive officials are developing in the bill team and in the equality unit.”

37. Disability Rights Commissioned pointed out

“On the accessibility of the budget document, the top-level information is more accessible this year than it was last year and the key objectives are easier to find. From a disability equality perspective, at the more detailed levels, the information that is provided in the mainstreaming pilots is much more accessible this year and people can see that information more clearly where it is stated specifically, in the education and housing budgets. However, in the other budget areas it is more difficult to find that information, as it may not be explicitly listed as the information regarding disability issues.”

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9 Equal Opportunities Committee, 5 March 2002, Official Report, col. 1378
10 Equal Opportunities Committee, 5 March 2002, Official Report, col 1379
11 cf. Scottish Household Survey, Equality Data Sources, Men and Women in Scotland
12 Equal Opportunities Committee, 5 March 2002, Official Report, col. 13 67
The way in which the information is provided in the two pilot areas leads the way for future budgets and shows how such information could be made more accessible. There is a linkage between that and the cross-cutting issues that Michael McMahon mentioned, which we regard as a way of improving the budget’s presentation and accessibility in the future.\textsuperscript{13}

38. The need for outputs from the AER to be stated was also reiterated by Scottish Trades Union Congress when discussing the pilots:

“The pilots try to tackle a policy area in which we are generally agreed about where we want to be but which, in practice, it is difficult to get a handle on. Our position is that the pilots are important, but we need to be aware of the inconsistency in approach within the pilots. If the pilots are to make a meaningful difference in the longer term, those inconsistencies need to be addressed.

For example, in the summary AER, one of the sections dealing with pilots refers to the allocation of money to a particular issue but does not refer to the intended practical outturn. Although we can monitor whether the money flowed to that area, we cannot judge the Executive against what we had expected the money to achieve in practice. However, other areas of that same part of the AER mention policy outcomes without giving the allocation of money.”\textsuperscript{14}

39. Comparison should be made between sections in the AER such as the European Structural Funds (which may be cited as a good example) and where there has been no pilot mounted. However, the example set by European Structural Funds is unsurprising given the emphasis at European level on mainstreaming gender equality. However, areas which have not been piloted and which are not so immediately affected by the European funding stream have still managed to define, as a minimum gender sensitive targets and outputs.

40. There are areas where there clearly is a sponsoring policy which is equality sensitive but which has failed to be transferred into the AER.

41. The Committee believes that to be balanced, this should be contrasted with areas which have no equality analysis associated with them.

Distributed resource

42. The AER does not set out the equality dimensions that are involved when the Scottish Executive disburse resources to other organisations for them to use: the examples quoted are local authorities (using the Grant Aided Expenditure indicators) and Health Boards (using the Arbuthnott formula); whilst this type of bodies accounts for the greatest share of such resource within the AER, there are also smaller sums (relative, not absolute) within the AER.

43. The Committee has previously highlighted the manner in which significant resources within the AER move from the direct control of the Scottish Executive to other bodies. Recognising the demands of balancing direct parliamentary

\textsuperscript{13} Equal Opportunities Committee, 30 April 2002, Official Report, col. 1456
\textsuperscript{14} Equal Opportunities Committee, 30 April 2002, Official Report, col. 1468
accountability and local responsibility, the Committee had last year highlighted the need for the 75% of resources that go to Local Authorities and Health Boards to be distributed with due regard to the mainstreaming equality approach. The Committee notes that colleague committees have also entered this area of scrutiny, as the following exchange from the Health and Community Care Committee demonstrates:

“Mr McAllion: I will ask a totally unrelated question. On page 100 of the annual expenditure report, you mention that one of the priorities is to "develop policies which reflect the Executive’s commitment to equality". In the objectives that are set out on page 139 to page 141, there is nothing to say how you will promote equality. Why is that?

John Aldridge: The simple answer is that that is because the objectives and targets in the AER still need to be developed further. I am sorry that I have not said that in previous years. The objectives and targets do not cover the full range of what the Scottish Executive health department does, but I accept fully that they should do. It does not mean that equality is not important; equality underlies a number of things that happen in the health service. For example, the Arbuthnott formula is designed to improve equality in the distribution of resources.

Mr McAllion: Nothing in the 65 pages of the AER that deal with health service says, for example, how gender differences in access to health services will be addressed. There are no objectives, no targets and no indication of how you will monitor that. You seem to have done no work on that at all.

John Aldridge: Work is going on in that area, but I accept fully that it is not yet well developed.

Mr McAllion: It is not only not well developed; it is invisible in the AER.

Alasdair Munro: We have been doing work over the past few months on how best to monitor trends and inequalities within each health board area. We have drawn up a list of indicators that we could use for that. The list includes items such as inequalities in mortality rates from coronary heart disease or in mortality rates from cancer. Those indicators will become part of the performance assessment framework. We will do more work in the next few months in which we will begin to consider inequalities in respect of access to services and how best we can measure those inequalities within each NHS board’s area. We will also consider other aspects of inequality that might be important, including inequalities between urban and rural areas, which concern many people. We may also consider gender inequalities in the next few months.

Mr McAllion: That is fine, but if you do all that work, why should not it be included in the reports? The minister is accountable to the Parliament through committees such as the Health and Community Care Committee, which deals with the budget. If such things are not put in the budget, how can there be accountability?
Alasdair Munro: We have only just completed work to identify the best set of indicators for monitoring inequalities to use at NHS board level. A year from now, when we come to produce a report, I hope that we can begin to draw on that information and show what is happening in respect of inequality, not just nationally, but within individual health boards.”

44. The Health and Community Care section of the AER being discussed was also singled out by the Engender Women’s Budget Group in written evidence to the Equal Opportunities Committee, stating: “The links between policy objectives and spending is particularly weak in this chapter. For example, there is a commitment to developing policies that reflect the Executive’s commitment to equality (p 100), but objectives (pp 139-141) do not include any that specify how progress will be achieved.

AER – Presentation of equality issues

45. The Committee had previously sought assurances from the Scottish Executive on the manner in which the AER would deal with equality issues. Scottish Executive Officials had stated:

“The AER will contain sections on equalities provision in housing and education, which are the Executive’s two mainstreaming pilots. We have asked other departments to include information on equalities, for example on data improvements and research that they have undertaken on positive action. That information will be included throughout the document, as it may relate to different sections. For example, information on roads and transport will also be shown further on in the document in the roads budget.”

and the point regarding internal guidance was also re-emphasised by the Deputy Minister for Finance and Public Services

“There will also be developments [on equality proofing] in the shorter term. Later this month, the annual expenditure report for 2003-04 will be published. We have issued guidance to departments on the equalities questions that they need to address in their submissions for that report. That is set out in the memorandum that we submitted to the committee.”

46. However in its examination of the AER, the Committee found that the Departmental responses to this central request were patchy.

Accessibility

47. Similarly the Committee sought assurances about the provision of the AER in accessible formats. The Deputy Minister for Finance and Public Services was asked about this:

“The Convener: Is the minister saying that the budget document is available on request in accessible formats including minority languages, Braille and audio cassette?

15 Health and Community Care Committee, 17 April 2002, Official Report col. 2535
16 Equal Opportunities Committee, 5 March 2002, Official Report col. 1387
17 Equal Opportunities Committee, 5 March 2002, Official Report col. 1378
Peter Peacock: I will need to check the detail on that.
The Convener: Will the minister write to the committee on that, as it is an important point?
Peter Peacock: I am not sure that those formats are available, but I will check. I said that, if we received a request for one of those formats, we would seek to accommodate the request. We will examine whether we could make the formats available universally.  

48. However, one of the witnesses from Disability Rights Commission spoke of her attempts to get a suitable copy of the AER:

“Heather Fisken: When we gave evidence last year, we pointed out that we were unable to get copies of the budget document in alternative formats. This year, one of the first things that I did when I began researching the budget was to phone Her Majesty’s Stationery Office and ask whether those formats were available. The people there could not answer the question straight away, but eventually pointed me towards the Scottish Executive. When I contacted the Executive, the people there also had to get back to me on it. They eventually said that they were going to make a decision on the formats in three weeks’ time. Part of the problem is that the information is not readily available. Lyndsay McIntosh recently asked a parliamentary question about making publications available in alternative formats immediately and not waiting until the publications are already available. Disabled people have the right to receive the information at the same time as non-disabled people.”

49. There is also the issue of the accessibility of the AER itself and the language it uses (and, the Committee recognises, the documents such as this report, that discuss it). The point was made by the Disabled Persons Housing Service:

“I accept that the document is largely technical and is produced by people who have a financial background—there are limits to the extent to which they can make documents accessible to the wider public and voluntary organisations that do not have the in-depth or financial understanding to penetrate such documents. In our advance submission, we suggested that there is now great scope for information technology packages to translate the document into a visual image on a computer screen, which would allow people to identify sources of funding that were important or relevant to them and to track them all the way through from level 1 to level 3 and below.”

50. Whilst the Committee cannot currently support the DPHS call to recommend the simultaneous production of the AER in an interactive format (purely because of the potential delays to the AER), it does find considerable merit in the suggestion for the Scottish Executive eventually producing such a document, perhaps once the budget has been finalised. The production of a virtual AER would facilitate the linking to other documents, sources of statistics and organisation budgets.

Statutory Duties

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18 Equal Opportunities Committee, 5 March 2002, Official Report, col. 1386
19 Equal Opportunities Committee, 30 April 2002, Official Report, col. 1457
20 Equal Opportunities Committee, 30 April 2002, Official Report, col. 1456
51. As part of their evidence, the Commission for Racial Equality highlighted the new requirements that will be placed on public bodies by recent orders under the Race Relations (Amendment) Act 2002. The Commission raised the following point, which appears not to have been addressed so far in the budget process:

“Finally, one of the key things for which the Executive will have to prepare is meeting the specific duties that are established under the Race Relations (Amendment) Act 2000. In that context, we regard the budget as a function of the Scottish Executive. The Scottish Executive must demonstrate how it promotes racial equality in building the budget and allocating expenditure. We ask the committee to think through that implication fully, especially as the Executive and others prepare to meet their obligations. They will have to consider the provision of reliable information and a statistical base; identify particular action areas in which they will fulfil their duties; allocate specific money to the development of an equalities plan and a racial equalities scheme; and, most important—this is where it bites—assess the impact of expenditure plans across the board and the way in which those plans impact on racial equality and equality per se.”

Scottish Executive Equality Unit – Resource allocation

52. The Committee notes the specific Level 3 figure for Mainstreaming Equality, as expressed in the budget allocation for the Scottish Executive Equality Unit, remains static at £1m from 2001-02 to 2003-04. Although the 2001-02 figure did benefit from an additional £0.75 from End Year Flexibility, the static figure represents a projected Year On Year decrease in real terms to £0.975m for 2002-03 and £0.951m for 2003-04, a 5% drop over 2 years.

53. The crucial role of the equality Unit has been flagged up on a number of occasions. The Scottish Executive strategy in this area is clear, as set out by the then Deputy Minister for Social Justice:

“If we had a big department and a big budget, officials in other departments would tell us that we should spend that money and that equality responsibilities should be paid for out of the equality budget. We see the equality unit as a catalyst that can go into other departments and make things happen. I understand Michael McMahon’s argument. It is a strong argument that must be thought through, but the signal that we must give to stakeholders—in housing, in education and elsewhere—is that all accountability and implementation mechanisms must be integrated to ensure that equality is delivered across the board.”

54. Whilst that undoubtedly has merit, the role as a catalyst cannot be underestimated and that was also acknowledged by the Minister:

“I assure the committee that I am always prepared to argue for the budget that we need to do the job that we have committed ourselves to doing. If I thought that the £1 million in question—or any sum—was not sufficient to do that job, I would argue strongly for more resources. I do not know whether more money is required at the moment, but I am not saying that I would not ask at some point

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21 Equal Opportunities Committee, 16 April 2002, Official Report, col. 1425
22 Equal Opportunities Committee, 5 March 2002, Official Report, col. 1375
for more resources to help us to do the catalyst work that we are undertaking. I am not closing the door on that suggestion. I understand what Michael McMahon is saying, but at the moment we are not scrimping and scraping. As long as it did not cut against the main point that I have been making, we would be prepared to argue for more resources.

55. However, other witnesses felt that the Scottish Executive Equality Unit was under-resourced, with resultant difficulties and failure to deliver. The Disabled Person’s Housing Service stated

“I referred earlier to the political will for mainstreaming, but mainstreaming is not happening in one of the two important areas—housing. That has to do with a number of factors, some of which have been referred to. The equality unit was the subject of questions at this committee’s meeting on 5 March. It is simply not resourced and geared up to accomplish what is a major task. The Executive and this committee must accept that their task of mainstreaming equality is huge. The equality unit’s budget is inadequate—£1 million does not buy much these days. For that, you could probably get about three or four voluntary sector organisations of average size.”

56. Similar concerns about the ability of the Equality Unit, given the current resources, were expressed by the Scottish Trades Union Congress:

“I refer to comments that were made earlier about the capacity of the equality unit to fulfil that role and act as the catalyst that it must be. It is all very well to say that other departments must take on mainstreaming by themselves, but a strategy is also required. It has to be appreciated that there are people out there—even at a senior level—who do not fully understand what mainstreaming means for their department. Much more work has to be done at the strategic level on how we roll out that message. How, on a daily basis, do we make the changes happen? I hope that, slowly but surely, hearts and minds will follow, but that will not happen without there being understanding, without unpacking the concept of mainstreaming, and without making sure that that happens at every level in the public sector.”

57. The need for a strategic approach was further reinforced by the Equalities Network:

Last year, when we gave evidence on the budget, we said that the equality unit’s budget was too small for the strategic work that it is undertaking. That remains the case, especially if the equality unit is to act as the central unit of support for the LGBT voluntary infrastructure across Scotland in the way that the Executive supports BEMIS—the Black and Ethnic Minority Infrastructure in Scotland. If that is to happen, it will eat up a chunk of the unit’s £1 million funding. It is not clear whether £1 million is enough to give equality the national strategic support that it requires.

58. The funding issue becomes even more crucial in view of the remark by the Deputy Minister for Finance and Public Service that “Building in an equality
element competes with other work that is happening across the Executive to achieve a more rigorous approach to budgeting throughout the organisation.\textsuperscript{27}

Cross-cutting

59. The integration of equality may also be evidenced by the manner in which equality is treated as one of the eleven cross-cutting areas, a point which was addressed in this instance by colleagues on the Social Justice Committee. The then Minister for Social Justice replied that:

“Our general policy remains attempting to mainstream cross-cutting issues, rather than to pull together additional pots of money, resources and programmes. The latter approach has let other areas of the Executive’s work off the hook in the long run; it has allowed them to see some of the issues as separate and additional. That is not the direction in which we want to go.”\textsuperscript{28}

60. There are concerns about the manner in which several of the cross-cutting initiatives (including equality) have been dealt with in the AER. There are no clear indications of where departmental budgets are contributing to overall targets.

