

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 1 November 2005

Session 2

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ENTERPRISE AND CULTURE COMMITTEE

21st Meeting 2005, Session 2

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Christine May (Central Fife) (Lab)

COMMITTEE MEMBERS

*Shiona Baird (North East Scotland) (Green)

*Richard Baker (North East Scotland) (Lab)

*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

*Murdo Fraser (Mid Scotland and Fife) (Con)

Karen Gillon (Clydesdale) (Lab)

Michael Matheson (Central Scotland) (SNP)

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Donald Gorrie (Central Scotland) (LD)

*Fiona Hyslop (Lothians) (SNP)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

Mr Brian Monteith (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING ALSO ATTENDED:

Gavin Barrie (Scottish Executive Education Department)

Mark Batho (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Sandy Brady (Highlands and Islands Enterprise)

Iain Carmichael (Scottish Enterprise)

Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Forbes Duthie (Highlands and Islands Enterprise)

Patricia Ferguson (Minister for Tourism, Culture and Sport)

John Gilmour (Scottish Executive Education Department)

John Mason (Scottish Executive Education Department)

Chris McCrone (Scottish Executive Finance and Central Services Department)

Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Nicol Stephen (Deputy First Minister and Minister for Enterprise and Lifelong Learning)

Charlie Woods (Scottish Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Douglas Thornton

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 6

Scottish Parliament

Enterprise and Culture Committee

Tuesday 1 November 2005

[THE CONVENER *opened the meeting at 14:03*]

Item in Private

The Convener (Alex Neil): Given that it is 3 minutes past 2, we will start. Welcome to the 21st meeting this year of the Enterprise and Culture Committee. We have received apologies from Michael Matheson, Jamie Stone and Karen Gillon, which means that item 2 will be taken the next time Karen is here. I welcome Fiona Hyslop, who is substituting for Michael Matheson. We might also be joined by Jamie McGrigor—I think only for item 3—depending on whether his other meeting finishes on time.

Item 1 is to ask the committee to agree to take item 5 in private. Is that agreed?

Members *indicated agreement.*

London Olympics Bill

The Convener: As I said, item 2 must wait until Karen Gillon is here, but item 3 is the legislative consent memorandum on the London Olympics Bill. I welcome Patricia Ferguson MSP, Minister for Tourism, Culture and Sport, along with her official, John Gilmour, who is head of sport stewardship and delivery branch—he would get a job at Hearts any day—and Nicholas Duffy, who is a solicitor from the Scottish Executive.

The Minister for Tourism, Culture and Sport (Patricia Ferguson): We, like the committee, welcome the success of London's bid to bring the 2012 Olympics and Paralympic games to the United Kingdom. In the case of the London Olympics Bill, we are committed to supporting the UK Government in putting in place as soon as possible the structures and other arrangements that will help to deliver the games.

The bill is concerned mainly with delivery of the games in London and with some reserved matters and will have a limited impact in Scotland. The provisions within the devolved legislative competence and the bill as a whole are time limited and Olympic-games specific.

The ticket-touting provisions will apply throughout the UK and to all Olympic events. No Scottish ministerial powers will be exercisable in respect of those provisions.

The restrictions on street trading and outdoor advertising will be operative only on days when the Olympic football tournament matches take place at Hampden; the advertising controls might apply the day before. The restrictions will apply within a short radius of Hampden of probably no more than 1km.

Scottish ministers will exercise ministerial powers in respect of commencement of the relevant provisions and the restrictions on street trading and advertising. Detailed implementation of the policy will be through regulations that will be made under clauses 17 and 23 of the bill, which will be subject to approval by the Scottish Parliament.

The Olympic delivery authority will be required to develop strategies that require Scottish ministers' approval of how it proposes to exercise its functions in Glasgow in relation to street trading and advertising.

UK ministers will not exercise any powers that would impact directly on devolved matters. They will be required to consult Scottish ministers before giving guidance or direction to the Olympic delivery authority that might affect a devolved matter. The primary legislation that will be required

in relation to Scotland will be enacted at the same time as that for the rest of the UK.

The Convener: Our purpose is to seek any additional information that we might require from the minister and to decide whether there are any points that we want to make to Parliament when it considers the Sewel motion.

Murdo Fraser (Mid Scotland and Fife) (Con): I will ask about funding. I see from the memorandum that you are saying that no cost will come to the Executive. Will you say a bit about the functions of the Executive, local authorities and the delivery of police services? How will the costs be reimbursed by the ODA?

Patricia Ferguson: If the ODA requires additional street cleaning to be done, or additional lighting to be provided in the vicinity of a venue, it will be responsible for any additional costs that accrue. There would have to be consultation of the local authority about such issues—we expect that dialogue would take place. There is quite a long run in to the Olympics, so such dialogue would take place nearer the time. The money would be reimbursed in that way.

Murdo Fraser: Such work would be done on the basis of full-cost recovery.

Christine May (Central Fife) (Lab): Would that also cover matters such as increased numbers of street traders' licences, which might be required for people who will be selling memorabilia or whatever? That might mean that the local authority would require additional staff.

John Gilmour (Scottish Executive Education Department): The ODA will be empowered to delegate its functions to another body. We anticipate that it would do so on a full-cost recovery basis.

Fiona Hyslop (Lothians) (SNP): It is interesting that the bill is extremely narrow and focused, which reflects the fact that Scotland will have one venue and will play a limited role in the Olympics. Did the Executive think that it might want to tackle street trading and ticket touting in legislation anyway? Ticket touting can damage sports events other than the Olympics and other cultural events. Was it on the Executive's shopping list, regardless of whether the Olympics were coming to London?

Patricia Ferguson: There is a particular interest in and concern about the Olympics. The International Olympic Committee is a jealous guardian of its mark and is always concerned to ensure that any income that it generates is fed into the games. A specific piece of work needs to be done for the Olympics.

I am not aware that there is a problem with ticket touting such that other events are jeopardised or that the financial viability of any club or

organisation has ever been called into question. If that was the case, we would have to examine the matter. The provision is a specific measure relating to the Olympic mark and the way in which the IOC structures what it does.

Shiona Baird (North East Scotland) (Green): If the ODA is looking for enhanced services and is likely to contribute to them, how much pressure will it be likely to put on who delivers the services? I am concerned that we obtain as much local benefit as possible out of any participation. If the ODA is looking south of the border for, say, a cleaning company, will we have a say and be able to debate with the ODA who provides the service?

