The Committee will meet at 10.30 a.m. in Committee Room 1 to consider the following agenda items:

1. **Item in Private**: The Committee will consider whether to take item 2 in private.

2. **Budget Adviser**: The Committee will consider possible candidates for the post of budget adviser.

3. **Work Programme**: The Committee will consider its future work programme.

4. **Cross-Cutting Review**: The Committee will consider the publication of the previous Finance Committee’s draft report on Children in Poverty.

David McGill
Clerk to the Committee
The papers for this meeting are:

**Agenda item 2**

Potential Candidates for appointment as Budget Adviser

**Agenda item 3**

Paper by the Clerk

SPICe briefing on Cross Cutting Issues: Economic Development

SPICe briefing on Cross Cutting Issues: Sustainable Development

**Agenda item 4**

Paper by the Clerk

Draft Report on Children in Poverty

PRIVATE PAPER
Finance Committee  
Work Programme Issues

Background
1. Members have previously received a briefing pack on the work of the Finance Committee in the last session. Members should now also be aware that, due to the election in May, a change to the usual three-stage process was agreed. This change will result in the Draft Budget being published by the Executive in mid August. It will then be scrutinised by the Finance Committee and Scottish Parliament subject committees in the normal way between September and December 2003 before the full Parliamentary debate at the end of December 2003.

2. In addition to the Committee’s role in relation to the annual budget cycle, a number of Executive Bills are expected to be introduced this year. The Committee will therefore have an important role in the continuing scrutiny of the Financial Memoranda published to accompany Bills. It is anticipated that this will be an ongoing part of any future work programme.

3. In the context of the two areas of work above, members were asked to make suggestions for inquiries and areas of investigation for the committee’s forward work programme. A range of suggestions were made and these are outlined in more detail below.

Potential Future Inquiries

4. Financial Scrutiny Review

There were a wide range of recommendations made in the previous Finance Committee’s Financial Scrutiny Review which that committee recommended progressing. The report was published by the previous Committee on 27 February 2003 and is available at http://www.scottish.parliament.uk/S1/official_report/cttee/finance-03/fir03-03-01.htm. The recommendations for further action included:

- in relation to spending announcements the Committee could continue to analyse the link between Executive spending announcements and existing budgets;
- further development of Budget information representation by the Scottish Executive based on the previous Finance Committee’s recommendations;
- the development of results based accountability approaches to budgeting - linking planned spending with outputs;
- continued scrutiny of financial memoranda;
- more fundamental review of the existing three-stage process;
- continuing improvements in consultation on the Executive’s spending plans;
- review the Executive’s system of making budget transfers;
- progressing investigations into moving to outcome budgeting; and
• benchmarking the Scottish budget against other countries/regions.

In addition to these elements, the Committee may wish to consider continuing with a review of financial scrutiny arrangements and expanding it into areas not covered by the above. This could cover issues such as the overall make up of the Scottish Budget, mechanisms for allocation within the Executive, controls on departmental budgets, relationships with and parliamentary scrutiny of Non-Departmental Public Bodies and issues of that nature. A suggestion has been made that time is given over at the Committee’s awayday to consideration of the report and that discussion could encompass consideration of new work in the areas outlined.

Other suggestions were made that the Committee concentrates firstly on its core functions and includes in that international benchmarking. The above approach would allow the Committee to encompass such examinations.

An advantage of the Committee agreeing to progress any of the recommendations of the previous Finance Committee’s Financial Scrutiny Review would be that the outcome of any inquiry would impact directly onto the Committee’s more mandatory work e.g. the annual Budget process. Of course any work undertaken would also need to be co-ordinated with subject Committee should it impact of this aspect of the Finance Committee’s work.

5. Thematic approach to the work programme

There were a number of suggestions for specific inquiries, including inquiring into Scottish Water, economic development issues, transport and housing investment. One approach may be to consider whether to take a thematic approach to inquiries of this nature over the course of the session.

This approach would be advantageous in providing focus to potentially large inquiries as well as enabling members to compare and contrast the approaches of different organisations and policy areas. A comment was made that the work of the Committee should result in the spreading of best practice and to convey messages about improving performance. Investigating different areas from a similar approach would offer the opportunity to make apparent the aim of the Committee in this regard.

One specific theme the Committee may wish to consider is the financial management and co-ordination of infrastructure investment and provision. Potential inquiries into the areas outlined above would be viable under this general theme and could be started shortly after the recess. If members are content with the suggestion, it would be helpful to have an indication of order of preference for this approach and the clerks could be requested to bring forward a draft remit and list of potential advisers for the first of the inquiries.

6. Cross Cutting Reviews

The previous Finance Committee undertook two cross cutting reviews, one of which has been published. These reviews have been successful in systematically
examining expenditure on an area of policy that would have been scrutinised in a more piecemeal way.

Committee members may wish to consider continuing this process by undertaking further cross cutting reviews. This would, however, have to be considered in the context of the work set out above. Should the Committee adopt the approach suggested in section 5 above, however, the capacity to undertake a large scale cross-cutting review may be limited.