Overarching equality statement

61. The Committee has noted once again the limited scope given to an overarching equality statement in the AER documentation, and debate in general. The value of such a statement was endorsed by several witnesses including the Commission for Racial Equality:

“It would be perfectly proper and reasonable to assume that the topline statement to the budget must be the Executive’s commitment, which feeds into the Parliament’s commitment, on equal opportunities and the article 13 framework. That will engage hearts and minds in the broader equalities framework that will be legislated for in the near future. A valid point to make is that we need a headline statement in the budget that clearly maps out the commitment against spend.”\textsuperscript{29}

the Equal Opportunities Commission:

“I certainly agree with the proposal to have at the beginning of the budget an overarching statement on equality. From our perspective, such a statement is essential. The new article 13 directives will give further impetus to the inclusion of such a statement.”\textsuperscript{30}

and also by the Engender Women’s Budget Group:

“For me, in order to have a clear approach, broad statements on equality—as cross-cutting policy objectives—must be up front and must be addressed throughout the process within each section and within each major area of spend in each department. That should be integral to the process; it should not be bolted on at the end.”\textsuperscript{31}

62. The Scottish Executive is also clearly aware of the value of such statements:

\begin{footnotes}
\item[27] Equal Opportunities Committee, 5 March 2002, Official Report, col. 1377
\item[28] Social Justice Committee, 17 April 2002, Official Report, col. 2385
\item[29] Equal Opportunities Committee, 16 April 2002, Official Report, col. 1431
\item[30] Equal Opportunities Committee, 16 April 2002, Official Report, col. 1448
\item[31] Equal Opportunities Committee, 16 April 2002, Official Report, col. 1447
\end{footnotes}
“When the Executive has legislated and put in place overarching provisions for equal opportunities, the debate has shifted dramatically. People start to realise that they are accountable for their actions and that equality is not just an aspiration or something that only those committed to it will pursue. Many of us have had experience of being the only ones committed to equality and have felt marginalised, but that culture is beginning to change. People realise that it is not an optional extra and that it must be embedded in everything we do.”  

Given all this, and the emphasis placed upon it by Ministers, the continuing omission of an overarching equality statement from the AER (or any of the policy areas that feed into it) is all the more puzzling and heightens the absence.

**Recommendations**

63. Having considered the AER the Equal Opportunities Committee makes the following recommendations:

- **R1** That the Scottish Executive provide further details, including earmarked resources and time specific targets, in respect of their proposal to equality proof the allocation of new resources.

- **R2** That the Scottish Executive provides further details on the options available to Scottish Ministers in respect of setting equality targets as part of the triennial quango discussions.

- **R3** That the Scottish Executive include an overarching equality statement in future AERs.

- **R4** That the Scottish Executive publish the guidance given to Departments on setting targets for the AER (with specific reference to those circumstances when it is acceptable not to set targets) together with a statement on steps taken to ensure consistency across chapters and Departments.

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32 Equal Opportunities Committee, 5 March 2002, Official Report, col. 1368
Budget 2003/2004: First Stage – submission to Finance Committee

Introduction

1. Public spending on the Scottish NHS is a complex topic. The systems for planning, allocating and monitoring health spending are continually evolving. While the current focus is on plans for spending in Scotland in 2003-2004 these plans need to be considered in the light of the publication of the Wanless Report and the plans for greatly increased spending on the NHS. While the political imperative may be to ensure the system spends the additional resources about to be made available, it is important to recognise the opportunity cost of increased health spending. Increased spending on health care can only be provided by a combination of increased taxation and reductions in expenditure in other areas.

2. A major question to be addressed is the extent to which developments in Scotland should reflect the developments south of the border. Is the analysis of what future resources are required in England and how they should be allocated equally relevant to Scotland? In principle, the Scottish Executive could choose a different course from that in England but clearly there will be major implications for the Scottish NHS through changes in public expectations and demands, and through the health care labour markets.

Ensuring value for money

3. A central concern with respect to public spending on health care are the mechanisms for ensuring that the monies allocated to NHS boards are spent in a manner which reflects the priorities of the Scottish Executive. Considerable reliance is being placed on the recently introduced Performance Assessment Framework and a linked system of escalating response.

4. A number of important questions are raised:
   - Is the system open, transparent and timely?
   - Is it successful in going beyond the more narrow confines of financial accountability?
   - What scope does it offer specifically for ensuring that resources are committed in an efficient manner?
   - To what extent can the achievement of objectives with respect to the reduction of health inequalities be measured under such a system?

Performance Assessment Framework

5. Regarding the Executive’s Performance Assessment Framework (PAF), the Committee welcomes its introduction and the move towards assessing performance of the NHS in the round, with quality, outcomes and
efficiency being controlled. However the Committee still has reservations about its openness and accessibility. In evidence from Highland NHS Board (HC, col 2617) the Board when asked about transparency said –

In answer to your question, I do not think that we do that sort of thing. We are transparent and explicit about where the money goes in Highland and publish that information in the accounts. However, the documents are fairly dense and inaccessible and, over the past two years, we have become very explicit in our health plan about our investment strategies. For example, this year, the plan shows in a lot of detail how the £17 million uplift is accounted for. Those documents are publicly accessible, but we could perhaps make them more accessible and provide more of an explanation about what they do.

6. The Committee recommends to the Executive that all health boards provide detail on how their allocations are accounted for and that the information be publicly available.

Health and health care

7. Another key issue is the relative contribution of spending on the NHS to improving health and that of spending in other areas. This is an immensely challenging area but one which becomes increasingly important given plans to greatly increase spending on the NHS over the next 20 years. It is clear that an adequate evidence base does not currently exist to enable the contributions to improving health by spending in different areas to be systematically compared.

8. The Committee recommends that the Executive take steps to gather evidence to enable the contributions to improving health by spending in different areas to be systematically compared. The Committee seeks an indication from the Executive as to the timescale over which progress could be anticipated.

Public involvement

9. The Committee heard from both the Executive and from the two Health Boards that gave evidence that there is a clear commitment to placing patients and the public, centre stage.

10. The Committee heard evidence from the Minister for Health and Community Care (HC, col 2690) that he was committed to involving the public more in decisions about service reorganisation at local level and about general spending priorities—

I suppose that some people have a despiring attitude toward public involvement because they think that the public cannot or will not engage, but I am very optimistic. I believe that involving the public in
decisions about service reorganisation and helping them to have a view on priority setting will result in the public’s realising the complexity of the issues and being able to make a positive contribution. That is why I think that we must go forward with that agenda. Some people hesitate because they think that we cannot possibly get anything positive or sensible at the end of the process, but I am absolutely committed to expanding the amount of public involvement in local decisions. I also want from the public more input on general spending priorities. We have an opportunity to do that with an increasing health budget. Everybody in the world can say that the health budget should be even bigger but nobody can say that we are not committed to improving and expanding the health service. Given that baseline, I believe that the public can really engage in our decisions about what our priorities in the budget should be.

11. **The Committee while welcoming the Minister’s commitment recommends that the Minister clarify the mechanisms he intends to use to involve the public in both local and national decision-making. The Committee also has concerns that although consultation takes place there is no commitment, at either local or national level, to implement matters raised during the consultation process.**

**Central control and local discretion**

12. One of the most difficult issues to be faced in Scotland and elsewhere is the balance between central control and local discretion in health care spending. While there are clearly some decisions best made locally, for example, most service delivery decisions, there are others particularly concerning standards and targets which should be made nationally. The tension between central and local decision making is highlighted when local priorities diverge from national priorities.

13. Last year in its budget report the Committee recommended:

   “That the Executive should begin a process of setting minimum standards so as to address postcode issues in the provision of care and provide equality of access to services. As a specific example, there appears to be no rationale for the current variation in numbers of specialist MS nurses paid for by the NHS. The Executive should give guidance to health boards on the minimum level of provision it expects in this case. It should then start to address similar cases such as provision of services for chronic pain and epilepsy.”

14. **The Committee is still not satisfied that there has been sufficient movement on postcode issues and wishes to reiterate the above recommendation.**
Arbuthnott formula

15. The Committee is still not satisfied that the Arbuthnott formula is sensitive enough to give NHS Boards the appropriate incentives to address inequality. The Minister in his evidence (HC, col 2698) stated—

The deprivation element of Arbuthnott is based on unemployment rates, the proportion of elderly people on income support, mortality rates among people under 65 and the proportion of households with two or more indicators of deprivation. Secondly, as this is the first year of the performance assessment framework, I cannot say with any confidence that all boards have suddenly adopted health inequalities as a priority in the way that they should.

16. The Committee recommends that the Arbuthnott formula be revisited, specifically in relation to the link between increased spending and targeted reductions in inequalities. The Committee is not convinced that the resource allocation formula provides the appropriate localisation of Arbuthnott principles for NHS Boards to address inequality at a local level.

Annual Expenditure Report

17. The Annual Expenditure Report presents a considerable volume of material at an aggregate level on staffing and activity over time, and some but rather less on health outcomes. If the purpose of the chapter is to indicate what are the priorities and what are the trends in terms of what the money is being spent on, such aggregate level information may be appropriate. However, such information is rather less useful as an aid to informed scrutiny of the Executive's spending plans.

18. Last year the Committee recommended: “The Committee sees no reason why the Executive should not publish details of the annual expenditure incurred by PFI projects in Scotland in the Scottish Budget document. This would greatly assist the Committee in its job of scrutinising spending on health.”

19. The Committee heard evidence this year from Lothian NHS Board (HC, col 2574) regarding payments on PFI contracts and from the Minister (HC, col 2694). The Minister gave a commitment to reply to the Committee in writing on whether or not there would be any reason why PFI contracts could not be disclosed to the Committee. At the time of writing this information is not available.

20. The Committee therefore recommends that the Executive provide details on all PFI contracts.
21. Chapter 5 of the Annual Expenditure Report presents a number of figures for the growth in planned spending on the NHS. These are generally shown in real terms using the GDP deflator.

22. **However, given that NHS price inflation tends to be more rapid than in the rest of the economy, the Committee recommends that it might be more informative if the report were also to indicate the rate of increased spending taking account of the higher rate of health service inflation.**

23. It is not necessarily the case that information on the level of current spending in different areas such as cancer, mental health etc. is required in order to evaluate changes in spending. What is important, for example, if spending in an area is being increased, is what the additional expenditure achieves in terms of health gain and changes in the distribution of health or ill-health.

24. However, the current level of spending can be important in particular circumstances. For example, if it is not known how much an NHS Board spends on cancer and on providing what services it will be much harder to forecast accurately the additional resources required in order to implement the Cancer Plan. Also one reason for inequalities with respect to health or ill-health may be different levels of spending by NHS Boards but this cannot be explored without more detailed information on current spending. Also informed public debate of local priorities would be facilitated by the availability of information on how spending in major areas varies across Boards. The health chapter of the annual expenditure Report may not be the most appropriate place to go into such details.

25. **The Committee recommends that the Executive explores making such information available on their web-site.**

**Securing our future health**

26. The Wanless report *Securing our future health: taking a long term view* is of considerable importance to future spending on the NHS in Scotland. While the twenty year perspective of the report appears long relative to consideration of the expenditure plans for 2003-04, the large increase in planned spending announced by Gordon Brown will begin to impinge on planned spending for 2003-04.

27. The major question to consider is the scope and need for Scotland to follow the developments in England or to identify its own path. The Wanless Report is largely based on English data. There are clear differences between Scotland and England in NHS spending per capita and in the emphasis given to health inequalities. A central assumption underlying the Wanless report is the scope for improving health through greatly increased health care spending.
28. A distinct separate issue to consider are the mechanisms for allocating the increased spending – how much through the resource allocation formula, how much through top slicing, and how much to make available in response to bids by NHS Boards.

29. The Committee during its deliberations in the course of evidence on the budget, and in the course of other evidence, has identified areas of service provision which appear to be inadequately funded.

30. The Committee considers that the provision of chronic pain services across Scotland is inadequate and patchy. In evidence, Highland NHS Board (HC, col 2625), accepted that the provision of pain services in Highland was not as good as they would like it to be. Lothian NHS Board (HC, col 2564) in relation to chronic pain services agreed that although they have services these services are accessed by people from outside Lothian. Brian Cavanagh (Lothian NHS Board) went on to say –

...although I would travel from Stirling to Edinburgh to visit a centre of excellence for the treatment of chronic pain, I would probably not want to travel 120 miles to do so.

31. The Committee believes that it would be desirable for chronic pain sufferers to be able to access chronic pain services at a local level rather than having to travel substantial distances.

32. The Committee recommends that money be allocated from the new resources to provide comprehensive chronic pain services throughout Scotland.

33. The Committee also during its deliberations considered evidence from Highland NHS Board on the provision of epilepsy services. Mary Scanlon raised the following points (HC, col 2621)—

Members of the Health and Community Care Committee have a copy of a letter from the lead clinician of Inverness local health care co-operative, Dr Scott, about epilepsy. The issue was raised last week in evidence to the committee. Dr Scott was asked whether, after experiencing a first seizure, anyone gets "an appointment ... within four weeks." His answer was "not a hope." His response to queries on "Getting a diagnosis" and "Access to NHS support" was "cannot comment"

34. Highland NHS Board had the following to say in reply (HC, col 2621)—

From a national perspective, epilepsy has not had the support from the Executive that one might expect. We have many priorities in the health service around all the other things that we know and love. Epilepsy does not feature in those priorities. From the local perspective, the Inverness LHCC had its annual away day a couple of months ago, at which there was significant representation not just from the services,
but from the patients and the public. The groups were asked what their priorities were for the health service in Inverness for the next year, but epilepsy did not appear on any of their lists. We have to start against that background. We need a driver—perhaps from above and supported from below—to get the issue on to the agenda in the appropriate place.

35. The Committee has also heard evidence regarding neurological services in the context of other ongoing inquiries.

36. **The Committee recommends that money be allocated from the new resources to provide improved neurological services and to increase the number of neurologists and neurological nurses in Scotland.**

Conclusions

37. The planned sustained increase in health care spending, for example, with spending in some areas set to double within ten years in an attempt to catch up with the health care systems in a number of other countries, highlights the issue of the returns at the margin to increased spending. As the level of spending in an area increases it will generally be the case that any given additional expenditure generates lower and lower returns in terms of health improvement. There is a question as to whether or not more might be achieved in terms of health improvement by investing resources outside of the health care system. It is appropriate to ask what evidence there is regarding the return to further health care investment. It is reasonable to question whether greater progress might be made in terms of addressing health inequalities by developing spending programmes outwith the NHS. Alternatively, it is also worth questioning whether increased spending on public health would not achieve greater returns.