Patricia Ferguson: The ODA will work with the local authority and have it deliver the service, so it will be up to the local authority how it provides the service. We know how Glasgow City Council cleans its streets now, but we do not know how it will do so in 2012. However, it will be the responsibility of the local authority to provide the service after discussion with the ODA.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): Can you confirm my understanding of the bill's place in the wider range of activities and discussions that will take place in the run-up to the Olympic games? Am I right in saying that the Scottish aspects of the bill that we are being asked to consider today are small, limited and focused aspects of the arrangements for the games—necessary, but small—and that it would be wrong for us to draw any wider inferences or conclusions from them? In other words, many other aspects of arrangements, such as those that colleagues have touched on, will be the subject of further discussion at a host of different levels, and it is important that we do not confuse them with the specific provisions of the bill. Am I correct?

Patricia Ferguson: The bill's provisions are tightly drawn and narrowly focused, which is right—that is what is required. There will also be regulations that will be decided by the Scottish Parliament nearer the time. There are and will continue to be discussions about the role of the rest of the UK, in which Scotland is taking a keen interest. We will work with the London organising committee, the ODA and the Department for Culture, Media and Sport at Westminster to ensure that any benefits that can accrue to Scotland do accrue to Scotland.

The Convener: I have two questions. First, paragraph 8 of the paper states:

"The main measures of the Bill provide for ... The delivery of transport needs for the Games, including the necessary preparation in the lead up to 2012".

Does that include transport in and around Hampden/Glasgow?

Patricia Ferguson: No, it does not. It means specifically transport needs around London.

The Convener: Secondly, paragraph 10 refers to amendments to the bill that are to be made during the committee stage at Westminster. It says:

“The amendments are concerned mainly with the way in which the provisions in respect of police powers and criminal procedure should operate in Scotland.”

Obviously, police powers and criminal procedures are devolved matters, and are the subject of much legislation here. What are the amendments designed to do?

Patricia Ferguson: As I understand it, they concern infringements of the ticket-touting provisions that will be put in place.

The Convener: Do the police not have appropriate powers anyway?

Patricia Ferguson: The powers are not as tightly drawn as they will be under the ticket-touting provisions of the bill.

The Convener: Similarly, does the reference to criminal procedures relate to ticket touting?

Patricia Ferguson: Yes, and possibly to ambush marketing and other advertising. If there was a problem that could not be resolved by any other means, I presume that there would have to be recourse to law.

The Convener: Are there any more questions for the minister? If not, can I take it that there are no general points on which the committee wishes to report to Parliament? Is everybody happy with that?

Members *indicated agreement.*

Budget Process 2006-07

14:15

The Convener: Item 4 deals with the budget process. We have four panels of witnesses. For the record, it might be worth emphasising that this committee is unique in Parliament in that it covers two full ministerial portfolios—although one other committee deals with two portfolios, it covers only part of one of them. Apart from matters relating to external affairs, we cover the whole of the portfolio of the Minister for Tourism, Culture and Sport, the budget proposals for which are what we will deal with in questions to our first panel.

Beside the minister, we have: John Mason, the head of the tourism, culture and sport unit, who is well known to the committee; Joe Brown, of the information and analytical services department; Gavin Barrie, the head of the lottery sponsorship unit; and John Graham, the chief executive of Historic Scotland.

Again, minister, we have had some papers circulated on the matter, but it would be helpful if you could introduce the item.

Patricia Ferguson: I will set out briefly the funding strategies that we have been implementing and some of the significant results that our investment has delivered. The budget for tourism, culture and sport will increase by 33 per cent in real terms from 2002-03 to 2007-08, reflecting our commitment to the arts, sport and tourism. Over the three years of the current spending review, funding will increase from £233 million to £291 million in 2007-08, which is an increase of some £58 million—more than 15 per cent—in real terms. That is a bit ahead of total Executive spending, which will grow by about 11 per cent in real terms in the same period.

Over recent years, we have made significant investments in the tourism network and in tourism marketing. The transition to the integrated tourism network has proved to be successful. VisitScotland's award-winning marketing is working well, too. Hotel occupancy rates in Scotland are currently running at record levels. For the first six months of 2005, visitor numbers to Scotland from the United States of America were up 13 per cent on the same period last year when, for the United Kingdom as a whole, they fell by 5 per cent.

Over the past year, EventScotland has made more than 70 awards supporting events all over the country, ranging from Skye's Edinbane festival and the Hebridean Celtic festival in the north to the Wigtown literary festival and the spring fling in the south. Events the length and breadth of Scotland have received assistance in their development.

With regard to sport, in the 2002 spending review, we made a step change in investment with £12 million a year for the active schools programme and £28 million for the national and regional sports facility strategy. We have delivered increased opportunities for children to take part in physical activity and sport, set the groundwork for a significant improvement in sports facilities across Scotland and delivered high-profile sporting events across the country, such as the European cross-country athletics, the mountain bike world cup in Fort William and the under-21 rugby world championships. We hope to be able to help to bring the Commonwealth games to Glasgow in 2014, which would benefit the whole country.

With regard to culture, the sector has benefited from a significant boost in funding in recent years, including a doubling of funding for the Scottish Arts Council from about £27 million at the time of devolution, to £57 million by 2007-08. We invested £27 million in the launch of the national cultural strategy in 2000 and, at the spending review in 2002, we found an additional £10 million a year for music tuition and £4 million for the National Theatre of Scotland. I should say that I was at the launch of the National Theatre this morning. The initiative has been met with enthusiasm from the sector and what fascinated me—and challenged everyone—was the ambition of the work that the National Theatre plans to do across Scotland. I am sure that the committee will take a keen interest in that in future months and years.

We have also made significant awards for major and ambitious projects and initiatives. We awarded £10 million for the Playfair project, £5 million for an endowment for the Donald Dewar arts awards, £8.4 million for the purchase of the Murray archive, £2.5 million for the purchase of Titian's "Venus", £2 million to bring Concorde to Scotland, £7.7 million for the Gallery of Modern Art and £9 million for a programme of improvements at the Royal Museum of Scotland.

Results are becoming evident. There have been significant increases in attendance and participation at funded arts events, a network of schools cultural co-ordinators is in place and there are record visitor numbers at the national museums and national galleries. The MTV awards in 2003 were a success, income at Historic Scotland has increased by 12 per cent and St Kilda has been inscribed by the United Nations Educational, Scientific and Cultural Organisation as a cultural world heritage site, which complements its existing natural heritage inscription—it is the first place in Scotland to have dual status and one of only 27 worldwide.

We intend to follow up those successes through the vision for culture that was set out in the First Minister's 2003 St Andrew's day speech. We must

ensure that our increased investment is delivered efficiently. The public bodies that we sponsor have a good track record in delivering improvements in their operations, but we intend to deliver further savings of £1.75 million by 2007-08 under the efficient government initiative.

That was a brief outline. I am happy to answer questions.