In addition to the cross cutting areas of health improvement and rural issues identified at the 18 June meeting, the previous Finance Committee recommended economic development and sustainable development for cross cutting review. SPICE briefing notes on both these areas are attached for members’ information. The former has been mentioned in relation to the possible thematic approach to inquiry work above, but the latter, or indeed another area altogether may be feasible as a separate inquiry.

7. Gender Impact Assessment of the Budget

Building on preliminary work the Committee started in 1999, the Committee may wish to revisit this topic and review progress in a number of areas including:

- following the establishment of the Engender Women’s Budget Group, what impact have gender issues made on the allocation of departmental budgets?
- international best practices?
- looking at funding in a specific policy area, what is the impact on gender?
- are there any Scottish success stories?
- what is the potential for more general equality mainstreaming to be an active part of the process of departmental budget allocation?

8. Other Specific Areas for Inquiry

Allocation of Scottish Executive Budget into Departments

- how is departmental budget allocated (previous history? existing programmes/policies?)
- how does value for money impact of departmental budget allocation? (e.g. when considering health improvement does it represent better value for money to invest more in Education or the NHS?)
- how do the outcomes of Executive policies/programmes feed into future budget allocation?

Fishery Research

- how is funding for fisheries research allocated?
- what comparisons can be made with other countries?
- what links are there between fisheries policy and the funding of research?
- is funding linked to commercialisation potential?
The Scottish Arts Council

- how is the Scottish Arts Council funded?
- how does the Scottish Arts Council allocate funding?

Means Testing

In relation to this potential inquiry, the Committee may wish to consider the merits of conducting an inquiry into any area where a Committee report cannot influence a policy reserved to Westminster. Given this caveat, the Committee may wish to consider inquiring into the following areas:

- the value of means testing as a procedure for targeting Executive funding?
- what areas of policy use means testing as a tool, e.g. school meals/poverty levels/tax breaks.

Recommendation

9. The Committee is invited to discuss in more detail the range of inquiries proposed above and to identify specific areas in which it wishes to undertake work in the short term.
<table>
<thead>
<tr>
<th>Date</th>
<th>Committee Business</th>
</tr>
</thead>
</table>
| **Tuesday 2 September (CR1)**   | • preliminary inspection of Draft Budget  
                                   | • guidance to subject committees on Draft Budget  
                                   | • consideration of proposed changes to the Budget process  
                                   | • consideration of options paper for external meeting |
| **Tuesday 9 September (Chamber)**| LEGISLATION/INQUIRY                                                              |
| **Tuesday 16 September (CR2)**  | • analysis of departmental budgets, focussing on scale and budgetary changes  
                                   | • consideration of monthly reports on Holyrood                                    |
| **Tuesday 23 September (Chamber)**| LEGISLATION/INQUIRY                                                              |
| **Tuesday 30 September (CR4)**  | • Budget Process – evidence session 1 (from external organisations/policy experts) |
| **Tuesday 7 October (Chamber)** | LEGISLATION/INQUIRY                                                              |
| **Tuesday 14 October**          | OCTOBER RECESS                                                                   |
| **Tuesday 21 October**          | OCTOBER RECESS                                                                   |
| **Tuesday 28 October (CR2)**    | • Budget Process – evidence session 2                                             |
| **Tuesday 3 November (Chamber)**| LEGISLATION/INQUIRY                                                              |
| **Monday 10 November**          | EXTERNAL MEETING (ALL DAY)  
                                   | • Budget Process – civic participation event / evidence from Ministers               |
| **Tuesday 11 November (CR1)**   | • Budget Process – consider Stage 2 reports of subject Committees                |
| **Tuesday 18 November (Chamber)**| LEGISLATION/INQUIRY                                                              |
| **Tuesday 25 November (CR2)**   | • Budget Process – consider draft budget report                                  |
**Tuesday 2 December (TBC)**
- Budget Process - agree final budget report
- consideration of monthly reports on Holyrood

**Tuesday 9 December**

**Tuesday 16 December (Chamber)**

**LEGISLATION/INQUIRY**

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W/C 8 December: Publication of final Budget Report
W/C 17 December: Poss debate on the Draft Budget

**Executive legislation expected before recess:**

Vulnerable Witnesses (Scotland) Bill
Primary Medical Services (Scotland) Bill
NHS Reform (Scotland) Bill

**Executive legislation expected after recess:**

Reform of High Court
Anti-Social Behaviour Orders etc.
Education (increased role for Heads in school running and tribunal service for pupils)
Additional Support for Learning
Water Services
Gaelic Language
Local Government
Sentencing Commission
Strategic Environmental Assessment
Nature Conservation
Fire Service

It is difficult to say in advance which of the above the Committee may have an interest in examining as the level of detail contained in the First Minister’s outline of the legislation programme (28 May) was relatively low. However, it seems apparent that all of the above will have implications for public expenditure.