38. Given the numerous challenges facing the Health Department identified above are there adequate plans in place to generate the evidence base upon which to secure more informed decision making? Are adequate resources being invested in the development and refinement of methods so that information on the extent to which health care spending objectives are met is routinely generated? In particular, more information is required on the links between the allocation of resources and the outcomes achieved using those resources. Where outcomes are defined broadly to include not only health gain but also its distribution.

39. There is an important role for the Health and Community Care Committee to play in ensuring that the Scottish Executive identifies research priorities and devotes appropriate resources to extending the evidence base, so that in future years spending plans can be subject to an increasingly informed and wider debate.
Summary of recommendations

40. The Committee recommends to the Executive that all health boards provide detail on how their allocations are accounted for and that the information be publicly available.

41. The Committee recommends that the Executive take steps to gather evidence to enable the contributions to improving health by spending in different areas to be systematically compared. The Committee seeks an indication from the Executive as to the timescale over which progress could be anticipated.

42. The Committee while welcoming the Ministers commitment recommends that the Minister clarify the mechanisms he intends to use to involve the public in both local and national decision-making. The Committee also has concerns that although consultation takes place there is no commitment, at either local or national level, to implement matters raised during the consultation process.

43. That the Executive should set minimum standards so as to address postcode issues in the provision of care and provide equality of access to services.

44. The Committee recommends that the Arbuthnott formula be revisited, specifically in relation to the link between increased spending and targeted reductions in inequalities. The Committee is not convinced that the resource allocation formula provides the appropriate localisation of Arbuthnott principles for NHS Boards to address inequality at a local level.

45. The Committee recommends that the Executive provide details all PFI contracts.

46. Given that NHS price inflation tends to be more rapid than in the rest of the economy, the Committee recommends that it might be more informative if the report were also to indicate the rate of increased spending taking account of the higher rate of health service inflation.

47. In order to be able to scrutinise the budget effectively and to allow for informed public debate of local priorities the Committee believes that NHS Boards require to give much more information on spending. The Committee recommends that the Executive explore making such information available on its web-site.

48. The Committee recommends that money be allocated from the new resources to provide comprehensive chronic pain services throughout Scotland.
49. The Committee recommends that money be allocated from the new resources to provide improved neurological services and to increase the number of neurologists and neurological nurses in Scotland.
Justice 1 & 2 Committees

Report on Budget 2003-04

The Committees report to the Finance Committee as follows—

Introduction

1. The Justice Committees have been asked to report to the Finance Committee on the relevant parts of the Annual Expenditure Report of the Scottish Executive, *The Scottish Budget 2003-04* (AER). The relevant sections of the Executive report are sections 1 and 2. Section 1 concerns the Justice Department budget, which is the responsibility of the Minister for Justice, and includes support for police and fire services, prisons, the courts, legal aid, criminal injuries compensation, criminal justice social work and victim issues, and emergency planning.

2. Section 2 concerns the Crown Office and Procurator Fiscal Service (CO/PFS), which is the responsibility of the Lord Advocate. The Justice 2 Committee is currently undertaking an inquiry into the CO/PFS. During the Justice 2 Committee’s evidence session on 24 April, the Lord Advocate advised members that detailed discussion with the Minister for Finance and Public Services were currently taking place on additional funding for elements of the implementation programme. This discussion would not be concluded in time for the Committees to scrutinise the outcome at Stage 1. This lack of available detailed figures has impeded the proper scrutiny of the issues involved at Stage 1. We are reserving our position and will return to examine the CO/PFS budget in detail at Stage 2. In particular, our interest is to re-assure ourselves that the £10m extra money will be available and identifiable in the budget and that it will not simply go to management restructuring but also frontline services. This report therefore focuses on the Justice Budget.

3. Consideration of the budget clearly cuts across the work and interests of both Justice Committees. The Parliamentary Bureau therefore agreed that budget scrutiny should be undertaken by both Justice Committees working jointly, in accordance with rule 6.14 of the Parliament’s standing orders.

4. The Committees had an informal briefing from officials of the Scottish Executive on 27 March. The Committees took oral evidence from the Association of the Directors of Social Work Services and from the Deputy First Minister and Minister for Justice, Jim Wallace. Written evidence was also received from the Justice Department, the Crown Office and Procurator Fiscal Service, the Law Society of Scotland and Association of the Directors of Social Work Services and the Scottish Legal Aid Board.

General

1 Lord Advocate, Justice 2 Committee, 24 April 2002, OR, Col 1219-20
5. The Annual Expenditure Report of the Scottish Executive 2003-04 shows total Managed Expenditure rising in real terms by 3.1% between 2002-03 and 2003-04. However, spending in the Justice Department is set to fall in real terms by 1.7% over the same period. Given that reducing crime is one of the Executive’s priorities\(^2\), this budget allocation seems contrary to this objective.

6. The Total Managed Expenditure proposed in the AER for the Justice Department in 2003-04 is £744m. To simply maintain the 2002-03 base level of spending in real terms, this would need to be raised to £757.5m, or by some extra £18.5m. If Justice were to enjoy an equal share in the over-all rise in Total Managed Expenditure planned for the Scottish Budget, the Justice Department allocation would need to be raised to £780.4m or by some extra £36.4m.

7. In its consideration of the Budget, the Justice 1 and Justice 2 Committees identified areas where an increase in spending in 2003-04 on justice related projects will produce clearly identifiable and beneficial results that are consistent with the Executive’s priority of reducing crime. These specific requests for alteration in the Budget are discussed below.

8. The Committees also identified a number of areas where there is a manifest need to improve the budgetary system in terms of facilitating linkages between areas and generally bringing about a more ‘joined-up’ delivery of justice related services. Incorporation of these requested changes in the way that budgets are provided would, undoubtedly, lead to substantial benefits in terms of achieving the Executive’s priority of reducing crime. The view of the Committees is that these system-wide changes could, in large measure, be put in place by 2003-04. Details are provided below.

9. Finally, this report includes some observations on the budget process itself, and makes recommendations as to how this might be improved in future years.

**Requested Changes in Levels of Spending**

*Diversion from Prosecution*

10. The ‘Diversion from Prosecution’ budget line is flat in nominal terms (at £1.465m) and, hence, declining in real terms across the three years in the AER. In evidence from the Minister\(^3\), it was pointed out that the out-turn figure in the earlier years had actually been lower than the reported baseline appearing in the AER. **The Minister promised clarification of the different figures.**\(^4\) **This clarification is still awaited and we hope it will be available in time for Stage 2.** Nevertheless, in evidence from the Association of Directors of Social Work\(^5\) the inadequacy of the current provision was

\(^2\) [Jack McConnell MSP, First Minister “… we will make sure that our resources are used to target improvements in health and education, reduce crime and to strengthen our transport system and our economy.” page 3, AER]

\(^3\) Minister for Justice, Justice 1 and Justice 2 Committees, 7 May 2002, OR, Col 184

\(^4\) Ibid, OR, Col 185

\(^5\) Association of Directors of Social Work, 1 May 2002, OR, Col 170
emphasised. The evidence offered from experience in South Lanarkshire suggests that, if this experience is typical, something more in the order of £8m would be necessary to provide a satisfactory service across the 32 Local Authorities. As a step towards this figure, our request is that the budget provision for ‘Diversion from Prosecution’ be increased to £4m in 2003-04, and should continue to be a realistic priority if new monies are available.

Time-out Centre
11. There is provision in the AER to establish a ‘Time-out Centre’ in Glasgow in 2003-04. Based on evidence received from the Association of Directors of Social Work, we formed the view that a significantly greater budgetary provision is necessary if the needs of women from outwith the Glasgow area are to be addressed. In evidence, the Minister indicated that the Glasgow scheme is not a pilot as such, and that if it is a success it would be taken forward. Whilst we acknowledge a very high percentage of the women using the centre will be from Glasgow, we have concerns that, in effect, this centre will operate preferentially for Glasgow women and not operate as a national resource, addressing the needs fairly of women from other parts of Scotland. We request that the budget for ‘Time-out Centres’ be increased in 2003-04 to £1.2m to provide non-residential aspects of this service widely throughout Scotland and not simply in Glasgow as currently planned. Further, the Committee would seek assurance that there be a review of the effective implementation of this national policy.

Throughcare
12. We welcome that the ‘Throughcare’ budget is, after some years of neglect, to be increased substantially in 2003-04, particularly in the ‘Voluntary Throughcare’ aspect of the service. While not wishing to deny the significance of the planned improvement in this aspect of the criminal justice system, members, in recent evidence gathering exercises for the Scottish Prisons Estates Review and other prison visits, have become convinced that a more radical expansion is required. In particular, members perceive a very marked need to improve the uptake of these services, such as, drug treatment. (The effectiveness of involving prisoners in Throughcare services should be monitored through re-offending figures and appropriate Key Performance Indicators). This calls for particularly close co-ordination between work done within the Scottish Prison Service and follow-up services provided locally upon the prisoner’s release. This should essentially be a demand led activity, whereby the funding follows the prisoner. This, in part, calls for a change in the system of budgeting, but also requires additional resources to be divided between the Scottish Prison Service and Social Work Services. We request that the ‘Voluntary Throughcare’ provision be revised upwards from its current planned figure of £3.5m to £6m.

Legal Aid

6 Association of Directors of Social Work, 1 May 2002, OR, Col 175
7 Minister for Justice, Justice 1 and Justice 2 Committees, 7 May 2002, OR, Col.189
13. Members wish to request an inflationary increase to the civil legal aid budget, as was recommended by the Justice 1 Committee in its “Report on Legal Aid inquiry, 2001 (SP437)”.

Requested Changes in the System of Budget Allocation

Secure accommodation for children

14. The Committees are extremely concerned at the lack of secure accommodation for children convicted of offences under sections 205 and 208 of the Criminal Procedure (Scotland) Act 1995, and the fact that a small number of these children have spent time in penal establishments. This was explained by the Minister as due to a lack of places and not a resource problem. It is difficult to see a lack of places being anything other than a resource problem. It is requested that provision for secure accommodation for children should be brought under one budgetary heading, preferably under the Justice budget, which would provide clarity in the operation of this service. However, such funding could be delegated to the Education and Young People department budget and other relevant spending agencies. Evidence from the Association of Directors of Social Work also highlighted the general shortage of secure accommodation for children and drew attention to the linkage between what is provided under the Justice Budget, the Education and Young People Budget, and also through Local Authorities. As this should essentially be seen as a demand-led system it is requested that all such provision be budgeted through one visible budget heading within the Justice Budget. We also request an immediate review of the need for secure accommodation places in Scotland.

Requested Changes in the Budget Process

15. In the Scottish Prison Service section of the AER, a very large charge is being made in 2003-04 to allow for so-called impairment costs. This item was explained to us by the Minister as arising out of the decommissioning of parts of the Prison Estate and the consequent write-down of the value of the buildings – buildings whose alternative-use value is obviously much reduced. This entry is £35m in 2002-03 and £18m in 2003-04. As this is essentially a book-keeping exercise and does not represent current revenue being spent on prison services, it is requested that this entry, and any others like it, be clearly separated out in the Budget to allow a better view of where current spending is going.

16. With the current level of reporting detail, it proves impossible for the Committees to scrutinise the outcomes of Ministerial announcements on

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8 page 32, AER and Justice Department 3rd response
9 Minister for Justice, Justice 1 and Justice 2 Committees, 7 May 2002, OR, Col.197
10 Association of Directors of Social Work, 1 May 2002, OR, Col 171
11 Minister for Justice, Justice 1 and Justice 2 Committees, 7 May 2002, OR, Col.203-204
intended spending under defined programme headings. We request that the system of budget headings be revised to be more consistent with the programme-based activities that form the basis of policy initiatives in the justice area.

17. Where spending on a particular programme (for example, care and treatment of offenders), by necessity, spreads over more than one department, we request that there should be a consistency of reporting categories in the AER and other budget documents. This would enable spending under each type of such heading to be aggregated and the total to be monitored more effectively.

18. While we were pleased to hear from the Minster that negotiations are in hand to revise the system of remuneration of solicitors for work done under civil legal aid, we are concerned regarding the long delay in considering such changes and even more concerned regarding the apparent lengthy delays involved in implementing any agreed new rates or new system owing to time lags in the system and the need for statutory approvals. We request that the system of remuneration for legal services under legal aid be placed on a regular basis, three yearly, whereby rates are revised in a consistent and regular manner with as little need for special procedures as possible.

19. The reporting of Budget figures to the nearest £million in this year’s AER caused needless confusion over the true extent of increases, owing to the possible influence of rounding effects. A greater level of detail in figures is undoubtedly required for the Committees to undertake proper scrutiny of the AER. Perhaps these could be set out separately and distributed directly to committees rather than increasing the size of the published AER.

20. There is clear evidence of an over reliance within the Budget on ‘Miscellaneous’ categories, for what can be relatively large amounts of spending. An example under Community Justice Services (Offender Services) is ‘Miscellaneous Projects’ (£13.627m in 2001-02) which itself is split by 2003-04 into ‘Miscellaneous Projects’ (£5.983m) and the no-more-informative ‘Support Programmes’ (£9.122m). Budget scrutiny requires more detailed information than is available here. In general, we hope that the new finance information system about to be introduced in the Justice Department will provide a more detailed access to spending – at least to Level 4, a level of reporting which is only available at the moment thanks to the co-operation and considerable effort of the Finance Officers in the Justice Department. This detailed information need not form part of the AER, but should be available to Members of the Justice Committees as part of the Budget Review Process.

Recommendations

21. For the reasons given above, we request that:

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12 Minister for Justice, Justice 1 and Justice 2 Committees, 7 May 2002, OR, Col 200
‘Diversion from Prosecution’ budget for 2003-04 increase from £1.465m to £4m. (paragraph 10)

‘Time-out Centres’ budget item for 2003-04 increase from £0.6m to £1.2m. (paragraph 11)

‘Voluntary Throughcare’ provision for 2003-04 to increase from £3.5m to £6m. (paragraph 12)

Each of these requested changes will have the measurable effect of reducing crime.

22. We request an inflationary increase to the civil legal aid budget (paragraph 13).

23. Due to the unavailability of detailed figures of the COPFS budget, we are reserving our position on this section of the Scottish budget, and look forward to scrutinising the new Budget figures at Stage 2 (paragraph 2).

24. We also request that certain changes be made in the way the budget is administered:

    Provision for ‘secure accommodation’ should be brought under one budgetary heading, under the Justice Department’s budget, with delegation to other departments. (paragraph 14)

25. Finally, we request that certain procedural changes be incorporated in the Budget process itself:

    That all essentially book-keeping depreciation type entries that do not represent current revenue actually being spent on services and capital projects be clearly separated out in the Budget to allow a better view of where current spending is going. (paragraph 15)

    That budget headings more clearly relate to programmes, especially when these programmes are the subject of Executive initiatives and Ministerial announcements. (paragraph 16)

    A consistency of reporting categories in the AER and other budget documents when spending on a particular programme spreads over more than one Department. (paragraph 17)

    A system be set in place to allow the routine revision of rates paid for legal services provided under the legal aid system. (paragraph 18)

    Detailed reporting, at least to level 4, be automatically provided to Members of the Justice Committees for the purposes of the Budget Review Process. (paragraphs 19 and 20)
LOCAL GOVERNMENT COMMITTEE
Budget Process 2003-04 Stage 1 - Submission to the Finance Committee

1. The Local Government Committee considered Stage 1 of the 2003-04 Budget Process at its meetings on 26 March, 16, 23 and 30 April and 7 May.