The Convener: I will make a general point. We have the top-level figures but, despite the fact that last year we asked for them, we do not have the figures further down. For example, in the Scottish Parliament information centre briefing paper, "Draft Budget 2006-07—Enterprise and Culture Committee" there is a figure for VisitScotland in real terms, based on the 2005-06 prices, of £3.4 million for 2004-05 and £4.2 million for 2005-06. We do not have anything below those top-level figures for VisitScotland. I reiterate that to do the exercise meaningfully in the future we need the next level down. I think that we made that request last year.

Richard Baker (North East Scotland) (Lab): I will ask two questions about the sportscotland budget, which is set to increase by 26 per cent in real terms between 2005 and 2008. That is obviously a significant amount, but there may well be additional demands on the sportscotland budget in respect of excellence, with Scottish athletes wanting to prepare for the Olympics in 2012 and for the Commonwealth games, which we hope will be held in Glasgow in 2014. Do you feel that those challenges can be met through the existing budget allocations and the increase? Secondly, to what extent will that budget be focused on increasing participation through encouraging not only the excellent regional facilities that are proposed, but more local sporting facilities?

Patricia Ferguson: That is a big question.

Richard Baker: Sorry about that.

Patricia Ferguson: That is okay. It is fair to say that we are, if you like, trying to swim against the tide because people are participating in sport less and are being less active in Scotland as a whole. That is not unique to Scotland—it is a worldwide phenomenon. We are trying to slow that trend down and to move forward. At the same time, we are trying to encourage our elite and potentially elite athletes and to ensure that they have opportunity, not only because their sporting achievements are marvellous in themselves, but because they can be role models who encourage other people to take part. It is important that we ensure that there is enough money for the elite sport end of it.

In my view, sport is a bit like a pyramid—it is broad at the bottom and it is only by being very

broad at the bottom that we can get a significant number of people up to the top end. That is the way we are trying to work. We are trying to address problems on the ground at entry level, but we also want to ensure that there is a significant contribution at the elite sport end.

I suspect that over time we will perhaps want to argue with colleagues about the amount of money that we have in all areas of the budget. It would be wrong if we were not doing that. It is my job to argue hard for money and I will certainly do so, but some very good work—particularly at the elite end, to which Richard Baker referred—is now happening through the six local institutes of sport and the Scottish Institute of Sport. Some very good performances are being produced as a result of that work and the investment is paying off. In the years to come we will have to watch that to ensure that we are keeping up with all the latest trends and all the latest technology, which is vital. We are very aware of the issue and we constantly monitor and review performance.

Susan Deacon: I will ask about two matters, the first of which is the national cultural strategy on which you made your position clear in a recent debate in Parliament. You said that you will make a further statement on the cost of taking forward the recommendations. I realise that we cannot, therefore, expect to hear any more from you today about amounts—although, should you wish to share any of your thoughts on that, you are among friends and we would be happy to hear them. How and when will the budget decisions be made and how will they be weighed against other priorities in your portfolio or, indeed, elsewhere in the Executive?

Patricia Ferguson: We are working towards identifying areas that were covered by the Cultural Commission's report and which we want to pursue. They relate either to matters that were raised by the Cultural Commission itself or to matters that have arisen from other discussions that were going on when the report was being written. Some are related to submissions that were made to the commission by other organisations but which perhaps did not find favour with the commission, for understandable reasons. We are considering the way forward and we are working hard towards our final recommendations, views and decisions. At the same time, we are working hard to identify, as we go along, what costs will be involved. Change usually costs money, regardless of how major or minor it is. We are very conscious of that, and we want to be sure of the costs.

I said in September's debate—I really meant it—that one of the reasons why I was not attracted by the infrastructure that was proposed by the Cultural Commission was that I wanted to spend money on delivering the arts and on giving people

the opportunity to enjoy them, rather than on a bureaucracy to support them. I also said that I wanted whichever structure we decide on and implement to support the arts and to allow them to grow and prosper as we would all like. We are very conscious of that aspiration.

About £2 million was built into the budget to allow for implementation of the Cultural Commission's report. We will ensure that we spend that money wisely as time goes on. We will be very thorough and careful about our costings when we come to implement what has come out of the Cultural Commission's report.

Susan Deacon: What about the timing of budget decisions and so on?

Patricia Ferguson: I have said that I will respond to the report before the end of the year. We are currently on target to achieve that, so I will be reporting to Parliament. A lot of what we might do, as I know from our work with the Cultural Commission, will not necessarily take place next year or even the following year. Some of the Cultural Commission's best work has involved education. Some of the measures that are in place or are being considered would best be bedded in over time. We would want to pilot some of our ideas before we implement them throughout Scotland to ensure that we get them right and that we can refine them so that they work as well as possible. Over time, you will see the effect on the budget, but it is not as if some huge problem will arise because of our work in these areas.

Susan Deacon: My next point relates as much to the budget process as to content. In each of the six or so years for which Parliament has existed, one of the recurrent themes when Parliament considers the Executive's budget proposals is the need for improvements in reporting cross-cutting issues and the call for better linkages with outputs and, where possible, with outcomes. It strikes me that although those issues have a resonance across the Executive's budget, you have areas of responsibility within your portfolio in which sets of twin objectives have a particular application. I was struck by your emphasis on young people in relation to both culture and sport. That might involve instrument tuition in schools, active schools or culture co-ordinators.

Will you take the opportunity to share with us your thoughts about how Parliament's budget process and the Executive's reporting process could provide a clearer picture of the spend in the important area of development of young people, and of the results that are being achieved through the Executive's investment?

14:30

Patricia Ferguson: We have produced a document that outlines all the work that we have

been doing across portfolios and it is available either on the Parliament or Executive website—I think it is the Executive site. I can give the committee the web address later.

That work is fairly extensive now and is becoming an important part of our work. It is certainly an important part of the work that is not necessarily done in my portfolio, but which is sometimes led by my portfolio. On other occasions, we support the work of other portfolios. The importance and value of that cross-cutting work will increase.

As for how that fits into the budgetary process, I see your point and we might want to look at it. Perhaps Gavin Barrie will comment.

Gavin Barrie (Scottish Executive Education Department): There is now more transparency in people's grant offer letters. We keep better track than we did in the past in organisations' grant offer letters of where the money for certain initiatives comes from because it does not always come from the culture budget; it might come from the health budget, for example. There are several examples of money for Scottish Arts Council projects.

Susan Deacon: I and other members would be interested to see more documentation on those specific budget areas.

The Convener: Absolutely. The committee will also want to consider how we handle the budget process to make it more satisfactory.

Fiona Hyslop: I have a series of questions.

Minister, you described your view of sport as a triangle. Objective 6 of your portfolio is

“To promote excellence in sport and culture”

and objective 2 is

“To support social inclusion by ensuring the widest possible involvement in cultural, social and sporting opportunities.”