In addition to the above, there is likely to be a number of Members’ Bills and other Bills that the Committee could take an interest in.
CROSS CUTTING ISSUES:
ECONOMIC DEVELOPMENT

SIMON WAKEFIELD

This briefing has been produced to help inform the new Finance committee, following a recommendation from its predecessor that it consider a cross cutting inquiry into economic development. The briefing identifies cross cutting aspects of economic development and suggests some potential areas for an inquiry to focus on.
ECONOMIC DEVELOPMENT AS A CROSS CUTTING ISSUE

Whilst economic development is sometimes seen as the province of the Enterprise Networks, the Executive’s “Framework for Economic Development” (FEDS) for example (June 2000) took a much broader view and indeed at the time according to then First Minister Donald Dewar FEDS “embraces activities across the spectrum of the Executive”. An update on progress of the actions within FEDS was made most recently in the February 2003 Scottish Economic Report and covered initiatives under the headings of:

- Education
- Rural Scotland
- Infrastructure
- Enterprise support and skills development
- Skills and learning
- Social Justice and
- European Structural Funds.

The Partnership agreement (A partnership for a better Scotland) of the new Executive also stated that

“Growing the economy is our top priority”

The document identified a range of measures across the Executive that would support this priority.

TARGETS FOR THE SCOTTISH ECONOMY

A “Joint Performance Team” (the JPT comprises the Enterprise Networks and the Executive) has set targets for the economy as a whole – generally comparing Scotland to other OECD countries. The overall progress indicator, standard of living (GDP per head), is very broad based. Some of the sub-measures such as the proportion of businesses trading online relate very directly to the Enterprise Networks, whilst others such as the degree of net out-migration are likely to be strongly affected by the activity of other parts of Scottish government.

The most recent analysis (March 2003) indicated that on the over-arching indicator GDP per head Scotland is below the OECD average (in the third quartile). Scotland is in the top quartile for percentage of business activity transacted though e-business, share of output from knowledge based industries, export sales, and core literacy and numeracy skills. Scotland is however in the bottom quartile for the share of business using broadband and the degree of net out-migration.

PUBLIC FUNDING OF ECONOMIC DEVELOPMENT

Expenditure under a broad definition of economic development could include the following:

- The Enterprise Networks – Scottish Enterprise, Highlands and Islands Enterprise, and the Local Enterprise Companies
- Other expenditure by the ELL Department – for example Regional Selective Assistance, support for the Further and Higher Education Funding Councils and the Student Awards Agency for Scotland
- **Transport and other infrastructure** expenditure
- Expenditure on aspects of the **education** system. The recent FEDS update (February 2003) highlighted the basic education system, childcare, enterprise education, and pre-school education.
- Expenditure to **support certain sectors** – for example Scotland’s identified “key clusters”, including tourism, as well as the agriculture and fisheries industries.
- Expenditure on **housing and regeneration** for example via Communities Scotland and Social Inclusion Partnerships
- **European** Structural funds

It is difficult to get a precise statement of the level of public spend on economic development, partly because it is difficult to agree on a clear cut definition. The two tables below attempt to provide a rough estimate of total spend on economic development by the Executive.

Some activities are widely recognised as being **primarily focused on economic development** as Table 1 below indicates. In terms of broad budget headings this could include the total spend of the Enterprise and Lifelong Learning Department, total spend on VisitScotland, European structural funds, and perhaps **regenerating our communities** part of the social justice budget, and the **rural development** part of the Environment and rural development budget. It could be argued that support for the primary sectors of farming, fishing and forestry is also primarily related to the economic development. Thus total public funding with a primary focus on economic development is estimated at around £4.8 billion for 2003/04. This is approximately 20% of the total executive budget.

<table>
<thead>
<tr>
<th>Budget head</th>
<th>£m (03/04)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Lifelong learning and transport</td>
<td>3,606</td>
</tr>
<tr>
<td>VisitScotland</td>
<td>32</td>
</tr>
<tr>
<td>European structural funds</td>
<td>174</td>
</tr>
<tr>
<td>Regenerating our communities</td>
<td>198</td>
</tr>
<tr>
<td>Rural development</td>
<td>110</td>
</tr>
<tr>
<td>Agricultural services</td>
<td>133</td>
</tr>
<tr>
<td>Fisheries</td>
<td>50</td>
</tr>
<tr>
<td>CAP Market support</td>
<td>377</td>
</tr>
<tr>
<td>Forestry</td>
<td>91</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>4,771</strong></td>
</tr>
</tbody>
</table>

Source; Scottish Executive Draft budget 03/04, SPICe

Table 2 below includes a number of budget heads for which **economic development** might be described as **one of several objectives** that the spending is designed to achieve. Education for example is clearly vital to economic development, but also has wider objectives such as building personal confidence, developing arts and sporting abilities, citizenship and so forth. Expenditure under Environment and rural development includes “natural heritage” for example, one the policy objectives of this being to sustain remote rural jobs. Spending on the water supply (under the Environment and Rural Development budget heading) is crucial for economic development but again there are wider objectives than simply economic development. Support for local government covers a wide range of services, one of which is economic development.
Therefore total public finance for activities in which economic development is one of several objectives is estimated at £9.5 billion.