2. At its meeting on 26 March, the Committee considered its approach to the budget process this year and agreed that, at least at Stage 1, it should concentrate on trying to assess the adequacy or otherwise of the aggregate level of the proposed Local Government budget for 2003-04, rather than revisit structural issues such as the balance of central and local funding of local services or the control of business rates which were dealt with in the Committee’s recent local government finance inquiry Report or consider issues relating to how the Local Government budget is distributed amongst the 32 councils.

3. The Committee took oral evidence from Andy Kerr, Minister for Finance and Public Services (on 16 April), Peter Peacock, Deputy Minister for Finance and Public Services (on 30 April), the CIPFA Directors of Finance Section, SOLACE, COSLA and the STUC. Each council was invited to submit written evidence to the Committee and a total of 15 councils did so. Those councils were Aberdeenshire, Angus, Argyll and Bute, City of Edinburgh, Dundee City, East Dunbartonshire, Falkirk, Moray, North Lanarkshire, North Ayrshire, South Ayrshire, Scottish Borders, South Lanarkshire, West Dunbartonshire and West Lothian.

4. The Committee also invited the Committees with responsibility for the major local government services (education, social work, police, fire, roads & transport, leisure & recreation and cleansing) to let it have any views on the adequacy or otherwise of the present level of spending on those services and to highlight any particular spending pressures, and received comments from the Education, Culture and Sport, Health and Community Care, Justice 1 and Transport & Environment Committees.

5. The proposed Local Government budget for 2003-04 provides for—

- Aggregate External Finance (AEF) funding of £7,128 million to support local authority revenue expenditure. This is an increase of just over £438 million or 6.6 per cent over provision for the present year. However, the Committee notes from information provided by Andy Kerr that this increase includes just over £291 million to fund the cost of Executive initiatives being implemented by local government and transfers of responsibility to local government and that, consequently, the increase in genuinely “free” money is £147 million or 2.2 per cent; and
- Capital Allocations totalling over £509 million - an increase of nearly £58 million or 12.8 per cent over the Allocations for the present year.
Proposed Revenue Budget (AEF)

6. The evidence which the Committee received from COSLA and other local government organisations related mainly to the 2002 Spending Review rather than the level of the 2003-04 proposed budget per se, but it is implicit that the Convention and the other organisations regard the proposed budget as inadequate. It was argued that there is a gap of £1.5 billion between the Executive’s spending plans for local authority revenue spending and what councils believe that they need to spend. It was further argued that, even taking into account planned increased income from the council tax: further efficiency savings: and funding (additional to the above proposed AEF budget) which the Executive has announced for, for example, free personal care and concessionary fares, councils would need £183 million more revenue funding next year merely to continue current service delivery.

7. On the other hand, Ministers argued that local government is receiving record levels of Executive support and that it is quite wrong to exclude the provision for new initiatives when calculating the year-on-year increase in funding as councils “shared” those initiatives. Councils would also be able to fund a significant increase in spending next year not only from an increased level of AEF, but also from increases in the council tax and fees and charges and from efficiency savings.

8. Especially faced with this conflicting evidence from COSLA (and other local government organisations) and Ministers, the Committee does not feel able, certainly at this stage, to make a specific recommendation as regards the proposed level of Executive funding of local government revenue in isolation from clearer information about councils’ spending needs and the implication for local taxation levels. This is discussed further in paragraph 13 below.

9. However, the Committee does wish to record the following 2 specific points regarding to the proposed 2003-04 level of AEF—

i. Since the proposed budget was published in the 2002 Annual Expenditure Report (AER), the increase in employers’ National Insurance contributions has been announced. The Committee was told that this could cost local authorities between £30 million and £40 million next year and that, if this cost is not fully funded by the Executive, it would lead to either further cuts in core local services or add an extra 2 per cent to council tax levels. The Committee recommends that the Executive should address the implications for local government of the increase in employers’ National Insurance contributions in determining the final level of AEF for 2003-04; and

ii. the Committee notes that the Executive has announced that the whole of the increase in the Assigned Budget following the Chancellor of the Exchequer’s Budget is being allocated to
Health. The Committee recommends that, in determining the distribution of the additional Health resources, the Executive should have regard to the important contribution which local government makes to the health (in its widest sense) of the nation.

Proposed Capital Budget

10. The evidence which the Committee received from COSLA and the other local government organisations did not address specifically the adequacy of the proposed Capital Allocations for 2003-04. It was, however, argued that, due to under-investment over many years - in, for example, the schools estate and roads and bridges - there is a need for capital investment in local government services amounting to some £4 billion. Due to the lack of specific evidence regarding the level of the proposed Capital Allocations for 2003-04, the Committee has no recommendation to make in respect of them. It notes, with concern, the extent of the back-log in local government capital expenditure highlighted by COSLA.

11. It is clear from the evidence which the Committee received, that local government is looking forward to the introduction of the prudential framework for capital investment. There was some demand for the prudential framework to be introduced in 2003-04 rather than in 2004-05, but the Committee accepts the view of Ministers that this would not be feasible because of the need for both primary legislation and the time required to work up the details of the new arrangements.

12. The Committee welcomes the increased flexibility which the prudential framework will give councils and the fact that decisions about the balance between revenue and capital funding will in future be entirely a matter for local decision. However, the Committee recognises that the new arrangements will certainly not be a panacea and that councils will have to receive an adequate level of revenue to support increased levels of capital expenditure if they are to make significant inroads into the large backlog in local authority capital investment.

Holistic Approach

13. Following on from what is said in paragraph 8 above, the Committee believes that if it - and Parliament as a whole - is to make meaningful comment on the proposed Local Government budget to support both revenue and capital expenditure, there needs be a much more holistic, transparent and easier to understand approach to the Budget Process. Specifically, the Committee believes that—

- there needs to be close liaison throughout the Budget Process between the Local Government Committee and the Committees with responsibility for local government services so that councils’ spending and funding requirements can be considered together
and the implications for local taxation levels assessed. The Committee believes that it makes no sense to consider the proposed level of Executive funding in a vacuum;

- much more needs to be done to make the determination of the Local Government budget more transparent and easier to understand;
- to assist this process, the Executive should be invited to produce, either in the AER itself or separately, a document which brings together not only information about the funding of local government, but also information about each of the services delivered by local government: levels of spending on those services: and, if possible, information about the outcomes expected from those services. In this context, the Committee notes the paucity of information in the Local Government chapter of the AER as compared with the Health chapter, albeit it recognises that the Executive delivers directly the latter service; and
- a longer timescale should be allowed for Stage 1 of the Budget Process.

The Committee recommends that the Finance Committee should support the above proposals.

Joint Planning Arrangements

14. The main theme running through the evidence which the Committee received from COSLA and other local government organisations was that they believe there needs to be a much more constructive and open relationship between the Executive and local government regarding the determination of local government’s spending and funding needs by means of joint planning arrangements. The Committee welcomes the assurance from Ministers that the Executive shares a common agenda with local government as regards the provision of high quality services across the full range of local government services. In paragraph 130 of the recent Report of its local government finance inquiry, the Committee said that “the Executive should review the total level of provision for local government services in Scotland......” and, consequently, it recommends that joint planning arrangements on the lines proposed by COSLA should be put in place.

2002 Spending Review

15. The Committee was struck by the fact that the written submissions which they received from COSLA and other local government organisations focussed on the 2002 Spending Review rather than the 2003-04 budget per se. Indeed, in its oral evidence, SOLACE representatives told the Committee that they viewed “the pass as having been sold for [2003-04]” and that they were “more interested in the two years following that”. While the Committee recognises that the budget for 2003-04 will form the baseline for future years, it believes
that there is a need for Parliament to be more involved in the Spending Review process, rather than to consider proposed Executive budgets on a purely annual basis - especially in view of the fact that it is proposed to again give local authorities 3 year budgets. Against this background, the Committee recommends that the Finance Committee should review the whole Budget Process.

Ring-fencing and Ear-marking

16. The Committee welcomes the reduction in the percentage level of ring-fencing in the proposed 2003-04 level of AEF. It accepts the case for Police Grant and recognises that, apart from the Education Excellence Fund, the other specific grants represent a very small percentage of AEF. The Committee notes that the Excellence Fund specific grant is currently being reviewed jointly by the Executive and COSLA and recommends that all or most of the grant should be mainstreamed as soon as possible.

Summary of Conclusions and Recommendations

17. The Committee’s conclusions and recommendations are as follows—

- the Committee has, at this stage, no specific recommendation to make regarding the proposed level of AEF for 2003-04, but it recommends that, in determining the final level of funding, the Executive should—
  i. address the implications for local authorities of the increase in employers’ National Insurance contributions; and
  ii. have regard to the important contribution which local authorities make to the health of the nation;

- the Committee has also no specific recommendation to make at this stage regarding the proposed level of Capital Allocations for 2003-04, but it notes, with concern, the extent of the backlog in local government capital investment;

- the Committee welcomes the flexibility which the planned prudential framework for capital investment will give councils, but recognises that the new arrangements will only help councils to make inroads into the backlog in capital investment if they are matched by adequate levels of revenue funding;

- the Committee outlines in paragraph 13 above a number of steps which it believes need to be taken if Parliament is to be in a position to make meaningful comment on the Local Government budget and it recommends that the Finance Committee should support those steps;
• the Committee recommends that joint Scottish Executive/COSLA planning arrangements (on the lines proposed by the Convention) should be put in place;

• the Committee believes that Parliament should be more involved in the Spending Review process (as opposed to considering budgets on purely an annual basis) and recommends that the Finance Committee should review the whole Budget Process; and

• the Committee recommends that all or most of the Excellence Fund specific grant should be mainstreamed as soon as possible.
Introduction

1. Following the publication of the Annual Expenditure Report of the Scottish Executive – The Scottish Budget 2003-04 on 2 April 2002, the Rural Development Committee, in common with other subject committees, has devoted time to scrutinising departmental expenditure plans for 2003-04.

2. At stage 1 the overall strategic priorities evidenced by the spending proposals are examined. Subject committees are invited to consider the balance of priorities, to consider priorities for any increased departmental resources secured through the 2002 Comprehensive Spending Review, and to invite the Executive to consider and cost any alternative proposals.

3. The Committee took oral evidence from the Minister for Environment and Rural Development, Ross Finnie MSP, on 16 April 2002. At the same meeting the Committee also took evidence from Peter Stewart and James Withers of the National Farmers’ Union of Scotland, and Hamish Morrison of the Scottish Fishermen’s Federation.

The Scope of Rural Development Expenditure

4. The Scottish Executive Environment and Rural Affairs Department (SEERAD) has a general cross-cutting objective of ensuring that rural people and rural needs are placed at the heart of policy making across the Executive. However, spending on many services delivered in rural areas is the responsibility of various other departments. The Rural Development Committee has noted this year (as previously) that it remains difficult for a subject committee scrutinising the budget plans of one department to examine the impact of overall Executive expenditure in rural areas. The Rural Development Committee would therefore strongly recommend this issue as one for potential cross-cutting review by the Finance Committee during 2003 and strongly requests that the Finance Committee considers this.

5. In respect of much of its expenditure, SEERAD has limited discretion. Some two-thirds of its spending – on “CAP Market Support” and that part of “Rural Development” devoted to CAP Accompanying Measures – is classed as Annually Managed Expenditure (AME), in that this is largely determined by the EU Council of Ministers and merely administered by SEERAD within narrow – but in some areas slowly widening – national discretion.

Agriculture and Rural Development - Modulation

6. One of the few areas of discretion open to the Scottish Executive in relation to market support lies in modulation. Under the Agenda 2000 agreement, EU member states may “modulate” – i.e. reduce direct payments to farmers, and,
with national “match funding”, re-target the funds towards certain “rural development” measures which reflect national circumstances and objectives. Regulation 1259/99 allows Member States freedom to (i) reduce direct payments or not, (ii) reduce at a flat rate across the board (‘universal’ modulation) or in a ‘discriminatory’ way according to employment or profitability, and (iii) to reduce direct payments ‘progressively’, i.e. with higher reduction rates for ‘larger’ holdings. In Scotland, modulation is applied equally to farms of all sizes. Modulation is to be applied in Scotland (and in the rest of the UK) at rates of 2.5% in 2001/02, 3% in 2002/03 and 3.5% in 2003/04, raising sums of £7m, £11m and £13m respectively in these years.

7. These sums, when matched from the UK Exchequer, can then be applied to the accompanying measures under the Rural Development Regulation, i.e. agri-environment schemes, early retirement (not so far applied in the UK), afforestation, and Less Favoured Area (LFA) payments. Moreover, these modulation-funded measures must be ‘new’, i.e. not simply continuations of existing (2000) measures. In England, the Curry Report on the Future of Food and Farming recently recommended that DEFRA should increase the rates of modulation to 10% in 2004, and, in the absence of significant further CAP reform, to 20% by 2006. It is understood that the same rate must be applied across the whole of the UK. While the Minister noted that his priorities would be based on his own ‘Forward Strategy for Scottish Agriculture’ rather than the conclusions of the Curry Report\(^1\), the implications for Scotland of this proposal, were it to be implemented in England, are unclear. The Committee would welcome clarification from the Minister on this point.

8. So far, only the UK and France have applied modulation, with Portugal and Germany expected to follow next year. In France, modulation has been applied in the following way\(^2\):
   - Holdings receiving under €20,000 in direct aid or with standard gross margin (SGM) under €50,000 are excluded. Thus relatively few farms (about 1 in 11) are affected, mainly the 57,000 farms who received (before modulation) 41% of all direct payments.
   - Farms above these thresholds are subject to a base deduction rate of 3 per cent, plus a progressive variable rate up to 20% for those with SGM over €150,000 less an amount calculated via a complex formula based on the farm labour force (family and employed, full-time and part-time).

9. The detail of the French application of modulation funds, within a single national Rural Development Plan, is not yet clear, partly because initial progress (to end-2000) was slow. The funds are being channelled through the new Contrats Territoriaux d’Exploitation (CTEs, or land management agreements). For these, locally differentiated standard contract ‘menus’ are prepared by groups from farming, environmental, local government and other interests, and used as a basis for individual CTEs.