Therefore, the objectives are focused on the promotion of excellence on the one hand, and social inclusion on the other, which is why people worry when they see participation levels among young people dropping by 7 per cent when, according to your targets, they should be increasing by 3 per cent. If those are the instructions to sportsScotland—and it is difficult to know what the initiatives are with the level of information we have—it is clear that general spend on sport for all is missing. People's concerns about the funding of community sporting facilities might be alleviated if you targeted a wider audience, instead of just promoting excellence at one end and social inclusion at the other. Does your focus not help to explain the detrimental impact on the sporting experience of most young people?

Patricia Ferguson: No. That is a basic misunderstanding of how it all works. First, sport 21 is not an aspiration wholly owned by the Executive; we are partners in sport 21 with a range of other bodies such as local authorities. Local authorities are required to do the work on the ground to promote community involvement in sport.

Our ambition for sport is not just about social inclusion areas, although we recognise that there are particular problems in those areas. We target Executive funding directly at that, but that does not mean that other areas should be neglected—far from it. In fact, local authorities, who have responsibility for providing support for what happens on the ground, will often provide greater access. They are one of our key partners in achieving what needs to be achieved in sport 21.

As I think I said to the committee last year, through sport 21 we are trying to put in place an infrastructure that will allow us to make a difference. That infrastructure takes a little while to put in place. We now have just over 600 active schools co-ordinators throughout Scotland, and they are starting to make a difference for young people. It is early days, but I hope and expect that they will make a remarkable contribution to making the difference that we hope to make as we work towards the sport 21 targets. It is not by any means the case that only the Executive has a responsibility in that respect or that the targets focus only on narrow areas; indeed, the contrary is true.

Fiona Hyslop: I have taken my information from the objectives and targets that the Executive has produced and presented to the Parliament.

On the process, from what you are saying, local authorities probably have more responsibility in the sport for all agenda than the Executive has. If that is the case and we were to examine the results of spend on sport for young people, for example, would it be more appropriate for us to have a cross-cutting exercise involving you, the minister with responsibility for local government and the Minister for Education and Young People, perhaps? Addressing such issues is difficult. Total investment must be considered, but here we are considering a very narrowly focused spend and output targets.

Patricia Ferguson: The focus is not too narrow. We share objectives with local authorities, other providers and other organisations and work together to meet those objectives. It is obviously up to the committee to decide who should be brought before it to discuss issues, and it might want to have a cross-cutting discussion if it thinks that having such a discussion would make things easier.

Fiona Hyslop: On the culture aspect of the budget, target 10 under objective 6 of the tourism, culture and sport section of the draft budget is to

“Increase the number of cultural successes by 3% by end March 2008.”

Will you define what a cultural success is, so that we understand what such a percentage increase means?

I return to cross-cutting issues. If the economy is the most important driver for the Government, an important target is target 5 under tourism, culture and sport objective 4, which is to achieve a

“Year on year real terms increase of Scottish Creative Industries Gross Value Added (GVA) to end 2007.”

The committee is interested in progress in that respect.

Patricia Ferguson: Economic growth is a key driver, which is one reason why we have invested so heavily in tourism, for example. It is interesting that tourism is growing exponentially in Scotland, even if it is not necessarily doing so elsewhere in the United Kingdom. I hope that it continues to grow exponentially in the foreseeable future.

Cultural success can be measured in a number of ways. The establishment of the National Theatre of Scotland, for example, can be considered to be a cultural success. Members of the committee might say, “Well, the Executive would say that, wouldn’t it?” but they should look at the programme that the National Theatre of Scotland has launched and see the effect that the theatre will have throughout Scotland. That is a cultural success in itself.

Some measurements that are used are fairly aspirational as opposed to being targets that can clearly be seen to work and towards which progress can be seen to be made. In the future, we will work towards pinning down some targets, particularly on the sport side, but we can point to a range of cultural and artistic successes throughout the country, such as Scottish Ballet’s success at the Edinburgh festival—its production of Balanchine dances was internationally recognised. The range of work in Scotland’s festivals, from community events to internationally recognised events, must be considered. Members can foresee the success that the year of Highland culture in 2007 will be—I have no doubt at all that it will be a huge success. Many top-line events and happenings and lower-key successes can be mentioned.

Fiona Hyslop: Is it appropriate, then, to measure cultural successes and to use a figure of 3 per cent? What does that figure mean? Will there be a list? Will events and successes be counted, or will there be a value weighting? Saying that you aim to

“Increase the number of cultural successes by 3%”

seems very specific.

Patricia Ferguson: Absolutely, but we mark events by the awards that they win, for example. The Parliament building has probably met the 3 per cent target on its own.

The Convener: Is the Executive claiming credit for that?

Patricia Ferguson: Not at all, but members will forgive me for saying that the building is the first thing that comes to mind as we sit in this wonderful room. The Parliament has won a UK prize for the best building of the year and several other awards, so it probably goes some way towards meeting the 3 per cent target on its own.

All sorts of things are happening around the country and we are gaining recognition for our successes, by a range of different measures. I do not think that we have any problem.

We do have lists, actually. I will not bore the committee by reciting them, but I could do, if that was wanted.

The Convener: No thank you.

Fiona Hyslop: We all want to share in the success that has been achieved in culture and sport, but the challenge is to evaluate success numerically. Will there be a scorecard system? Outputs can be very difficult to measure.

Will you answer my other question about the GVA of Scottish creative industries and economic growth?

Patricia Ferguson: The creative industries are key elements of what we do economically. Our work in encouraging young people to be involved in the creative industries is important. We have created six hubs around the country to support the creative industries, and there is also the new screen academy Scotland.

John Mason may have figures to hand to show the breakdown of the money.

John Mason (Scottish Executive Education Department): I will make a general point on the targets and objectives. At the time of the previous spending review, when the targets and objectives were agreed, we published how they were defined, how we would monitor them and what the base data were. There is actually a list of things that would qualify as cultural successes. If it would be helpful, we could provide the committee with the current position on any of the targets, to help members to understand how far along we are in meeting them.

Shiona Baird: We have a note that VisitScotland’s budget is set to decline by 2 per cent and I am a little concerned by the impact of

that, particularly on rural areas. Tourism is very important to Scotland's economy in general, but even more so in rural areas where opportunities for employment are so limited.

Patricia Ferguson: I take your point about rural communities. VisitScotland is very interested in rural issues and is working hard on them. We have already seen a number of initiatives. Ross Finnie—another minister with a cross-cutting portfolio—recently announced money to assist farmers who want to diversify into tourism. That is another important element.