<table>
<thead>
<tr>
<th>Budget head</th>
<th>£m (03/04)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and young people</td>
<td>283</td>
</tr>
<tr>
<td>Culture and Sport</td>
<td>177</td>
</tr>
<tr>
<td>Social Justice (net of regenerating communities)</td>
<td>641</td>
</tr>
<tr>
<td>Environment and rural development (net of rural development and support to primary sectors indicated above)</td>
<td>328</td>
</tr>
<tr>
<td>Finance and public services (net of structural funds, including local government)</td>
<td>8043</td>
</tr>
<tr>
<td>Contingency fund</td>
<td>29</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>9,501</strong></td>
</tr>
</tbody>
</table>

Source: Scottish Executive Draft budget 03/04, SPICe

Some other categories of spend are important to the economy – for example ensuring that business is conducted in a lawful manner gives consumers and businesses the confidence to transact (and therefore under the budget of the Crown Office and Procurator Fiscal). Arguably the remainder of the Executive budget contributes to economic development indirectly. However these elements are not included in this analysis.

In summary:

- Executive spend directly on economic development for 2003/04 is planned at around £4.8 billion, just over 20% of the total Executive budget
- Spending on areas where economic development is one of several objectives could be around £9.5 billion, just over 40% of the total executive budget

Beyond the Executive a range of public and private partners are involved in economic development. One way of illustrating this is to look at the different types of partners involved in Scotland’s five European structural funds partnerships. These include:

- Local authorities
- Local enterprise companies
- Further and higher education institutions
- Voluntary sector
- Area Tourist Boards
- Enterprise Trusts
- NDPBs and Executive agencies – eg Scottish Natural Heritage, SEPA, National Trust, Forestry Commission
- Chambers of commerce and other private sector
- The European Commission itself
POSSIBLE AREAS OF INQUIRY FOCUS

An inquiry might consider some of the following aspects:

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE INVESTMENT.

What are the key areas of strategic investment required to develop the Scottish economy? Examples might include the road and rail networks, waterways, telecommunications, power, water, drainage, serviceable land. What are the key investment bottle necks? How does public investment inter-act with the land-use planning system? What forms of investment have provided and are likely to provide the greatest economic development returns? What is the role of the Executive in directly providing and/or enabling investment to take place?

ECONOMIC DEVELOPMENT AND POPULATION GROWTH.

The Executive recently launched a “fresh talent” initiative to help grow Scotland’s population. The initiative is in its scoping phase at present. The committee may wish to examine what the links are between economic development and population change? What is behind Scotland’s long standing pattern of net out-migration? What are the implications for public finance and the economy of an ageing population (see chart below)? Is migration an effective means of driving economic growth? What areas of expenditure have most effect in attracting skilled, entrepreneurial workers? (For example; Investment in public services? Investment in the higher education sector? Taxation? Promotion of Scotland in the UK and overseas as a place to live? High skilled job opportunities? General quality of life?).

Scottish population projections 2001-2026 (thousands)
(source GRO Scotland, 2001 based)
ECONOMIC DEVELOPMENT AND HOUSING/COMMUNITY REGENERATION.

What has been the effectiveness of area based regeneration programmes including the Social Inclusion Partnerships? The Executive announced the results of its “Cities review” in January 2003, with £90 million allocated over three years through the City Growth fund. Business Improvement Districts and Urban Regeneration Companies were announced in the Partnership Agreement. The committee may wish to examine how these will work. The committee may also wish to consider what the impact of housing investment is as a driver of economic development and job creation? Are there opportunities for property led redevelopment to promote economic growth in some areas? The committee may also wish to look the degree to which local regeneration is joined up – the range of public, private and voluntary organisations involved, the potential for shared strategies, “community budgeting”, the impact of Local Economic Forums and the degree to which funding should be devolved to the local level.

FINANCIAL SUPPORT FOR BUSINESS

The Committee may wish to focus on the range and level of financial support for businesses for example through the Business Gateway (the development of a single branded “gateway” for all business support), and the impact this has on businesses getting access to public finance. There has been a review of Regional Selective Assistance (RSA). Changes have been made to the operation of RSA, providing a different focus of projects towards indigenous investment, and more transparency. A review has also recently been undertaken of the Scottish Industrial Development Advisory Board, which considers all RSA offers over £250,000 (SIDAS). The consultation responses are available on the Executive web site (14/5/03).

In terms of venture capital funding a “£40 million equity investment package” was announced in August 2002, comprising the new Scottish co-investment Fund, the pre-existing Business Growth fund, and new Investor Readiness funding. A new “business start-up fund” was announced in the Partnership Agreement. There are numerous other sources of funds available to business. For example funding for SMART, SPUR and SPUR plus, and the Faraday partnerships comes from different sources, including UK departments. Many local funding sources are available, including from local authorities. An analysis of funding packages by the Euro Info Centre for SPICe recently indicated that there are currently over 500 different sources of funding available to manufacturing businesses in Scotland.