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\(^1\)Ross Finnie MSP, col 3030, Official Report, 16 April 2002
10. In its evidence, the NFUS expressed its opposition to enhanced levels of modulation, if these approached the “frightening level” proposed by the Curry Commission\(^3\). Its opposition does not appear to be in principle, but rather concerns the way in which modulation has been applied in the UK, whereby many farmers give but only a few receive. However, the Curry Commission proposed a “broad and shallow” stewardship scheme by which modulated funds - increased by match funding, and “aimed potentially at all land managers” - would be used to pay for public goods such as reduced pollution, wildlife and landscape beauty, via whole-farm audits. In France, as noted above, modulation has been applied to the converse effect to that feared by the NFUS, taking primarily from the 9% of largest farms to the benefit of the majority.

11. The Minister also gave his views on modulation, admitting that while “not a devotee” he might favour enhanced modulation under certain circumstances\(^4\). His preference would be for the current mid-term review of the CAP to lead to agreement among Member States to switch resources through other means from Pillar 1 to Pillar 2 (i.e. from production-based subsidies to rural development measures), or at least to allow more flexibility in the use of modulated funds under the Rural Development Regulation. Ideally this would enable funding of land management contracts or whole farm development schemes, which would assist farmers to diversify and strengthen their businesses in ways appropriate to each of them. Again, time precluded clarification of how this objective differs from the French application of modulation through CTEs, and whether the Minister has assessed the merits of applying modulation in this way.

12. The Committee invites the Minister to assess the costs and the impacts of introducing enhanced rates of modulation in Scotland, with progressive and discriminatory rates of modulation, and with the proceeds matched by UK funds and applied as part of a revised Rural Development Plan through land management contracts or whole farm development schemes.

*Other Aspects of Agriculture and Rural Development*

13. Evidence was also received about the Organic Aid Scheme, with the NFUS arguing that promoting organic food too vigorously might create “the impression that there was something wrong” with non-organic production\(^5\). The Minister said that he was keen to continue to support those who wish to convert to organic production, and also to promote environmentally friendly farming more generally. However, the Committee has heard limited evidence regarding the expenditure aspects of these issues.

14. The most notable increase in planned SEERAD expenditure is that on the Less Favoured Areas Support Scheme (LFASS) which will increase from £37m in 2000/01 to £61m in 2003/04. Most of this increase is from national

\(^3\) Peter Stewart, Official Report col 3019, 16 April 2002  
\(^4\) Ross Finnie MSP, Official Report col 3044-5, 16 April 2002  
\(^5\) Peter Stewart, Official Report col 3012, 16 April 2002
Departmental Expenditure Limit (DEL) funds, not EU funds, reducing the rate of EU contribution from the “normal” 25% to around 15-20%. The allocation of an additional £24m to this scheme is therefore a major policy decision by the Minister. The Committee would welcome clarification from the Minister on his objectives in allocating these funds to this scheme rather than to other rural development measures.

15. Two other rural development issues were considered by the Committee. One concerns the level of funding and the rates of grants and loans allocated to the Crofters Building Grants and Loans Scheme. The Minister accepted the need to review the scheme’s limitations, particularly whether the levels are appropriate to secure adequate provision of housing in remote rural areas. The Committee welcomes this commitment to review the scheme and would like to be kept informed of progress. The other relates to expenditure on the Rural Partnership Fund, and the Committee suggests that this might be one priority to be considered for enhanced funding should further funds become available as a result of the Comprehensive Spending Review.

Scientific Support

16. Spending of £92m on agricultural and biological science and other agricultural services is intended “to maintain an agricultural and biological science base in Scotland that is of high quality and relevant to Ministers’ wider policies, and to support Ministers’ legislative, policy and enforcement roles by providing scientific services”. Notwithstanding this expenditure, in evidence the Minister lamented the historical deficiencies of the evidence-base available to assist him in policy formation and highlighted key areas for further work as the social justice agenda, economic development and rural services. The Committee did not have the opportunity to pursue this in further detail. However, the Committee is interested to ask the Minister why, in this context, less than 2% of SEERAD’s expenditure on the Agricultural and Biological Research Group programme is devoted to socio-economic research pertaining to rural economies and communities. The Committee also requests clarification on the extent to which the Minister envisages SEERAD-funded research being targeted directly in support of actual or intended SEERAD department-specific policies, or allocated on a wider basis, e.g. in support of cross-cutting industry or community agendas. Spending plans are also helpfully disaggregated according to end-use relevance, one of which is rural communities and development, receiving 1% of the research total. The Minister expressed his frustration that the level of resources makes it difficult to assemble the evidence base on these issues, and the Committee suggests that this might be another priority to be considered for enhanced funding should further funds become available as a result of the Comprehensive Spending Review.

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6 Ross Finnie MSP, Official Report col 3037 and 3040, 16 April 2002
7 Annual Expenditure Report of the Scottish Executive: Detail – The Scottish Budget 2003-04, p 245
8 Ross Finnie MSP, Official Report col 3028-9, 16 April 2002
9 Ross Finnie MSP, Official Report col 3043, 16 April 2002
The aim of fisheries spending is to promote the development of sustainable fisheries and aquaculture, to provide scientific advice and information on fisheries, aquaculture and the aquatic environment; and to implement an effective strategy for enforcing fisheries controls. The Scottish and EU fisheries sector faces significant challenges, with pressures on most fish stocks, reduced quotas for whitefish and regulatory requirements to be met.

The Committee heard three positive suggestions from Hamish Morrison of the SFF, which in turn members put to the Minister. The SFF suggested that the Minister should campaign to attract to Scotland the European Centre for Fisheries Research and Management proposed by the European Commission. However, the Minister explained that this is not currently part of his budget plans.

The SFF also suggested that the one-off expenditure to support a programme of research cruises, jointly managed by fishermen and scientists, should be continued to anticipate the survey and data requirements of the Ecosystem Approach to Fisheries Management. This joint work had provided a valuable supplementary source of employment in the industry, and secured the active involvement of the industry in research activity. The Ecosystem Approach to Fisheries Management is a key part of developing EU fisheries policy, but its effectiveness is hampered by limited scientific knowledge of key species. The Minister noted that his expenditure plans included £15m for fisheries research, and that he had to consider how best to spend this.

Thirdly, the SFF proposed the establishment of an executive body, such as a specialist enterprise company, to manage inshore fisheries and related marine resources. The SFF presented evidence of the need to integrate the individual economic interests of inshore fishermen with the collective economic and social interests of coastal communities. The Minister expressed a willingness to look closely at this proposal if it were sent to him. The Committee recommends that the Minister gives further consideration to these three proposals.

Summary and conclusions

Overall, the Committee wishes to acknowledge the clearer presentation of the budget proposals this year, which, notwithstanding their complexity, has made it easier to scrutinise the proposals at stage 1. Nevertheless, there is still much to be done in identifying outcomes, and in reviewing cross-cutting expenditure in rural areas.

The Committee notes the following conclusions for the Finance Committee’s consideration:

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10 Ross Finnie MSP, Official Report col 3037-40, 16 April 2002
• The Committee strongly requests that the Finance Committee considers an examination of the impact of overall Executive expenditure in rural areas as an issue for potential cross-cutting review by the Finance Committee during 2003.

• The Committee would welcome clarification on the implications for Scotland should the Curry Commission’s proposal on increasing modulation be implemented in England.

• The Committee invites the Minister to assess the costs and the impacts of introducing enhanced rates of modulation in Scotland, with progressive and discriminatory rates of modulation, and with the proceeds matched by UK funds and applied as part of a revised Rural Development Plan through land management contracts or whole farm development schemes.

• The Committee would welcome clarification from the Minister on his objectives in allocating additional funds to the Less Favoured Area Support Scheme rather than to other rural development measures.

• The Committee welcomes the Minister’s commitment to review the Crofters Grants and Loans Scheme and would like to be kept informed of progress.

• The Committee suggests that the Rural Partnership Fund might be one priority to be considered for enhanced funding should further funds become available as a result of the Comprehensive Spending Review.

• The Committee would welcome clarification of the Minister’s priorities for SEERAD’s expenditure on the Agricultural and Biological Research Group programme.

• The Committee suggests that assembling an improved evidence base on rural communities and development might be another priority to be considered for enhanced funding should further funds become available as a result of the Comprehensive Spending Review.

• The Committee recommends that the Minister gives further consideration to the three proposals put forward by the Scottish Fishermen’s Federation, namely:
  ▪ making adequate budgetary provision to attract the proposed European Centre for Fisheries Research and Management to Scotland
  ▪ a continuation of the programme of research cruises, jointly managed by fishermen and scientists
  ▪ the establishment of an executive body, such as a specialist enterprise company, to manage inshore fisheries and related marine resources.

Rural Development Committee
30 April 2002.
The Social Justice Committee reports to the Finance Committee as follows:

1. The Committee considered, among other business, the Scottish Executive’s Annual Expenditure Report, 2003–4 at its meetings on 23 January 2002, 20 March, 17 April and 1 and 15 May.

2. At its meeting on 20 March 2002, the Committee took evidence from the Chartered Institute of Housing in Scotland, Shelter Scotland, Scottish Federation of Housing Associations, Convention of Scottish Local Authorities, Glasgow Alliance, Highlands and Islands Social Inclusion Partnership and Scottish Council for Voluntary Organisations. At its meeting on 17 April 2002, the Committee took evidence from Iain Gray MSP, Minister for Social Justice and Ms Margaret Curran, MSP, Deputy Minister for Social Justice.

3. The Committee structured its consideration of the budget around the following broad headings:
   - **Transparency Issues**
   - **Housing Issues**
   - **Voluntary Sector Issues**
   - **Social Inclusion Issues**
   - **Other Issues**

4. The Committee broadly welcomes the 8.98% real increase in the Social Justice budget between 2002-3 and 2003-4.

5. The Committee notes that the cross-cutting nature of the social justice agenda means that scrutiny of the budget in relation to the Executive’s social justice agenda remains limited. Therefore, given the necessarily limited extent of its scrutiny of the budget process the Committee has made no spending recommendations. This point is considered in more detail below.

**Transparency Issues**

6. The Committee notes that the Social Justice budget covers a range of cross-cutting issues that span a number of departments and acknowledges that lack of clarity remained a real concern to a number of witnesses. For example, different components of housing spend are hidden in different departmental budgets. This is a point which was emphasised by Shelter who stated in their oral evidence to the Committee on 20 March 2002 that:

   One problem that the Committee, Shelter and other housing organisations have found is that it is increasingly difficult to pick apart areas of the budget and to obtain transparency and clarity about where housing investment is going (OR Col. 2772).
7. Similarly, the Chartered Institute of Housing in Scotland (CIHS) in their oral evidence to the Committee on 20 March stated that:

The presentation does not lend itself to effective comparisons. ...a more standardised mechanism for reporting annually – to provide year-on-year comparability - would help enormously.... Different components of housing spend are hidden in different budgets, so it is difficult to obtain a comprehensive picture of current housing investment (OR Col. 2773).

8. Glasgow Alliance also suggested at the same meeting that:

The Committee should think about ways in which health and education expenditure can hit the social justice mark. Only be doing such joined-up work will we achieve what we want (OR Col. 2873).

9. However, in giving evidence to the Committee on 17 April the Minister for Social Justice stated that:

The budget is presented differently compared with previous budget documents. We think that it is an improvement and a move towards greater transparency, but we are keen to hear the committee's views on it. (OR Col. 2832).

At the same time, the Minister accepted that in respect of end year flexibilities that ‘the process is complicated and convoluted’ (OR Col. 2839).

**Social Justice Milestones**

10. The Committee notes that given the cross-cutting nature of the Social Justice milestones it is difficult to assess the extent to which they have an impact in setting the budget.

11. In his oral evidence to the Committee the Minister for Social Justice stated that:

In many ways, the milestones must be the first thing that we look at when we consider how to allocate resources and whether we should shift resources from one area to another. Secondly, we need to be involved in a constant process of discussing with colleagues the social justice milestones for which they are responsible. We need to work with them to monitor whether policy development and resource allocation help them to achieve the social justice milestones (OR Col. 2836).

12. However, while the Committee accepts that there is a commitment to mainstreaming Social Justice across departments there is little transparency of the actual impact of that process on the budget.

**Other Targets**

13. There was also some concern among witnesses that the drawing of year on year comparisons did not appear to be assisted by the targets which are set and what is actually monitored. For example, Shelter in their oral evidence argued that:

There is inconsistency in what we monitor. Sometimes we have targets and it is difficult to monitor whether we are meeting them - the amount of money that is being spent on rough sleeping, say (OR Col. 2773-4).
14. More positively, Local Housing Strategies (LHS’s) were welcomed by the CIHS. Local Authorities will be monitored on the outcomes of LHS’s by Communities Scotland which will report to the Minister.

15. Generally, the Committee believes that the presentation of social justice issues within the AER has improved but **recommends that the Executive addresses ways to deliver a more joined-up approach which would facilitate a greater understanding of the extent of the resources being allocated to the social justice agenda.**

16. **More specifically, the Committee recommends that the Executive should endeavour to provide a comprehensive view of housing investment within the AER to enable effective year by year comparisons to be made.**

**Housing Issues**

17. The principal recommendations of the joint submission by the CIHS, Scottish Federation of Housing Associations (SFHA) and Shelter Scotland were to:

- ensure the recognition of public investment in housing as a key way to deliver the Scottish Executive’s five priorities;
- gather all strands of housing expenditure together;
- take account of all the new initiatives and existing commitments which impact on housing expenditure;
- make a credible and comparable assessment of past and current levels of public investment in housing;
- determine the levels of investment required in the future, and how that investment will be delivered.

18. The Minister stated that the Executive proposes an increase of 11% in its housing budget over the current year’s spending plans. However, the SFHA suggest that the Executive’s total spending on housing is about 30 per cent less than it was in the early to mid-1990s despite the scale of need being at least as great now as it was then. Shelter also argue that parts of the Social Justice agenda will not be met unless investment in housing is increased.

19. The SFHA also suggest that the Treasury’s decision to pay off outstanding housing debt in the event of community transfer frees up resources in the Executive’s budgets, which the Executive had planned to spend on debt servicing. The SFHA suggest that these monies should be used for investment in housing.

20. The SFHA also suggest that far too much monitoring of the budget is year on year and that housing spend impacts over a much longer period than that. Therefore, they suggest monitoring over a period of five or ten years would be useful.

**Housing Repair and Improvement Grants**
21. In their submission Shelter and SFHA point out that expenditure on repair and improvement grants is not included in the budget on housing. However, the HITF notes that expenditure on improvement and repair grants has fallen by over 40% in cash terms in the past five years following the introduction of the single capital allocation and the withdrawal of the former “ring fence” for Non-Housing Revenue Account Spending in 1996. Shelter and SFHA argue that this has had a knock-on effect on tackling disrepair in the private sector.

22. SFHA/Shelter identify three potential solutions:

- direct expenditure by central government;
- ensuring that extra money allocated to local government is spent in this area;
- incentives and encouragement for owners to spend in this area.