The brief from the Scottish Parliament information centre talks about a 2 per cent reduction in real terms in VisitScotland's budget for 2005-08, but it fails to take account of the 36 per cent growth in real terms for 2002-08 and of the savings of around £1 million a year from our recent restructuring exercise. Those savings will be released by the network project and will be used by VisitScotland. Therefore, the figure is not quite as it seems.

Christine May: Good afternoon, minister. I welcomed the list of successes in your portfolio.

I want to ask about your portfolio's contribution to efficient government, which you referred to at the end of your statement. How is the target for your portfolio apportioned across the various organisations? Is there a single percentage, or is there weighting?

Patricia Ferguson: Over the years, the non-departmental public bodies in my portfolio have made a large contribution. They have been nimble in adjusting budgets to take account of new priorities; in doing new work that they have wanted to do; and in considering what educational outreach has been needed. It has been a success story.

The NDPBs tend not to have big bureaucracies; they tend to be about delivering services without the need for a big, bureaucratic structure. Therefore, what I am probably saying is that opportunities for savings might be a bit more limited than they are in other NDPBs. However, all our major NDPBs have been asked to contribute £200,000 to the overall efficiency savings. The one exception is Scottish Screen, which is being asked to contribute about £50,000. The bodies are working towards those targets.

Christine May: Are there particular areas that you have asked the NDPBs to preserve? And, conversely, are there areas in which you have asked them to be especially vigilant in making savings?

14:45

Patricia Ferguson: We are aware that the Cultural Commission's report and the work that we

do around that will have a significant impact on the work of the cultural NDPBs, so we have been quite cautious in relation to those organisations. We are being fairly open and we plan to do more work later. Work that was going on before the publication of the Cultural Commission's report—work that we have been encouraging and which was flagged up with the Cultural Commission—should continue. What will definitely continue is the work in which cultural NDPBs work together across institutional boundaries. That might include sharing backroom organisational facilities or working together to do an exhibition. Cultural NDPBs look for those opportunities all the time. They are enthusiastic about such work; they want to do it, and obviously we encourage that.

Christine May: My final question is on the emphasis on regional versus national across all the organisations in your portfolio. How do you balance those? Do you use a formula or is it done on a case-by-case basis?

Patricia Ferguson: I am trying to get my head around exactly what the question means, to be honest.

Christine May: There are a number of significant national bodies in your portfolio. For example, in the case of VisitScotland, how do you balance the head-office function with what is done in the former area tourist board areas?

Patricia Ferguson: VisitScotland is keen to be as outward looking as possible and we encourage that. I think that I am right to say that some 98 per cent of its staff are based outwith its headquarters. That is great—it is the way that such an organisation should be.

We have a responsibility to support the national collections and the organisations that are funded directly by us—our NDPBs, in effect. We have to be careful about how we do that. We must ensure that we do it appropriately, properly and sensibly, but we are also looking for opportunities to broaden the net. For example, we are working with the Scottish Museums Council on the significance recognition scheme, which will help us to ensure that anything in the country that is of national significance can be assisted. In some cases, that will mean that it has a future.

We are always looking for opportunities to work with partners in other areas on projects such as the Scottish year of Highland culture 2007 or the celebration of Burns that is planned for 2009. We try to do that kind of work quite seriously across the portfolio.

The Convener: The Scottish Parliament information centre briefing on the draft budget shows that three agencies' budgets will decline substantially between 2006-07 and 2007-08. VisitScotland's budget will go down from about

£47.5 million to about £43.7 million; the budget for national institutions will go down from nearly £74 million to about £66 million; and the Scottish Arts Council's budget will go down from about £60.5 million to about £56 million. The budget for other arts and culture will increase dramatically by about £12 million and Historic Scotland's budget will increase by well over £3 million. There are three agencies whose budgets will reduce dramatically in one year and two budget lines that show dramatic increases. What is happening with those?

Patricia Ferguson: It is not nearly as dramatic as it looks. I can give you a note on the breakdown of the changes. As an example, the Scottish Arts Council's budget may appear to have increased by £4.075 million in 2005-06. Of that, £4 million is made up from the central reserve, of which £2.8 million is the balance of the £7 million approved by ministers for the restructuring of Scottish Opera—sorry, it all gets a wee bit complicated when we start bandying figures about. The money is going in for a specific purpose and, at some point, will be repaid. The money is there for a reason; it is not just that the budget is increasing. There are years when something like that will happen and the budget obviously has to show that.

The Convener: That explains the change in the Scottish Arts Council budget. However, the budget line for the national institutions shows a dramatic rise followed by a dramatic fall. What is happening with that budget line?

Patricia Ferguson: That depends on which national institutions you are talking about. There is a range of such institutions.

The Convener: I am asking about the national institutions that are defined as such by the Executive.

Patricia Ferguson: The change in that budget line is to do with capital projects. Gavin Barrie will be able to give further details.

Gavin Barrie: The change is almost entirely due to the £7.7 million that was awarded to the National Galleries of Scotland to allow it to accept the freehold of the Scottish National Gallery of Modern Art. That will happen in 2006-07, so that explains the peak in that year. In fact, a number of the peaks can be explained by one-off capital projects for which a budget has been awarded for 2006-07.

The Convener: That highlights and underlines Susan Deacon's earlier point. Our committee will be able to do a meaningful job only if—among the other things that Susan Deacon mentioned—we are given much more breakdown of the figures to allow us to see where changes are taking place. For example, if we could see the budgets under Historic Scotland, that would make it easier for us

to see where changes are taking place and what is happening in those budgets. I think that we requested such information last year. We certainly requested further detail from both enterprise agencies, which have provided us with submissions for today that contain much more detail. If we had something on a parallel from the agencies in your portfolio, that would help us to understand the budget much better.

Patricia Ferguson: We will be happy to provide that.

Christine May: We also need that breakdown for the tourism, culture and sport section of the department.

The Convener: Yes, we need that sort of leverage.

Linking the budgets to output is also important. Again, minister, I draw your attention to the improved presentation of the figures—albeit not necessarily improved figures—from the enterprise agencies, which have provided a link between expenditure and anticipated output. If we could get something similar from your agencies, that would be extremely helpful.

My final question is to ask whether you accept the Cultural Commission's recommended strategic objective that 1 per cent of gross domestic product should be spent on culture. If so, what increase in spending, in money terms, would be required for us to move from current expenditure levels to meeting that 1 per cent target?

Patricia Ferguson: I believe that we need to spend on culture the amount of money that it takes to do all the things that we want to do. If I have any criticism of the Cultural Commission, it is that it did not underpin its financial recommendations with evidence and it did not provide background on what is actually happening.

The Convener: So a crude 1 per cent target is not an evidence-based target.