FOCUS ON KEY SECTORS AND REGIONS

The Committee may wish to consider whether the overall balance of spend (and degree of co-ordination) on economic development reflects the priorities of the Executive.

Relative levels of funding for different economic sectors. Smart Successful Scotland identifies seven sectors as “key clusters” (biotechnology, creative industries, food and drink, forest industries, microelectronics, optoelectronics and tourism). In looking at the budget for the Executive overall Members may wish to consider the degree to which expenditure is prioritised on these “key” sectors, the degree to which other sectors receive funding, the constraints on certain budgets and the scope for realistic change, and whether the objectives set for the economy by the Joint Performance Team could be better achieved by re-prioritisation.

Relative levels of funding across Scotland. Evidence from the recent Census and elsewhere points towards declining populations in urban areas, except Edinburgh. Economic inequalities.

providing research and information services to the Scottish Parliament
exist between various localities and regions. Members may wish to consider the degree to which spending does and should follow economic need and/or opportunity. Some types of spend are more measurable on a geographical basis for example Local Enterprise Company and Local Authority distribution, Social Inclusion Partnership funding, New Opportunities Funds (to be merged with the Community Fund), European structural funds, Regional Selective Assistance, development site and infrastructure preparation. For other types of spending such as strategic transport investment, spending on utilities and national scale economic development projects it is harder to identify particular geographic areas as being the beneficiaries.

**Understanding the economy.** Members may wish to examine the degree to which evidence drives expenditure. Do the results of research and evaluation feed back through effectively to changes in policy and approach? What is the level of investment in economic research and analysis, developing statistical capability, and is more investment needed?
FINANCE CROSS CUTTING ISSUE:
SUSTAINABLE DEVELOPMENT

GRAEME COOK

This briefing has been produced to help inform the new Finance Committee, following a recommendation from its predecessor that it consider a cross cutting inquiry into Sustainable Development. Previous cross cutting inquiries were carried out into Children in Poverty, and Regeneration as delivered through the Voluntary Sector. This briefing identifies why Sustainable Development could be considered a cross cutting issue and suggests some potential areas for an inquiry.
WHAT IS SUSTAINABLE DEVELOPMENT?

Given a high profile by the Rio Earth Summit in 1992, the traditional definition of ‘sustainable development’ highlights using resources today in a manner which will allow future generations to meet their own needs. Sustainable development developed from an environmental base, but economic and social considerations are equal partners. However, most sustainable development policy is formulated in government environment departments, a model illustrated by the European Commission, the UK and Scottish administrations. The debate has moved on from defining sustainable development to trying to integrate the concept into policy and spending commitments. A reaffirmation to the overall concept was made at the World Summit on Sustainable Development in Johannesburg in September 2002, attended by the First Minister.

The UK Sustainable Development Commission states:

“Two centuries of industrial development have made life better for many people in ways that would have been unimaginable even a generation ago. But it has also brought increasing damage to the physical systems and social fabric on which our well-being depends. It is clear we cannot continue in this way indefinitely. Indeed the call for a change of direction is urgent. What we need now is a different kind of development, one which meets people’s needs without compromising our future. For this to be sustainable, we must take full account of the social, economic and environmental impacts of our decisions, over the long term.”

And:

“Sustainable development is inevitably a contested idea, dependent of finding the right balance between different and often conflicting objectives through much more integrated policy-making and planning processes. Putting its principles into practice demands debate, experimentation and continuous learning, and therefore requires a thriving democracy to allow it to evolve and flourish.”

Others, such as Shell say that:

“‘Sustainability,’ or ‘sustainable development,’ is a topic of our age and by its nature is ambiguous and elusive. [ ] many can be emotional about the subject without fully defining what it is. We need not be ashamed of this, for to explore sustainability at this juncture in human history is to raise fundamental questions of how humanity defines itself and how each one of us comes to terms with the challenges of the 21st century.”

At all levels of decision making, from the individual to the supra-national, sustainable development is decreasingly regarded as an abstract concept. Instead, it is generally considered as making common sense decisions, appraised from a variety of angles. At a practical level for the government and agencies this means evaluating decisions with an understanding of the impact they will have on other departments. For example, transport decisions may have implications on health spending (positive or negative), planning decisions may have a direct impact on water and energy networks, and agricultural spending may have implications for the environment and rural communities.

As an example of a business decision having a direct impact on the environment, Royal Mail cited efficiency and cost as the reasons behind the recent decision to drop rail from its distribution network and focus on air and road – a decision criticised by freight operators this example raises questions around the ‘costs’ considered when making such decisions.
Consideration by business of the relationship between economic goals, and social and environmental impacts is framed round a developing concept known as ‘corporate social responsibility’.