23. Further in response to questioning from the committee SFHA agreed that a 5% VAT rate on all repairs and improvement would help to encourage investment in the refurbishment of older properties.

**Housing Improvement Task Force**

24. The Committee notes that the Executive has committed £10 million to funding the recommendations of the Housing Improvement Task Force. The Minister stated that he felt this was ‘a sign of goodwill’. However, the Committee also notes that the Minister for Social Justice has pledged that improving the condition of private sector housing will be a key theme of the Executive’s housing policy. CIHS/SFHA and Shelter suggest that any forward planning of the social justice budget must take account of the resource implications which will follow from the recommendations of the HITF second report which is due for publication in early 2003.

**Implementation of the Housing (Scotland) Act**

25. The joint written submission from CIHS, SFHA and Shelter refers to the £10m pledged in 2002-03 to assist with the introduction of Scottish Secure Tenancy and 27m over 3 years to support homelessness provisions.

26. Organisations such as Shelter have expressed concern that this will not be sufficient. For example, access to temporary accommodation for applicants not assessed in being in priority need will increase demand. It is estimated that the new homelessness duties will require additional capital costs of around £41m over 3 years.

27. The Committee recommends that the Executive should be asked to clarify the amount of housing or other resources freed up by the Treasury decision to pay off outstanding housing debt in the event of community transfer, and the extent to which these resources would be available for reinvestment in housing.

28. The Committee also recommends that the Executive should plan for a substantial increase in housing expenditure to implement the eventual
proposals of the HITF, particularly with regard to private tenemental property.

Voluntary Sector Issues

29. In their written submission SCVO argue that as:

voluntary organisations are the recipients of public funding across policy areas, the levels of spending within each heading that are likely to reach voluntary organisations should be identified.

30. They suggest that the budget process makes it difficult for the sector to identify the specific sums of money under different spending heads that are going to the voluntary sector. Moreover, comparisons with previous budgets is pretty much impossible because the necessary information is simply not available. SCVO argue that it is not just about the £9 million or £10 million that comes under the social justice heading but about the role of voluntary organisations across the spread of policy areas. However, the SCVO also noted that the Executive is planning a strategic review of funding of the voluntary sector.

31. The Committee notes that the Minister for Social Justice provided the following answer to a written parliamentary question on 30 January 2002:

Iain Gray: The current review of funding for the voluntary sector is looking at the Executive’s own grant-making procedures, with a view to developing a co-ordinated Executive funding strategy for the voluntary sector.
The next stage will be a wider, strategic funding review. As well as looking at the wider issues identified in the direct funding consultation paper, it will look at how the Executive’s indirect funding meets the needs of the sector and whether it is possible for all the indirect funders to work together to ensure that they are operating in a way that meets their own needs and those of the sector.
We expect the wider review to commence in the summer.

The Committee awaits the outcome of these reviews with interest.

32. The Committee is also aware that the Finance Committee, as part of their budget scrutiny process, has agreed to conduct a cross-cutting review of Scottish Executive support to voluntary organisations for regeneration initiatives. The Committee has appointed a reporter on the cross-cutting review.

33. The SCVO argue that the following issues are of significant importance in relation to the budget process and should also be addressed by the strategic funding review:

- Clear information on the level of expenditure available – including year-end spend;
- Transparency of application and allocation processes;
- Barriers to effective delivery of public services;
- Joint planning;
- Moving towards outcome-related funding;
- Moving towards the proofing of policy and legislation to assess the implications for voluntary sector finance and avoid unnecessary compliance costs.
34. SCVO estimates that the public sector in Scotland contributed £771 million, (via Scottish Executive direct grants, NDPBs, and local government) to the sector’s total estimated income of £2.01 billion in 2000/01 (37%). This equates to 4.3% of the £18 billion Scottish budget of that year and, by levering in a further £1 billion-plus towards public benefit activities demonstrates excellent value for public money. In giving evidence to the Committee on 20 March 2002 SCVO stated that:

The way in which the public funds that come to the sector are assessed in terms of the value that they secure for the community. The reporting mechanisms do not adequately define the added value that the voluntary sector is able to bring. If the sector’s contribution is to be fully appreciated, there is a case for the ambitious development of additional criteria to assess added value in public expenditure. The best value element of the proposed local government bill...offers an opportunity to move at least some way towards securing a better definition of the added value that the sector can contribute...(OR Col. 2795).

35. The Committee recommends that the Executive should endeavour to make the nature and extent of investment in the voluntary sector more transparent.

Social Inclusion Issues

36. The Committee welcomes the Minister for Social Justice’s comments at its meeting on 5 March 2002 that:

Our spending plans will allow us to continue to make progress on our long-term social inclusion strategies, which include extending the funding to the nine further regeneration programmes until 2004; extending to March 2004 the designation of five new SIPs that were due to expire; and consolidating our work to empower communities so at least they are at the heart of our regeneration efforts (OR Col. 2833).

37. The Committee notes that the evidence provided by Glasgow Alliance at its meeting on 20 March echoed the views the Committee heard in relation to the Inquiry into the Voluntary Sector that the necessity to prepare bids for funding could diminish organisations’ core service functions:

There is a feeling that there are still too many initiatives...(with) constant demands to work up proposals and think about processes, often in the middle of the year. That situation can mean that one almost takes the eye off the ball of the main strategic outcomes. (OR Col. 2782)

38. Similarly, the timescales for funding periods created problems with forward projections for three years being favoured, but the current projection:

...consists only of one fixed year and one provisional year, which makes planning more difficult. As the budget process rolls forward, the ability to have provisional figures for years 2 and 3 will be important. (OR Col 2782)

39. On a more positive note, however, the importance of social inclusion funding was welcomed as being important in the drive towards having increased community capacity and real accountability in local decision making about projects that local communities would support.
40. On mechanisms for monitoring the success of projects, SIPs were moving away from compulsory core indicators to having fewer measures, which would allow clearer comparisons across Scotland of which initiatives were proving successful.

Other Issues

Fuel Poverty

41. In the Housing (Scotland) Act 2001, the Executive pledged to eliminate fuel poverty within fifteen years. This is in addition to the targets set in the UK Fuel Poverty Strategy to end fuel poverty for vulnerable households by 2010 and to ensure that all pensioner households and tenants in the social rented sector will live in a centrally heated and well insulated home by 2006.

42. CIHS, SFHA and Shelter Scotland welcome ambitious targets but retain a number of concerns: while all tenants and pensioner households may have a heating system, many will still have either a partial heating system or one which is too expensive to run and there is again the issue of long-term strategic financial planning from the Executive.

43. In relation to the question of an alleged shortage of qualified heating engineers the Minister stated that: ‘I have not seen evidence of the shortage manifesting itself. If anyone has such evidence, I hope that they will give it to us’.

44. The Committee may wish to note that Transco in their written evidence on fuel poverty state that:

We would also suggest that the Scottish Executive needs to address as a matter of urgency the skills shortage problem that exists amongst gas installers. Without action this shortage will compromise the Scottish Executive’s efforts to tackle fuel poverty

45. In taking oral evidence on fuel poverty from a number of organisations, the Committee noted that there was serious concern about the lack of skilled labour generally within the construction industry and that this would necessarily impact on the Scottish Executive’s programmes to tackle fuel poverty, including the central heating programme.

46. The Committee recommends that the Executive provide more detailed information on action it is taking to address the problems which will be caused by lack of skilled tradesmen, the timescales for such action, and whether more work could be done with Scottish Enterprise to support the initiatives currently being undertaken by Transco and others. The Committee has written to the Minister for Social Justice drawing attention to its concerns over the skills shortage in the construction industry and its potential impact on the Executive’s programmes to tackle fuel poverty.

Homelessness

47. Shelter raised concerns regarding lack of transparency in relation to where allocations are located:
The (monitoring) committee will monitor progress against the recommendations in the report and against new legislation on homelessness. If we do not know how much will be invested in housing … it will be impossible to monitor efficiently the progress that we make (OR Col. 2772).

48. Shelter welcome the allocation of £3m in 2002-03 and £8m in 2003-04 but suggest that further resources are required for longer term need to increase the revision of housing to follow phasing out of priority need, etc, and to support the role of support services in prevention of homelessness.

Conclusion

49. The Committee broadly welcomes the Scottish Executive’s Annual Expenditure Report, 2003-4 in relation to Social Justice issues but notes that that the nature of its scrutiny of the budget process is limited by the lack of clarity in the AER on issues such as housing spend.
TRANSPORT AND THE ENVIRONMENT COMMITTEE

Report on Stage 1 of the 2003-04 Budget Process

The Committee reports as follows—

The Budget Process

1. At the first stage of the annual budget process, each subject committee is asked to consider and report on the future spending priorities of the Scottish Executive department(s) which it shadows. The Annual Expenditure Report (AER) sets out the provisional expenditure plans for 2003-4. Subject committees have also been asked to keep in mind the possibility that new resources may emerge from the UK Spending Review this summer. To this end, the Finance Committee recommended that subject committees focus more closely on budget choices to be made as well as on processes and information.

2. This year, the Committee decided to take an overview of the transport budget, resulting in the Committee taking evidence from a wide range of witnesses over three evidence taking sessions. These witnesses have included the most respected independent experts in transport economics, regional economics and urban and regional planning in Scotland and the United Kingdom. Specialists in the Scottish economy and regional development have also been called as have leading managers and technical officers in transport policy delivery, management of infrastructure and lifeline transport services. We have also heard submissions and taken evidence from representatives of industry and commerce as well as the environmental lobby. A full list of witnesses is attached at Annex B, with oral and written evidence reproduced at Annexes C and D respectively.

3. There are many challenges which need to be taken into account in allocating what is inevitably a limited budget. These include how much can be justified in supporting lifeline services as distinct from major inter urban roads or congestion relieving schemes. What can be done about the backlog in road maintenance? The implications of the financial problems afflicting the railways are likely to have important consequences for rail development and even network retention in Scotland. The costs implications of recent events surrounding Railtrack will impact on how far the transport budget for Scotland can stretch. The most fundamental question may be: can transport justify a larger allocation of funds relative to health or education?

4. The report is structured as follows—

   • Overview of 2003-04 Budget
Overview of 2003-04 Budget

5. It is appropriate to take last year’s projected budget figures for 2003-2004 as a starting point for this year’s process. A review of the recently published AER indicates almost no change from last autumn’s settlement for 2003-2004. Transport spending is divided into five main sections that combine to give a total figure. Grants to local authorities are not included in this total figure in the budget documents. The main sections are:

- Motorways and Trunk Roads
- Other transport programmes
- Caledonian MacBrayne
- Highlands and Islands Airports Ltd
- Rail Services in Scotland
- Grants to Local Authorities

6. At this point last year at Level I, in real terms the Transport Budget for 2002-2003 projected a significant rise on 2000-01 figures. This rise was partly because as of 2001-02 the Executive took on financial responsibility for rail services in Scotland. In October 2001 the Scottish Executive published their detailed spending plans for 2002-03 and projections to 2003-2004. Over the next two years and in real terms, transport spending was projected to increase by more than 8% following on from a rise of approximately 9% in the first year of devolved government – this is over and above the funding allocated to the rail franchise from 2001-02 arising from transfer of financial responsibility to the Executive for the Scotrail franchise. However, in interpreting these figures, the Committee is mindful of the significant impact that resource accounting and budgeting has had on the transport budget as a whole. It is therefore difficult to make accurate comparisons between pre and post RAB budgets.

7. The budget for Motorways and Trunk Roads programme for the next two years was cut by £15m. The Draft Budget indicated a rise of £1m for Other Transport Programmes in 2001/02. Within Other Transport Programmes there was a £1m fall between the March AER and the September Draft Budget. The Integrated Transport Fund was cut for 2003/04 by £5m (from the figure given in March AER). Funding for Strathclyde Passenger Transport was cut in the September document by £5m in both 2002/03 and 2003/04 relative to the AER figures.
8. A substantial proportion of the overall public expenditure on transport comes via Grant Aided Expenditure to Local government. In recent years, roads and transport GAE has been falling slightly in real terms and authorities have spent below GAE provision. This compares with a total spend of around 6% above GAE (i.e. on all services). However the most up-to-date figures collated by the Society of Chief Officers of Transportation in Scotland (SCOTS) would suggest that across Scotland actual revenue expenditure on transport by local authorities has fallen around 10% below GAE.\(^1\)

9. Capital expenditure is also made in a block allocation to authorities in what is called a Single Allocation. It too has been growing. It was £90.9m in 1999-2000; £82.8m in 2000-1; but rose to £148.1m in 2001-2. The roads share of capital budgets rose from 15.4% to 17.6% over this period.

10. According to the Deputy Minister, the budgetary year 2003-04 will be significant for the transport budget for a number of reasons. It is the final year of the three-year spending review period that was launched by the spending review 2000. Significant increases are planned in a number of programmes across the budget. Finally, 2003-04 will be a transitional year in which a number of projects that began in 2000 — a number of priorities, policies and programmes were set in train in 2000 — will draw towards completion. 2003/2004 also sees the new priorities and objectives for longer-term spending as set out in the TDR.\(^2\)

11. The Deputy Minister also told us that the Executive seeks to achieve a balance between road expenditure and public transport and other non-road transport expenditure. By 2003-04, the proportion of road spend will be, in Executive cash expenditure terms, below 40%. There has been a significant shift in the balance of the budget as a result of deliberate policy decisions.

12. Nonetheless, investment in roads remains a significant part of the budget. It is intended to continue to implement an ambitious programme that addresses the motorway and trunk road network. A total of 63 major schemes should be substantially under way or completed by the end of the budget period in March 2004. Investment continues in maintaining and improving the strategic road network — around 20 new schemes are due for completion in 2003-04. Those schemes are part of a £660 million programme over three years and include the development of the five major schemes that were identified in the strategic roads review: the A830, the A1, the A78, the A96 and the M77/Glasgow southern orbital.

13. 2003-2004 also provides for inclusion of a number of schemes to be progressed jointly with local authorities including a new crossing of the Forth at Kincardine by 2007 and the completion of the M74 northern extension by 2008.

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\(^1\) Information supplied by SCOTS, reproduced at Annex D

\(^2\) Paragraphs 10-14, per Deputy Minister for Enterprise, Lifelong Learning and Transport, Column 2981, Official Report, 1 May 2002
also provides for substantial investment in public transport programmes, including supporting bus services, particularly in rural areas; improving airport facilities in the Highlands and Islands, and investing in new ferry services for Scotland’s islands. Substantial awards are earmarked for freight facilities grants — £36 million in the three years to March 2004 — to transfer freight from road to more sustainable modes, particularly rail. As a result of the award of the northern isles contract to NorthLink Ferries, three new vessels will serve Orkney and Shetland. Provision has been made for two new ferries for Caledonian MacBrayne on the west coast and major harbour developments will be completed within the time frame.