Patricia Ferguson: No, not really. Having said that, I suspect—if I am not mistaken—that our existing expenditure probably represents around 1 per cent. That is another reason why I think that the Cultural Commission was a little bit confused. The commission did not take into account funding for the National Theatre of Scotland, so there were some gaps in its report. The important point is that the culture budget is higher than it has ever been. Our plans for what we will do with that money are sensible and will achieve some good outcomes for Scotland.

The Convener: For the benefit of both the committee and the debate on the way forward, it would be useful if the Executive would publish a full-scale analysis of how spending on culture, as

defined by the Cultural Commission, relates to GDP.

Patricia Ferguson: I am not sure that we would necessarily want to tie such an analysis into the work of the Cultural Commission, as it might take a long time to do that. However, we are certainly working on that area at the moment and we will continue to do so.

The Convener: As we have no other questions, I thank you and your officials for your presentation. If we can get that follow-up information as standard practice from now on, that will be helpful.

We have quite a long session ahead of us today, so I suggest that we take a break just before the Minister for Enterprise and Lifelong Learning comes. I think that that would be the appropriate time.

Our next panel will give evidence on the enterprise element of the enterprise and lifelong learning budget. From Scottish Enterprise, I welcome Iain Carmichael, senior director of finance, and Charlie Woods, senior director for strategy and chief economist at Scottish Enterprise. As I have said, a more detailed breakdown of budget proposals has been submitted along with the written submissions from Scottish Enterprise. I invite Iain Carmichael and Charlie Woods to introduce the figures.

Charlie Woods (Scottish Enterprise): This year, we have tried to give more understanding of what lies behind the various things that we are doing. We have a diverse budget and we try to ensure that we pull all the various different elements of what we have responsibility for together so that they have an impact on the economy. As we discussed with the clerk before the meeting, we would be more than happy to answer questions rather than take up a lot of time with an introductory statement.

The Convener: That is fine. I think that suits us.

Murdo Fraser: Good afternoon, gentlemen. You will be aware that the efficient government agenda that is going on in the background also applies to various quangos. Let us look at the figures. In the current financial year, the figure for management and administration in Scottish Enterprise is £92 million out of a total budget of roughly £449 million. By my calculation, that is roughly 20 per cent. However, over the coming years the trend is for that figure for management and administration to increase, to £109 million by 2006-07, which constitutes a higher percentage of the total spend. Has the whole efficient government agenda just passed you by?

Iain Carmichael (Scottish Enterprise): Absolutely not. We have targets for the efficient government agenda that we have agreed with the

efficient government unit, which we are on course to meet. Those are set out in the documents that you have.

Let me make two points on management and administration. First, the way in which we account for management and administration means that it is not all support or overhead costs; it includes the costs of staff who directly deliver our activities. The main reason for the increase is the increase in the cost of living. Secondly, there will be pay reviews for our staff and we face a significant increase in our pension fund contributions. We are just finalising the triennial valuation of our pension fund. At the moment, the minimum increase in our pension fund contributions looks to be about 8 per cent, although it may be more than that.

The Convener: Did you say 80 per cent?

Iain Carmichael: No, 8 per cent.

The Convener: Per annum?

Iain Carmichael: Per annum.

Murdo Fraser: I see. I note that your staff numbers are also due to increase, albeit not substantially.

Iain Carmichael: The two main reasons for that are an increase in the number of our overseas sales staff and our investment activity. The committee was recently given a presentation by Gerard Kelly on our investment activity, which is increasing significantly both through the Scottish co-investment fund and the business growth fund. We are also working on a new Scottish investment fund, which we hope to take to our board for approval at the end of the year. That increasing activity requires more staff to manage it. In our annual audit this year, we were criticised by Audit Scotland for not having enough staff monitoring our investment portfolio, which is now significant. Those are two direct increases in our activity that we need more staff to deal with.

Murdo Fraser: Okay. Can you give me an assurance that, despite the figures that we have before us, Scottish Enterprise is committed to being part of the efficient government programme?

Iain Carmichael: I give an absolute assurance of that.

Christine May: Good afternoon, gentlemen. I want to ask about something that has been fairly topical recently—the level of alleged financial control from the centre over the intermediary technology institutes and the level of alleged reductions in the anticipated budgets for those arm's-length organisations. Are you prepared to comment in detail on that issue?

15:00

Iain Carmichael: Although it has been alleged that the ITI budget has been reduced, Scottish Enterprise has neither had any discussions about nor taken any decisions on that matter. Indeed, in our budget plans for last year and this year, we met every funding request that the ITIs made, and this year we have set aside the funding that was agreed with them at the outset.

It has also been alleged that Scottish Enterprise sent back the institutes' operating plan for reconsideration. Scottish Enterprise is concerned not only with operating efficiently—as I said in response to the previous question—but with ensuring that the arm's-length bodies that it funds do the same. Because we were concerned about the ITIs' overhead costs, we asked them to look at the matter again. However, as I said, we have neither underfunded the ITIs nor taken any decision to reduce their funding.

Christine May: I recollect from my involvement with Scottish Enterprise that the funding for the three ITIs is £45 million a year for 10 years. Is that still the case?

Iain Carmichael: Yes. There has been some confusion on the matter. You are absolutely right: the funding is £45 million a year for 10 years or £450 million over 10 years. That said, it is unrealistic to expect that organisations such as the ITIs will operate on a smooth budget throughout that period, and the funding might have to go above £45 million in some years and below £45 million in other years. However, that is still our commitment to the ITIs.

Christine May: It has been alleged that certain projects could have been funded if money up to £15 million for an individual ITI had been made available.

Iain Carmichael: I am certainly not aware that Scottish Enterprise has rejected any funding requests that the ITIs have made for projects.

Christine May: I turn to allocations in various sectors of the budget. Last week, on a visit to Finland and Sweden—half of the committee has also visited Germany—committee members heard a lot about the effectiveness of increasing government spend on research and development to lever in significantly higher levels of private sector R and D expenditure. Such funding is quite low in this country. After your examination of the historic budget spend in this area and the potential for switching between budget heads, what advice are you giving to your board on its ability to increase R and D spend?

Charlie Woods: You are right to say that Scotland needs to increase the amount of business investment in research and

development. Indeed, the ITI programme was partly a means of addressing that issue. In recent years, other activities have been developed such as R and D plus, which can provide up to a quarter of the costs of R and D projects in large and small companies. Such activities increasingly form part of the programme.

We will place more emphasis on this area. Indeed, it is a focus for much of our work with key industries such as the life sciences industry, which is very much increasing its level of R and D and commercialisation in Scotland. Such an approach is fundamental. Moreover, resources from the high growth start-up unit and the co-investment fund will help to increase the amount of research and development and its commercialisation.