The First Minister has committed the Scottish Executive to sustainable development, not least in a speech on 18 February 2002 when he indicated that:

“Some early action that will be taken across the Executive including action to make the spending decisions which flow from the budget of the Scottish Parliament more sustainable. There will be a mechanism in this year’s Spending Review to genuinely consider the environmental impact from the spending decisions that are taken. Spending departments within the Executive will need to demonstrate what contribution their proposals will make towards the achievement of sustainable development objectives. I am not making new spending commitments; I am making new commitment on our spending.”

The Executive has set policy priority areas as waste, energy and transport¹ (the so called WET approach). However its proponents would argue that sustainable development is broader than these priority areas, and encompasses, for example, enterprise and health spending as well as those relating more obviously to the environment.

Ministerial responsibility for sustainable development rests with Ross Finnie, Minister for Environment and Rural Development (who, as such, does not have Ministerial responsibility for the ‘E’ or ‘T’ of the Executive WET strategy). The Executive team associated with the brief are also in the Environment and Rural Development department. Clearly a single Minister or team of staff cannot implement a sustainable development policy in isolation, and will require the co-operation of other parts of the Executive. As the European Commission has pointed out:

“[There is a need for] a new approach to policymaking. Too often, action to achieve objectives in one policy area hinders progress in another.”

The Partnership Agreement commits to:

“assessing economic development policies against their impact on targets set through the Scottish Executive’s sustainable development indicators”

This will mean building on the work by the Executive to develop sustainable development policy put in place over the last four years which includes:

- Cabinet Sub-Committee on Sustainable Development – chaired by the First Minister, and last met in January 2003. There is a UK Ministerial Sub-committee of Green Ministers, made up of 20 Ministers, including space for Scottish representation
- Sustainable Development Forum – first met in July 2002, with a further meeting in January 2003. Stakeholder group designed to “provide a focus for Scottish thinking and action on sustainable development”
- Development of 24 sustainable development indicators (more below).

In addition, bills introduced to the Scottish Parliament are required by Standing Orders to have an indication as to their impact on sustainable development. If information is included, there is rarely detail as to sustainable development funding consequences.

¹ In some documents ‘resource use’ is used instead of energy or waste.
SUSTAINABLE DEVELOPMENT INDICATORS

In April 2002 the Executive published “Meeting the Needs” which outlined a vision for sustainable development in Scotland. Included were 24 sustainable development indicators which are used as measures of progress towards sustainable development (150 were published for England & Wales). A follow-up paper “Indicators of Sustainable Development for Scotland” gave some more detail on the indicators, but included few details on spending. It is understood the indicators are due for review later in 2003. The table below outlines sustainable development as set out in one of the Executive’s own indicators. Whilst it is dangerous to appraise progress against only one indicator, climate change is a headline environmental issue.

Million tonnes of greenhouse gas emissions in Scotland by sector (weighted by global warming potential, carbon equivalent: source Scottish Executive)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector</th>
<th>Agriculture, Forestry and Land Use</th>
<th>Domestic</th>
<th>Transport</th>
<th>Business</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>0.7</td>
<td>5.6</td>
<td>2</td>
<td>2.5</td>
<td>4.9</td>
<td>5.1</td>
</tr>
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<td>1991</td>
<td>5.6</td>
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<td>2</td>
<td>2.7</td>
<td>3.9</td>
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<td>0.6</td>
<td>5.6</td>
<td>2</td>
<td>2.7</td>
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<tr>
<td>1993</td>
<td>0.5</td>
<td>5.7</td>
<td>2</td>
<td>2.6</td>
<td>3.6</td>
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<tr>
<td>1994</td>
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<td>2.5</td>
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<td>5.1</td>
</tr>
<tr>
<td>1996</td>
<td>5.6</td>
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<td>2.5</td>
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Whilst the illustration above represents a fairly crude analysis, some organisations have sought to measure progress towards sustainable development on a more scientific basis. The traditional judge of ‘progress’ has been Gross Domestic Product (GDP), but that does not measure social or environmental costs. Friends of the Earth are advocates of the Index of Sustainable Economic Welfare (ISEW). Developed by an ecological economist, this index attempts to measure those aspects of economic activity which add to quality of life. This means subtractions are made, for example, where economic activity leads to air pollution. The index further includes socio-economic elements such as income inequality.

SUSTAINABLE DEVELOPMENT AND FINANCE

SUSTAINABLE DEVELOPMENT IN THE EXECUTIVE’S BUDGET DOCUMENTS

It is difficult to be precise on the level of expenditure on sustainable development. Whilst there is policy commitment to the principle, sustainable development cuts across all Executive expenditure headings, but is not necessarily the headline objective of that spending. The Executive made an attempt to cost sustainable development spend in the context of the Spending Review 2002, identifying a range of projects and initiatives. Building a Sustainable

providing research and information services to the Scottish Parliament

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Scotland – Sustainable Development and the Spending Review 2002' identified those policy areas in each department where spending had a sustainable development objective (more detail below). The document did not assess all spending that impacts on sustainable development.