14. The budget for 2003-04 will also support existing rail services as we move towards the new long-term franchise. The budget document makes it clear that it is the Executive’s objective to award the new franchise in March 2004. It also plans to proceed with a commitment to providing free local off-peak bus travel within existing schemes. There is around £45 million for that in the budget for 2003-04.

The Transport Delivery Report

15. The Committee identified the Executive’s Transport Delivery Report (TDR) as an appropriate starting point for considering the efficacy of the overall thrust of Scotland’s transport policy and its resource implications. It was also identified as a useful reference for assessing the balance of spending in transport both geographically and between modes of transport in pursuit of the Executive’s own stated objectives. The report was significant in that it identified overall objectives and particular priorities which extend beyond 2003-04.

16. The TDR sets out the Executive’s vision for the future as well as cataloguing the claimed achievements of the post devolution strategy to date. It emphasises the importance of addressing traffic congestion via a raft of measures intended to afford alternatives to the private car. Although the Executive sees this as its primary focus the report recognises Scotland’s diverse geography and transport requirements and, indeed, the document records an impressive range of policy interventions and financial instruments in support of a variety of economic, social and environmental objectives.

17. The TDR commits the Executive to continuing to support a wide range of commercially non-viable public transport services including ferries, air services and railways. It is this commitment to a wide variety of supported services and facilities that both represents its strength and a weakness in the vision and the strategy it purports to promote. Scotland spends more on supporting such transport facilities than the other devolved areas of the UK.
18. The TDR has received a broad welcome from most of our witnesses and the wider public. However, one of the main criticisms made is it is short on detail and even inconsistent between sectors/geographical areas. The most obvious example of this is the absence of clear, measurable and agreed targets or indicators on which to assess the merits of key schemes as well as future monitoring of the overall strategy.

19. It is essential that the question of measurable targets and criteria is quickly resolved as it puts into question the case for each or all of the 10 headline projects identified in the TDR, which underpin the strategy on which future policy goals are based. It is understood that these projects have yet to be subjected to comprehensive appraisal under the STAG system. This reflects a top down approach to development of transport strategy. While the Committee is broadly sympathetic to the case for substantial capital investment reflected in the TDR it recommends that these appraisals should be carried out as a matter of urgency. Completion of the STAG appraisals will make more transparent and robust the basis on which the Parliament’s decisions on budgets are made.

20. Malcolm Reed of Strathclyde Passenger Transport acknowledged that we are all only at the initial stages of addressing the policy and financial implications of the TDR but that so far as the 2003-04 budget is concerned there is only a limited opportunity to redirect resources during this period.3

21. In evidence given towards the Enterprise and Lifelong Learning Committee, Wendy Alexander went further by saying that even in the forthcoming Spending Review only two of the big projects identified in the TDR – Waverley Station and the passenger train franchise – could benefit from expenditure. Constraints due to the likes of legislation, planning, design or land purchase mean that construction work on other projects is not likely to start during the course of the next spending period.4

Congestion Charging

22. The TDR represents a shift to tackling congestion. Evidence provided by Professor Glaister suggests that this will not be achieved without a change in the way and the amount road users are charged for use of the road system. A number of hurdles have still to be cleared, particularly to do with ensuring that the cost of implementation and enforcement (in the absence of satellite technology) do not consume a great deal of the benefits that congestion charging may offer.5

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3 Column 2890, Official Report, 24 April 2002
4 Column 2583, Official Report ELL Committee, 1 May 2002
5 Per Professor Stephen Glaister, Column 2926, 24 April 2002
23. The Deputy Minister in his evidence to the Committee alluded to Road User Charge initiatives by local authorities. However, he did not envisage any similar initiatives being taken on trunk roads and inter urban motorways. He noted that as far as other aspects of road charging are concerned, the provisions of the Transport (Scotland) Act 2001 are confined to road user charging on local roads. That remains the legislative position and is likely to remain so in the future. Inter urban tolling is thus not on the agenda.6

24. No comprehensive alternatives were offered by the Deputy Minister in the absence of road user charges to underpin the effects of improved public transport. On their own, doubts were raised that simply investing in trains and buses would not deliver the Executive’s headline targets. The Deputy Minister accepted this point.

25. Under close questioning concerning targets, the Deputy Minister emphasised constraining total traffic levels over a twenty-year timescale. There is clearly ambiguity over current proposals and their effectiveness against key, but as yet unspecified, criteria.

26. On the basis of the evidence taken, the Committee is not convinced that, given the current position of the Executive on local congestion charging and inter urban road tolling, the TDR’s primary goal of reducing traffic congestion will be realised. Moreover, the Committee’s view is that the Executive appears to have moved away from a traffic congestion reduction policy to an overall traffic growth control policy.

Size of the Transport Budget

27. The starting point for the Committee’s deliberations is the question of the size of the budget allocated to transport. An important distinction must be made between capital investment and expenditure, and current spending including such items as road maintenance and public transport subsidies. Overall spending on transport in the UK is typically less than our major EU partners. This applies both to current and capital budgets. Within the UK however, there are marked variations. The Treasury provides estimates of identifiable total managed expenditure for England, Scotland, Wales and Northern Ireland and the UK as a whole. The accompanying table highlights the fact that, in the most recent year for which per capita figures were obtained, Scotland was significantly higher than England, Wales and Northern Ireland. A review of earlier years highlights the fact that Scotland has consistently achieved higher overall annual total managed expenditure per head than any other part of the UK.

6 Paragraphs 23-25, per Deputy Minister for Enterprise, Lifelong Learning and Transport, Column 2991, Official Report, 1 May 2002
Identifiable Total Managed Expenditure per head on Roads and Transport

<table>
<thead>
<tr>
<th>Year</th>
<th>England</th>
<th>Scotland</th>
<th>Wales</th>
<th>Northern Ireland</th>
<th>UK</th>
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<tbody>
<tr>
<td>’99-2000</td>
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<td>240</td>
<td>221</td>
<td>125</td>
<td>196</td>
</tr>
</tbody>
</table>

Source: HM Treasury

28. Figures published separately by the Scottish Executive, the Welsh Assembly and DETR on Central and Local Government Expenditure on transport also confirm that overall annual expenditure in 2000-2001 was higher in Scotland than either England or Wales.

29. When the overall figures are broken down between capital and current expenditure the UK statistics reveal less per capita was invested in Scotland than in either England or Wales during 2000-2001.

Central and Local Government Expenditure £’s per head on Transport

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Category</th>
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<th>Scotland</th>
<th>Wales</th>
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<tbody>
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<td>2000/01</td>
<td>Overall</td>
<td>117</td>
<td>149</td>
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<td>121</td>
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<tr>
<td></td>
<td>o/w Capital</td>
<td>43</td>
<td>42</td>
<td>56</td>
</tr>
</tbody>
</table>

Source: Estimates derived from DETR, SE and WA estimates

30. Moreover, it should also be recognised that transport expenditure across England is skewed by the complexity and size of transport infrastructure in London and the South East, and a more appropriate comparison would be with transport expenditure between comparable regions of England.
31. A distinct difference applies in relation to current spending due to the generous (by UK standards) revenue support and other subsidies given to supporting lifeline air and ferry services and related infrastructure. Such provision is almost unique in the UK and although this may be explained by geography, similar arguments could be mustered in relation to Northern Ireland where almost no such provision is made. The implication of this feature of public spending on transport obviously curtails opportunities for enhancing other financially or economically more viable infrastructure or services given the limitations, which clearly apply to the Scottish Budget as a whole.

32. A paper by David Gray and David Begg\(^7\) suggested that Scotland should spend similar levels to that applying in England. Neither author was able to attend our evidence-taking sessions but our view is that we do not accept a rationale for equal funding to apply on a simple read-across basis. The Committee considers that it is important to stress the role of the Committee and the Executive in developing and scrutinising specific Scottish priorities to inform the budget process.

33. Moreover, on the basis of Gray and Begg’s proposal for equity Scotland already enjoys parity with England and is treated generously compared to either Wales or Northern Ireland. The difference between Scotland and England lies in how the money available is allocated between capital works and recurrent spending.

34. This does not imply that considerably greater sums for transport are not justified. Indeed, the Committee heard evidence from people representing a range of transport sectors and from across Scotland who put forward the case for increased expenditure.

35. Dr Ian Docherty noted the undercapitalisation of Scotland’s infrastructure stretching back many decades. Professor Ron McQuaid and Professor Alan McKinnon referred to the importance of efficient transport systems being a prerequisite for a competitive and successful Scottish economy against a backdrop of increased globalisation in trade. Professor McQuaid and Professor Stephen Glaister both addressed issues of social inclusion and social justice. Access to opportunities for non-car owning sections of the population, both in urban and rural areas is a case in point. Both referred to the role of the bus in meeting this challenge and in the distribution of benefits accruing from public investment and subsidies.\(^8\)

36. Other witnesses, including representatives from the CBI, local authorities and SCOTS alluded to more specific examples where renewal and investment

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\(^7\) The Centre for Transport Policy, Robert Gordon University: Is enough being spent on transport in Scotland?

\(^8\) T&E Committee meeting, 17 and 24 April 2002
were justified, most notably in relation to roads. Dr Malcolm Reed raised specific issues relating to realising the potential of Strathclyde’s comprehensive suburban and urban rail network. He also offered insights into the centralisation of decision making in relation to rail in Great Britain, a trend which he claimed had increased since devolution was implemented and following further changes in the industry in the last year or two. This trend, he argued, at the very least limited the pace of developing the rail system.9

37. Essentially the size of the budget must reflect Scotland’s needs. A needs based analysis calls for comprehensive appraisal of options against agreed and clearly defined measurable criteria. The Committee is however, disappointed by the robustness of the evidence available in support of the TDR’s priority projects and by the lack of transparency and availability of validated figures in support of rail investment and subsidies.

**Brief Overview of Specific Transport Issues**

*Rail*

38. The majority of our evidence taking sessions engendered considerable concern about Scotland’s rail system. The proposals put forward in relation to railways in Scotland have been criticised for being insufficiently ambitious. However, a number of our witnesses have pointed out that conditions in Scotland outside the central belt are not conducive to viable rail investment.

39. While the TDR makes little explicit reference to freight much emphasis has been placed on shifting freight from road to rail. Our evidence suggests that rail has only very limited potential in moving freight and perhaps more emphasis should be given to improving the effectiveness of road freight including reducing environmental impacts. This was not disputed by the Deputy Minister.10

40. Scotland’s railways are to be the subject of a detailed investigation by the Committee. Nevertheless, and despite change produced by the McLeish settlement, some witnesses expressed the view that Scotland’s Parliament and Executive have insufficient authority over the development of the rail system here. It was suggested by some of our witnesses that it would be preferable for rail infrastructure as well as the Scotrail franchise to be the responsibility of the Executive and Parliament rather than via the Strategic Rail Authority (SRA) in part to ensure a level playing field is maintained between investment in trunk roads and railways in Scotland. It is recognised that other voices within the industry do not agree with a proposal to shift

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9 T&E Committee meeting, 17 and 24 April 2002
10 Column 3000, Official Report, 1 May 2002
responsibility for infrastructure matters to the Scottish Executive. However this is an issue that the Committee will return to in more detail in the consideration of the evidence taken at the forthcoming Rail Inquiry.

41. An immediate pressing issue is the award of the new rail passenger franchise for Scotland and this will obviously have important consequences for future calls on the transport budget.

42. Much of the discontent expressed at earlier sessions regarding the rail system reflects the lack of transparency in rail funding financing and appraisal. There is concern that Scotland is not receiving value for money in the absence of detailed information on rail costs, including track access costs, the circulation of revenue from track access charges and the valuation of scheme costs and benefits.

43. The current financial and operating problems facing Britain’s rail system is likely to impact on the future development or even retention of the Scottish rail network. We need to establish by how much rail operating costs and subsidy requirements have risen as a result of Hatfield, Railtrack going into administration and other events. By how much have estimated costs for new investments risen? What are the implications of these changes for rail’s overall budget requirement and can these be accommodated within the existing budget heads without forcing reallocations either within the transport budget or from outside it? Again, these are matters that we intend to tackle in the course of our Rail Inquiry.

44. Evidence given by the Deputy Minster reaffirmed these concerns and highlighted the less direct role played by the Executive in relation to rail infrastructure planning and provision. This is in marked contrast to the authority and responsibility enjoyed by the Executive in relation to the passenger rail franchise.

45. These are issues that the Committee will certainly raise during its rail inquiry. However, before endorsing enlargement of rail spending from Executive funds, the Committee would wish to see significantly enhanced transparency in information and the decision making process, and clarity in accountability for the ultimate decisions taken.

Road Maintenance

46. This is perhaps the issue on which we received the most detailed evidence. Witnesses mentioned repeatedly road maintenance and the backlog in addressing requirements on both trunk and local roads. A recent survey by SCOTS indicated that revenue expenditure was 30% below the level required to maintain and replace the existing network over its
operational life cycle.\textsuperscript{11} It is clear to us that there has been a deterioration in the state of our road system and that the longer the backlog in maintenance exists, the more difficult (and more expensive) this problem will be to solve.

47. We note that the Deputy Minister told us that an additional £20 million had been given to local authorities for 2002-03 in order to help councils start to address their backlogs and also to fund the requirement that arose from the Selby rail crash to examine road bridges over railways. We are told that this figure represents around 25\% of the identified shortfall.\textsuperscript{12} It should also be noted that this figure represents funding for one year only and no long term commitment has been given by the Scottish Executive to assist local authorities in this area.

48. Concern, however, was expressed about the extent to which expenditure intended for treatment of local roads addresses the full requirements of roads that are the responsibility of local authorities. A review of GAE allocations to transport reveals wide variability in patterns of over and under spend under the transport budget headings. This may be because it does not meet claimed needs or because other pressures on the local government budgets result in nominal funds not being allocated to the roads or other transport budgets.

49. The Committee is concerned about the possibility that additional funding earmarked for road maintenance may not be spent on the intended activity. The Deputy Minister ruled out ring-fencing any additional funds or current allocations but did say that Ministers were keen to encourage councils to give a high priority to their transport infrastructures.

\textit{Buses}

50. On the basis of the evidence, it would appear that the significance of buses may be being underrated. Specifically, our witnesses said that there was good evidence that the critical issue with regard to bus travel is the quality of service rather than the level of the fares, meaning that if you use money to reduce the variability of bus running times you are likely to generate more benefit than by reducing fares.

51. There have been concerns expressed about the economics of the bus industry and how this might affect the ability of local authorities to sustain let alone improve local networks. The evidence that we took suggests that increased expenditure on buses would be consistent with social inclusion objectives (in both urban and rural areas) as well as addressing urban traffic congestion issues.