Christine May: Given that the envelope of your budget is known, the converse of any spending increase must be a reduction in spend elsewhere. What aspects of current spend are you recommending to the board should receive less investment?

Charlie Woods: There are several aspects to that question. First, in our guidance to the different parts of the organisation we emphasise that we must always try to maximise the amount of leverage from private and other organisations.

Returning to the question on efficiency, we look at ways in which we can deliver services such as support for volume businesses more efficiently. We will also be focusing more on the strategic regeneration projects and less on some of the smaller-scale impact projects, examining how we target our support for training activity and trying to relate it to the needs of industry, and focusing less on some of the activities that have more of a social dimension.

That gives a flavour of the sort of things that we would expect to be doing. The most important thing is to use the resources that we have to try to stimulate more investment. The issue is not just what we spend, but how we use the money to stimulate more investment from others.

Christine May: Do those considerations include an examination of, and a possible reduction in, the number of local enterprise companies?

Charlie Woods: We are always looking for the most efficient ways of doing things, but we balance that with trying to do them as effectively as possible as well as understanding the economic potential that exists in different parts of Scotland.

Christine May: Is that a yes or a no?

Charlie Woods: We are always looking at how to do things as best we can. I am not deliberately trying to be evasive. We are always trying to see

how we can do things more efficiently and as effectively as possible.

Christine May: I am sure that you are not deliberately trying to be evasive, but I suggest that you are succeeding.

Charlie Woods: I am sorry.

Fiona Hyslop: The layout of the explanations of funding is extremely helpful. The committee is to be commended for asking for it and Scottish Enterprise is to be commended for providing it. It is helpful for us to be able to see what your strategic work is and where the funding goes.

Learning and skills are a key area of concern, especially when we consider the figures for young people who are not in education, employment or training. I am struck by how your operational activities concentrate to a great extent on older teenagers. One of your priorities is:

“Help young people to realise their potential by targeting those at risk from dropping out.”

That priority is also in the Careers Scotland budget. By its very nature, Scottish Enterprise is expected to focus on those who are in work or who are labour force drivers, but if we are to make inroads into the figures for those young people who are not in education or training, we must work with pre-16s. Careers Scotland also faces the frustration that it is dealing not with those who are in work, but with the recruitment. To what extent is there a crossover between the Education Department and Scottish Enterprise in the delivery of that key strategic theme?

Charlie Woods: That is a good point. We must have regard to joining up our activities as much as possible with other players in the public and private sectors and ensure that the activity that takes place when people go into work links with other activity that is taking place.

You say, quite rightly, that Careers Scotland's work in schools is an important dimension. That links back to the first question. Part of the management and administration costs will include all the staff of Careers Scotland, which is, by its nature, a very staff-intensive operation. There is not much project budget for Careers Scotland; most of the budget is for people who give advice and work with young people to guide them towards the most appropriate career choice. I agree with your general point that we have to tie the work that is funded under that budget closely to the budgets for education and the like.

Fiona Hyslop: There are concerns and frustrations within Careers Scotland, as you will appreciate. The organisation's completely work-based strategy could fly in the face of the internal stresses and strains of the different cultures, as well as the attempts to achieve a strategic output. I

would expect Careers Scotland to be concerned with changing the figures for young people who are not in education or training, but the budget line even mentions the operation of the Scottish labour market. Those aspects do not necessarily meet.

When we consider spend, one of the challenging questions that we are asked is whether the correct budget line is with the correct operation and whether there should be any shifts or movements. There are concerns about the operation of Careers Scotland that would also reflect on how we are delivering on education, training and employment. I am not sure that the focus—budget wise or policy wise—is actually on that.

Charlie Woods: I take your point, which is reasonable. Much of Careers Scotland's project work appears under the “Improving the Operation of the Scottish Labour Market” heading, but much of its staff budget will be focused on the “Ensuring Our Young People have the Best Start” heading. We can certainly make that clearer.

Susan Deacon: I want to ask you, as I asked the minister in a previous session, to comment on some wider aspects of the budget process. My questions flow from a number of points that colleagues have raised. In my time in the Parliament, and certainly over the past few years on this committee and, dare I say it, even more so on the other committee on which I sit—the Audit Committee—it strikes me that when we sit in the same room as representatives of Scottish Enterprise, we tend to consider quite narrow aspects, both of spend and of activity, and sometimes we do not get as much opportunity as we all might like to have broader-brush, strategic conversations. In the context of the budget deliberations, can further improvements be made to the presentation of the information that we see before us that would help to facilitate strategic conversation?

You have made repeated reference—rightly, in my view—to the agency's wider role in leveraging in funds from others in the public and private sectors. You also made the point, as have colleagues, that many agency objectives are interdependent with the spending activity of others elsewhere. Despite the improvements that have been made, however, I feel that there is still an extent to which our eyes focus in on some of this deliberation rather than out, which I think that we all long to do. Can you suggest improvements to us for the future? The Parliament is always searching for improvements.

Charlie Woods: That is an interesting point. The table that we have been looking at—my copy is rather scribbled on—is designed to point out the broad-brush, strategic challenges and the big economic indicators that need to be addressed. The table is designed to show the sort of things that we are doing and the sort of money that we

are spending; it focuses down to that level of detail. We probably need to include—not in this table, obviously—the important dependencies of others. In our operating planning documents, we try to allude to the important dependencies that others will have—for example, to investment in transport, water, education and the like.

A table such as table 1 very quickly becomes a narrow focus on what we are doing to contribute to the whole. We should be able to find a way of illustrating what others are doing to contribute to that, because our work alone will not achieve the overall objectives that we want to achieve for Scotland.

Susan Deacon: Perhaps my next question ought to be put to the minister, but I would welcome your comments. Let us consider one objective from the table—for example, “Ensuring Scotland is a Globally Attractive Location”. The table gives a series of major infrastructure and regeneration projects as examples to illustrate the kind of work that is under way. Where else could the committee look for public and, what might be more difficult, private sector activity to take forward the objective? You mentioned your operating plan, which does a bit more of that. What could the committee do to give us that kind of perspective?

15:15

Charlie Woods: I am not sure whether this answers your question but, as you know, the overall strategic and policy guidance from the minister under which we operate is “A Smart, Successful Scotland”, which was refreshed last year. One of the things that that document tried to do more explicitly was, while remaining as guidance and direction for the enterprise networks, to become more of an enterprise strategy for Scotland, with the minister looking to colleagues to address some of the issues and objectives that are identified in the document in the work that they do. The route into that might be to look at the various initiatives in “A Smart, Successful Scotland”, such as that which you have mentioned, and to ask what other contributions are being made to that work by other Executive departments.