Scotland’s budget documents set out departmental priorities. Sustainable Development appears as part of the Environmental and Rural Affairs and Development Departments but there are no other mentions.

Of the Executive’s three policy priority areas for sustainable development, transport has by far the largest budget. Theoretically, energy spending could be classified under a number of headings, relating as it does, to housing and business (energy efficiency), development of renewables, and directly to the transport sector. Waste is another cross cutting issue, across domestic, industrial and public sectors.

“INTERNALISING” EXTERNAL COSTS

Part of the thinking around sustainable development finance is the concept of ‘internalising external costs’. This means assessing the wider impact of policy decisions, and including or “internalising” that wider ‘cost’ in the overall financial cost. For example there is an argument that vehicle fuel prices should incorporate the cost to the environment and the health service (for example, more cases of asthma).

The costing of environmental impacts is a relatively new concept. The House of Commons Environmental Audit Committee has commented that:

- there are huge uncertainties about the scale and nature of environmental impacts arising from human activities
- there are serious issues of principle involved in attempting to place monetary values on some environmental impacts even when the latter are fully understood
- valuations can only reflect our present attitudes to the environment and understanding of environmental impacts. Future generations may value the environment more, especially in the context of ongoing environmental degradation
- there should therefore be a strong presumption in public policy in favour of preventing irreversible environmental changes such as climate change or biodiversity loss. Such a presumption cannot credibly be captured in monetary terms.

SPENDING REVIEW 2002

The most recent attempts at UK and Scottish level to evaluate sustainable development spending across government departments were included in the Spending Review 2002.

UK APPROACH

In November 2001 HM Treasury provided detailed guidance to departments on how to incorporate sustainable development into their work. As part of the 2002 Review the Treasury required that:

“each Government department produce a Sustainable Development Report identifying the full social, economic and environmental implications of its work”

As part of Spending Review submissions, each Department was asked to produce:
A sustainable development report (SDR), in which Departments will have an opportunity to explain the sustainable development dimension to their work.

A summary of how sustainable development has influenced the Department’s priorities.

An explanation of how its [ ] targets relate to sustainable development.

The Westminster Environmental Audit Committee, in investigating this process, found that it was denied access to Departmental SDR’s. The Committee also found that:

“the ‘mock SDR’ which the Treasury included in its guidance to departments, suggests that sustainable development has been considered in a rather compartmentalised manner within each department—on a programme by programme basis”

SCOTLAND’S APPROACH

As part of the Scottish Executive’s work on Spending Review 2002 the Scottish Executive published ‘Building a Sustainable Scotland – Sustainable Development and the Spending Review 2002’. In the foreword, Ross Finnie, Minister for Environment and Rural Development, and Andy Kerr, then Minister for Finance and Public Services stated that:

“Sustainable Development is not an optional extra. Our social, economic and environmental ambitions are interlinked and we must work to deliver all three if we are going to deliver the quality of life we want for ourselves and for future generations”.

‘Building a Sustainable Scotland’ builds on the policy commitment to “demonstrate what contribution [ ] proposals will make towards the achievement of sustainable development objectives”. However, instead of breaking down spend relative to sustainable development, the document merely identified those policy areas in each department where spending had a sustainable development objective. The document contained no financial tables, had inconsistent reporting between departments, and was mainly a commentary on and listing of, Executive initiatives. The only mention of expenditure related to:

- Justice
- Social Justice
- Finance & Public Services
- water spending in Environment and Rural Development

The figures included were high level figures, giving little detail. No figures were given regarding:

- Crown Office and Procurator Fiscal Service
- Education and Young People
- Tourism, Culture and Sport
- Health and Community Care
- Enterprise and Lifelong Learning
- Transport
- Non water spend in Environment and Rural Development
- Administration

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2 First Minister 18 February 2002
Some departmental contributions used a Q&A approach, others more of a commentary but most are at too high a level to evaluate policy and spending detail. As indicated in the following written answer, ‘Building a Sustainable Scotland’ did contain some reporting guidance:

S1W-34871 - Bruce Crawford (Mid Scotland and Fife) (SNP) : To ask the Scottish Executive whether it has provided any guidance to its departments, executive agencies and non-departmental public bodies to assist in the review of spending plans against sustainable development criteria and, if so, whether it will publish this guidance.


The guidance referred to is set out below:

Departments were asked to produce draft aims, objectives and targets for their portfolios, along with a detailed assessment of what the spending in their area would achieve. As part of this, they were required to demonstrate in their target-setting and assessments how they had taken account of these priorities. The assessments included a section on sustainable development, in which Departments were expected to demonstrate to what extent their proposals:

- assist in efforts to protect the ecosystem from the effects of the over use of resources;
- would lead to reductions in resource use;
- reduce the amount of waste and increase recycling;
- reduce demands on energy from non-renewable sources (e.g. by increasing energy efficiency); and
- reduce the need for travel (e.g. by improved logistics and planning and the use of advanced technologies).