\textsuperscript{11} Written evidence from SCOTS reproduced at Annex D  
\textsuperscript{12} Written evidence from SCOTS reproduced at Annex D
52. Concerns were raised by Malcolm Reed and representatives of local authorities about the level of the subsidised bus budget. SPT told us that beyond 2003-04 there may well be pressure on the budget used to provide socially needed bus contracts. Alastair Gow of Argyll and Bute Council told us that his authority already spent four times the level of GAE on bus support. The picture for the whole of Scotland represents a mismatch between GAE and actual expenditure, with 2001-02 figures showing a total actual budget around 50% over the GAE figure.\(^{13}\)

53. The same issue of prioritisation by central government but implementation by local government applies to this subject in the same way that it would apply to any additional money being directed at local road maintenance.

**Air Transport**

54. Air transport is vital to the development of Scotland’s economy but much of the policy in this area is reserved to Westminster. There are limited budgetary implications as far as the Scottish Budget is concerned but the provision of lifeline services and funding for Highlands and Islands Airports are devolved matters. On the basis of a limited amount of evidence, there may be merit in streamlining financing of air services within a more integrated approach to planning transport needs in the Highlands and Islands. The Deputy Minister was non-committal on the subject, preferring to leave matters to local authorities.

**Lifeline Ferries**

55. The restructuring of Caledonian MacBrayne is intended to enable safeguarding of ferry operations to the islands off the West Coast. The implications of this and the current status of the reforms are of interest to this Committee. The Deputy Minister advised Members of the current position and emphasised that the new arrangements would promote greater transparency and improved value for money from subsidies and grants. The Committee’s two reporters on this subject will be examining this matter in more detail when they consider the draft specification for the new contract.

**Decision-making and Transport Planning**

56. Several witnesses called for a streamlining of spatial decision making to reflect the functional regions of our major cities. This would facilitate more effective planning and delivery of transport in city regions. The role of the regional transport partnerships could be central to improving the effectiveness of planning of transport, and it may be the case that these need to be underpinned by legislation. It may be essential in areas considering

\[^{13}\] Based on SCOTS information, GAE support for buses: £22.1 million; actual expenditure £34.1 million. Figures reproduced at Annex D.
implementation of Road User Charging systems to minimise potential adverse spillover effects. Clearly, this is a topic that requires a lot more consideration before the Committee is able to come to a view. For the time being, the Committee simply notes it as an emerging issue.

2003-04 Budget Choices

57. In evidence, the Deputy Minister acknowledged that transport was not identified as a key priority at the time of the 2000 spending review but noted that transport is now one of the five key priorities of the Executive. The Deputy Minister did not enlighten the Committee on whether transport expenditure would receive any further boost as a result of the UK Spending Review or during the course of the Executive’s own internal budget allocation process over the next few months.

58. Last year the Committee noted that significant changes were due in funding levels for transport programmes for 2002/03 and 2003/04. These changes were made in part due to the reclassification of expenditure due to Resource Accounting and Budgeting. The evidence supplied by the Minister’s officials appears to indicate that capital charges reflecting the introduction of RAB will have no effect on the real size and scale of investment and activity in the transport sector.

59. The size of departments’ underspend has been the subject of general concern over the last year or so. The Committee was concerned in particular about the underspend in the transport budget. With the exception of capital expenditure on roads, the Deputy Minister and his officials were unable to provide any accurate estimate of the underspend (or carry forward) situation at the end of 2001-2002.

60. One of the Deputy Minister’s officials said that the underspend situation would be firmed up in May with Ministers making announcements before the summer recess on changes and implications for plans. The Committee does not find the Department’s approach helpful in this regard. Firstly, the Committee had flagged up the projected level of underspend as being a concern in its Stage 2 report last year and it is unsatisfactory not to be in a position to comment on this matter in this report. More importantly, the Committee is more than willing to champion the cause of the transport budget – provided the evidence exists – but it is difficult to engage in the process when the Committee is in the dark over one of the key variables in the equation, namely the likely level of underspend.

61. We consider that completion of robust appraisals will make more transparent the comparative basis on which political decisions on expenditure are made. Indeed, it is this lack of robust data which prevents the Committee endorsing a considerable number of spending

14 Per David Reid, Column 2987, 1 May 2002
areas within transport or even the overall size of future budget requirements, notwithstanding the conclusion which can be drawn of under investment in infrastructure going back many years. It is vital that what limited resources are currently available or may emerge from the spending review or levered from the private sector are used in the most cost effective way. Measurable indicators are a prerequisite to robust appraisal as well as subsequent programme or project assessment.

62. This year’s budget process takes place against the backdrop of the Transport Delivery Report. We consider that this document signals the starting point of a major capital investment programme in Scotland’s transport infrastructure over the next ten years. In the context of the 2003-04 budget year it will have only a limited impact since many of the projects have years of preliminary work to be undertaken before construction can commence. But, assuming that projects stand up to STAG analysis, it can be expected that the transport budget will need to be increased by a significant proportion in order for these projects to be realised. We would welcome reassurance from the Executive that this long-term funding commitment exists and look to the outcome of the Spending Review process to offer evidence of that commitment.

63. In considering what elements of the transport programme would benefit from short to medium term funding, the Committee is persuaded that the size of the backlog in road maintenance now threatens to cause long-term damage to Scotland’s road network. We believe that the case exists for more funding to be directed in this area in order that substantial inroads can be made into this backlog. Even if the Scottish Executive agrees that this is a priority area which is deserving of increased funding, the Committee is concerned that there is still no guarantee that funding will actually be spent on the road network by local authorities. We therefore recommend that the Executive engages in discussion with COSLA as to how to ensure that extra funding actually results in real improvements in the local road network.

64. We consider that bus transport has a major role to play in terms of delivering the Executive’s key objectives and that its importance may have been underestimated in the past. On the basis of information provided by SCOTS, there does appear to be an imbalance between what local authorities actually spend and the notional GAE allocation. We consider that this mismatch needs to be addressed by Local Government and the Executive. Again we would wish to be assured that an improvement in the level of bus services will actually be delivered at a local level. As such, we consider that there may be a role for the Integrated Transport Fund whereby local authorities have to bid for funding on the basis of costed proposals.
External Research
Budget setting and financial scrutiny: an international perspective

**Background**

Members may recall that as part of the review of financial scrutiny arrangements that is ongoing, the Committee considered a scoping paper at its meeting on 26 March. Amongst other things, it was suggested that there would be merit in procuring external research into international procedure and practice in relation to budget setting and scrutiny.

**Research proposal**

Attached is a proposal for external research for submission to the Conveners’ Liaison Group. It suggests that a researcher is appointed to examine practice in the public sector in other devolved and regional territories. The aim of the research is to identify lessons that could be applied in Scotland with a view to improving our budget setting and scrutiny arrangements.

Members are asked to consider the aims and objectives set out in the paper and to agree that the bid should be submitted. The intention is that the research be completed by the end of the year and this is expected to dovetail with other work that the Committee is engaged in, particularly the cross-cutting reviews which are underway.

David McGill
16 May 2002
Committees that have identified a need for research to be commissioned from external sources should submit a written proposal outlining the research. Please complete this form, or use your own format giving similar information.

Please return all research proposals to Connie Smith by **noon** on Friday 7 June 2002.

**Name of Convener:**

Des McNulty MSP

**Name of Committee submitting research proposal**

Finance Committee

**Main contact for the proposal**

**Clerk:** David McGill

**SPICe Research Specialist:** Murray McVicar

**Date submitted**

7 June 2002

**Title of Research Proposal**

Budget setting and financial scrutiny: experiences in other devolved/regional governments
Summary of proposed research project (this may be published on the Parliament’s website)

The proposed project will examine the budget process and systems of financial planning, control and scrutiny in the public sector in other devolved/regional territories.

Background to the proposed research and its importance in the Committee's workplan

The Scottish budget process and the Parliament’s involvement with it were determined on the basis of the recommendations of the Financial Issues Advisory Group (FIAG). FIAG was set up in February 1998 to recommend the rules and procedures for the handling of financial issues by the Scottish Parliament. The stated objective of FIAG, in line with the general direction of the Consultative Steering Group, was that the budget process of the Scottish Parliament should be ‘open, accessible and accountable to the people of Scotland’. The Public Finance and Accountability (Scotland) Act 2000 enshrined these elements in legislation. The expectation was that subject committees would have an active role in making recommendations on spending priorities, and that the views of the Scottish electorate would be channelled through the subject committees. The Parliament has the opportunity to comment on the Executive’s spending plans at several points during the year prior to the annual budget being agreed. This is the basis of the three-stage process, which begins in late March/early April with the publication by the Executive of the Annual Expenditure Report.

The Finance Committee’s role is central to the process. Whereas, the relevant subject committees are responsible for commenting on the relationship between expenditure plans and policy priorities within their remits, it is the Finance Committee’s responsibility to co-ordinate the Parliament’s overall response to the Executive’s budget proposals.

The Committee issues guidance to the subject committees to assist them in their scrutiny role. It considers the recommendations of each committee and produces the Parliament’s response to the Executive’s plans at Stage 1 (June) and Stage 2 (December). At Stage 2 it also has the power to put forward an alternative budget.

The FIAG recommendations were innovative and progressive, but after two full years in operation, the Finance Committee wishes to examine ways in which it could be further improved and streamlined. On this basis, the Committee has agreed to undertake a review of the financial scrutiny arrangements of the Scottish Executive’s budget process. It is also taking the opportunity to examine methods of financial planning. The objectives included consideration of whether there are lessons to be learned from other countries and territories.
Research Aims and Objectives

The Committee is utilising a number of approaches to meet the objectives. The proposed external research will be expected to address point 5, namely the study of practices and procedures in other countries and territories.

Aims:

Comparison of budget process and systems of financial planning, control and scrutiny in other devolved/regional territories

What lessons can be learned and how might these be applicable in Scotland

Objectives:

Comparison of budget process and systems of financial planning, control and scrutiny in other countries (via desk research).

- Identifying six countries or regions. Examples may include small countries of comparable size such as Ireland and a Nordic country, but should mainly concentrate on devolved or regional government in Europe (such as Catalonia, Flanders or Bavaria), and the state level of government in the United States, Australia or Canada.
- Within the selected territories, describing the process by which governments set their budgets
- Describing the levels of Parliamentary (and other) scrutiny – in particular the role of the equivalents of the Scottish Parliament Finance Committee (e.g. powers, use of advisors etc)
- What is the involvement of the general public in scrutiny?
- Describing systems of financial planning and control within government
- Identifying the extent to which the above are prescribed or discretionary
- What are the reasons for the differences with Scotland (e.g. tradition, culture, political agenda etc.)?

What lessons can be learned and how might these be applicable in Scotland

- Identify good practice in terms of budget documentation
- Identify good practice in processes of Parliament scrutiny (including the role of Finance committees)
- Identify ways in which practice in other countries could inform ways of increasing public involvement in the process
- Identify good practice in financial planning and control
- For each of the above, develop recommendations that could apply to the Scottish parliament and the Scottish Executive.
When does the Committee require the results of the research?

1 January 2003

What specific expertise is required to research this area?

It is expected that the contract will be awarded to an expert in budgets and financial planning. The successful candidate may be either an academic, or someone working in the public or private sector with an understanding of public sector budgeting and financial planning. A demonstrated previous interest in these areas would be an advantage.

The researchers must be able to demonstrate their credibility within the field and their knowledge of the subject area.

He or she must be able to show that they have the time and resources to undertake the work within the timescale set by the committee.

What are the expected outputs of this project?

1. A full report containing findings

2. Practical recommendations for consideration by the Finance Committee

3. Oral presentation of findings and recommendations to the Committee.

How is it planned to use these outputs?

The Committee will use the outputs to inform its review of the budget process

Signed - Clerk Team Leader

Signed - Research Team Leader

Signed - Senior Research Assessor

Please return to Connie Smith. Please contact me if you have any questions - tel extn 85416 email Connie.Smith@scottish.parliament.uk
FINANCE COMMITTEE:
ARRANGEMENTS FOR MEETING IN ORKNEY 23 MAY 2002

Background

Members agreed at the Finance Committee meeting of 26 March 2002 to meet in Orkney as part of the 2003-04 budget process. This paper sets out the structure of the meeting and gives details of the organisations that have been invited to participate.

Structure

The meeting will be divided into separate morning and afternoon sessions.

Morning

The morning session will be further sub-divided into two parts. Between 10.00 a.m. and 11:00 a.m. three workshops will be set-up, each comprising a number of local organisations and two or three members from the Committee. Each participant has been invited to make a brief introductory statement on their organisation and to highlight what they see as the main issues from the Annual Expenditure Report. The workshops have been established on the following thematic lines (please note that there will be no Official Report produced for this session):

Workshop 1 – Industry

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<thead>
<tr>
<th>Name &amp; Title</th>
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<tr>
<td>Ken Grant, Chief Executive</td>
<td>Orkney Enterprise</td>
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<td>Duncan McLean, Chairman</td>
<td>Orkney Chamber of Commerce</td>
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<tr>
<td>Roy Dennison, Representative</td>
<td>Federation of Small Businesses</td>
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<td>Sam Harcus</td>
<td>Westray Development Trust</td>
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Workshop 2 – Tourism and Representative Bodies

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<tr>
<td>Iain Harcus, Chairman</td>
<td>Orkney Fisheries Association</td>
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<tr>
<td>Scott Harcus, Chairman, Orkney Branch</td>
<td>National Farmers Union Scotland</td>
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<tr>
<td>Barbara Foulkes, Chief Executive</td>
<td>Orkney Tourist Board</td>
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<tr>
<td>Sinclair Scott, Chairman</td>
<td>Orkney Ferries</td>
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Workshop 3 – Council, Health, Education and Voluntary Organisations

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<th>Name &amp; Title</th>
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<tr>
<td>Malcolm Burr, Assistant Chief Executive</td>
<td>Orkney Islands Council</td>
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<tr>
<td>Jeremy Baster, Director of Development and Protective Services</td>
<td>Orkney Islands Council</td>
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<tr>
<td>Roger Dart, Acting Chief Executive</td>
<td>Orkney Health Board</td>
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<tr>
<td>Bill Ross, Principal</td>
<td>Orkney College</td>
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<tr>
<td>Norma Campbell</td>
<td>Voluntary Action Orkney</td>
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<tr>
<td>Fiona Lillie, Chairwoman</td>
<td>Women's Aid Orkney</td>
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<tr>
<td>David Murdoch, Executive Director</td>
<td>Orkney Housing Association</td>
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From 11:30 a.m. - 12.30 p.m. members will meet formally in the main chamber to report back to the Committee on the main points raised in the workshops.

Members are invited to indicate which workshop they would like to attend and whether there should be a lead member for each workshop who will report back to the full committee.

Afternoon

From 2.00 p.m. – 4.30 p.m. Members will take evidence from Andy Kerr MSP, Minister for Finance and Public Services.