The statements prepared for each portfolio were examined by the Cabinet Sub-Committee on Sustainable Scotland at the end of May [2002]. Comments and challenges from the Sub-Committee were fed back to departments and these were used to refine the statements and the aims, objectives and targets. The revised statements were returned to the Sub-Committee so that its views could be taken into account by Cabinet when making the final decisions on the Spending Review. Departments adopted different approaches in preparing their statements. For example the Enterprise and Lifelong Learning statement was informed by an independent assessment by a team of consultants from Environmental Resources Management, and the Education & Young People statement is in the form of responses to four questions.

Despite the high level commitment to mainstreaming sustainable development funding through the Executive, a further document Closing the Opportunity Gap set out spending plans for tackling poverty and reducing inequality but made few specific references to sustainable development. ‘Closing the Opportunity Gap’ and ‘Building a Sustainable Scotland’ are the only two cross cutting finance documents of this type.

POSSIBLE AREAS OF INQUIRY FOCUS

- Given the cross cutting nature of sustainable development, it is not a policy that can be pursued effectively by one department or team in the Executive. High level commitment is required to ensure it is integrated across the Executive. Does Ministerial responsibility for sustainable development lying in the Environment and Rural Development remit provide the most effective means of ensuring funding is directed towards sustainable development policies?
- How are funding priorities ‘proofed’ for sustainable development in the way Equal Opportunities are?
• Sustainable development implies taking a longer term view than is often the case (perhaps looking twenty years ahead rather than two or three). How effective is the Executive in taking into account long term implications and risk when making major funding decisions?

• What are the priority areas of spend for sustainable development? Should they be waste/resource use, energy and transport? Could, for example, a green jobs strategy be part of core spending?

• How can Executive reporting on sustainable development funding be made more transparent?

• What detailed criteria were departments working to regarding reporting on the 2002 Spending Review? How does every dept ensure their spending has sustainable development in mind (even if they do ‘report’ on it)? What guidance and performance appraisal advice is given to local authorities and non departmental public bodies on the way they spend their money?

• How does the Executive financially evaluate sustainable development indicators?

• Are there areas where Executive funding is proving detrimental to sustainable development?

• Where are there examples of good sustainable development reporting practice?
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Finance Committee
Cross-Cutting Expenditure Review - Children In Poverty

Background
1. At its meeting on 25 February 2003, the previous Finance Committee agreed a report on its cross-cutting expenditure review on Children in Poverty, and agreed to refer the report to its successor committee for adoption and publication.

2. The previous Committee had intended to publish the report before dissolution. The existing protocol between Committee Clerks and the Scottish Executive requires the Executive to provide a response to a Committee report within two months of publication. The Finance Committee meeting at which the report was agreed, took place less than five weeks before the dissolution of the Parliament.

3. Members therefore agreed that there would be insufficient time for the Executive to respond to the report and that publication should be a matter for the new Finance Committee.

Cross-Cutting Expenditure Review on Children in Poverty
4. The Committee decided to undertake a cross-cutting expenditure review on Children in Poverty at its meeting on 12 March 2002. The following remit was agreed:

“To consult with relevant organisations and individuals to identify and examine those budgets and programmes across Scottish Executive departments which provide funding targeted at improving the position of children in poverty; to examine whether there is adequate co-operation; to identify any scope for removing barriers to effective co-operation; and to assess whether the individual programmes are meeting or are likely to meet the policy objectives.”

5. The review was led by a cross-party reporter group of three MSPs from the Committee, who were assisted by an adviser. The adviser also commissioned three pieces of external research to examine in detail specific aspects of the review.

6. The reporter group received written evidence from twenty organisations and individuals, and took oral evidence from Malcolm Chisholm, MSP, Minister for Health and Community Care; Cathy Jamieson, MSP, Minister for Education and Young People; Peter Peacock, MSP, Deputy Minister for Finance and Public Services; Des McNulty, MSP, Deputy Minister for Social Justice; the Scottish Poverty Information Unit, COSLA and Communities Scotland.
7. This oral evidence was informal in the sense that no transcript was provided by the Official Report, although minutes were taken for each of the meetings.

Next Steps
8. While, as outlined in paragraph five, the review was led by a reporter group of the Committee, a draft report on the review was considered by the full Committee at its meetings of 14 January, 11 February and 25 February 2003.

9. At the meeting of 25 February, a final draft was agreed unanimously by the Committee which then, due to the proximity of dissolution, recommended that the report be referred to its successor for adoption and publication.

10. **Members are asked to decide whether they agree to adopt and publish the report.**

11. If the Members are in agreement, it is proposed that the report is published in the name of the new Finance Committee, with a covering note explaining the background to its agreement and publication in terms of the role played by both committees.

12. **Members are asked to agree to publish on this basis.**

13. If Members are so agreed, the report will be published as soon as possible and a response can be expected from the Executive within the agreed two month reply period.

David McGill
June 2003