Each year, as part of the operating planning process, we have a discussion with colleagues in the Executive and with wider policy interests throughout the Executive to ensure that we are responding to the policy challenges that others face and that others are responding to the challenges that we face. That is probably the way into it. Our board is very strong on emphasising that we have to have regard to the dependencies on what other people are doing, which will determine whether we can make a success of our objectives.

Susan Deacon: Does the exercise that you have just described take into account work and spend at local authority level, not just work and spend at national level?

Charlie Woods: That is captured primarily in the work that is done with the local enterprise companies through community planning and local economic forums. That is the main forum in which such work would be captured.

Shiona Baird: Everyone is becoming increasingly aware of how dependent we are on having a healthy environment for absolutely everything. In the great big spreadsheet that you have given us, the reference to sustainable development comes in a little note at the end. I am aware that the Executive deals with sustainable development as a cross-cutting issue, but how can we assess the emphasis that the enterprise companies are putting on sustainable development if it does not appear in the budget in some sort of format? I do not know how you would include that, but we are increasingly dependent on sustainability so it needs greater recognition.

Charlie Woods: Absolutely. I understand what you mean. Within the operating plan that we publish, we try to draw attention to that. As far as we can, we mainstream the cross-cutting issues into the guts of our activities rather than treating them as an add-on. For example, in the pursuit of the green jobs strategy, a lot of the work of ITI Energy will be on looking at the opportunities that exist for renewable technologies and the like. Much of the work that is being done by our account managers will relate to the whole issue of increased resource productivity, reducing the amount of inputs that firms are making and increasing productivity. There is a win-win situation in trying to increase the productivity of the economy as a whole and using fewer resources in achieving that.

Generally, we are trying to embed sustainability in what we do. Equally, however, we must be sufficiently transparent to enable somebody who wants to look at our budget from the perspective of the environmental development agenda to do so. That is what we are trying to do, more and more, through the operating plan. That applies to some of the other cross-cutting issues, such as equal opportunities. One of the things that we will take away from this meeting is the need for us to endeavour to ensure that the budget is more transparent. In this presentation and in others, we are trying to be transparent about what we are trying to achieve and what we are spending in order to achieve that.

The Convener: Can we return to the issue that Christine May raised about the ITIs? As you know, we are undertaking an inquiry into business growth and we received evidence from the ITI

chief executives—all three of them—since when two of them have resigned. The presentation was very upbeat. The chief executives told us, for example, that they had enough deals to use up the money that had been allocated to them for this year and next. We realise that you do not start at £15 million—you have to ramp up. They were so optimistic that they reckoned that by the end of the 10-year period they would have become almost entirely self-sustaining and they would not require any public funding. That would please your chairman, because it would reduce substantially the size of the public sector contribution.

Therefore it was depressing, to say the least, to read in *Scotland on Sunday* that Shonaig Macpherson, the overall chair of the ITIs, is having crisis meetings this week with senior officials—presumably that includes both of you—amid a funding crisis and the resignation of three top executives. The article says:

“It has also emerged that a large international stem cell research project has been put on hold because of the ongoing row”—

between the ITIs and Scottish Enterprise—

“over the budget.”

Is that true?

Charlie Woods: Certainly not to my knowledge.

Iain Carmichael: I am not aware of it. Shonaig Macpherson is coming to the Scottish Enterprise board on Friday to discuss on-going issues. That is not a crisis meeting; it was scheduled before the resignation of the two chief executives and the recent press speculation.

The Convener: You can understand why we want to get to the bottom of that. We also want to understand why we have lost two of the three chief executives, plus the chairman originally. I do not believe that that is entirely accidental.

The article talks about relations between Scottish Enterprise and the ITIs over the budget, which seems to be the key issue. It says that relations broke down

“after Scottish Enterprise demanded ITI Life Sciences repay the £25m on its biggest project”,

which is with Inverness Medical Innovations. Is that true?

Iain Carmichael: I am not aware of it, but Charlie Woods and I are not involved in the day-to-day management of the relationship with the ITIs.

The Convener: Yes, but you are the finance director.

Iain Carmichael: I am not aware of that issue.

The Convener: So you think that that is not true.

Iain Carmichael: It sounds unlikely.

The Convener: The article says:

“ITI Life Sciences has to repay £7.5m this year out of a total budget of £15m”.

Is that true?

Iain Carmichael: I am not aware of it.

The Convener: If it is true, I would appreciate it if you would let us know. That is important, because one of the key areas that you and the committee have identified is R and D spend in Scotland. If we are to achieve all that we are trying to achieve, we must boost that R and D, and ITIs are the flagship programme for doing that. If there is a real problem—I would say that losing two chief executives is an indication that there may be a problem—we must know about it and action needs to be taken to sort it out.

The article contains the major allegation:

“The other ITIs—Energy and Technology/Media—are also feeling the pinch, according to ITI sources. Their budgets, originally set at £15m ... per year, now include operating costs, and the three ITIs have been asked to find £1.5m of cost savings this year.”

It suggests that the original budget was all for research and not for part of the operating costs. Have the ITIs been asked to find £1.5 million cost savings? Were the overheads part of the original budget? Christine May asked about spend, but we are really interested in how much is spent on research. We are also interested in ensuring that the overheads are kept within reason.

Iain Carmichael: The £45 million a year—or the £450 million 10-year budget—included the running costs of the ITIs. That was the total budget that was agreed at that stage.

The Convener: Out of the £450 million, how much was set aside for operating costs?

Iain Carmichael: The ITIs are arm’s-length organisations, so it was for them to determine how they would operate, but they had to satisfy us that they were operating efficiently. The £1.5 million efficiency saving was offered by them in the first instance, not demanded by Scottish Enterprise.

The Convener: Did that come out of the research—

Iain Carmichael: That was to free up funds for the ITIs to spend on research. It would have reduced their running costs and allowed them to spend more of the budget allocation on projects.

The Convener: So it would have been an internal reallocation within the ITIs.

Iain Carmichael: It would have come from internal efficiency within the budget, yes.

The Convener: To the best of your knowledge, therefore, the story that appeared in *Scotland on Sunday* is nonsense.

Iain Carmichael: It sounds as though good bits of it are. We are not involved in the day-to-day management of the ITIs. We should take away the questions and give you definitive answers. The questions will be easy to answer after Friday's meeting, when Shonaig Macpherson comes to the Scottish Enterprise board. It is clear that there is speculation in the story.

The Convener: For our work on the budget and our inquiry into business growth, it would be helpful if we got formal answers to the questions after the board meeting on Friday, so that when we see Jack Perry in two weeks' time we are much clearer about what is happening. It would be of great concern if the ITIs were to fall by the wayside, given their importance in the R and D strategy.

Iain Carmichael: At the six-month point in the current financial year, the ITIs had drawn down slightly less than their budget allocation for the period, so they have not run out of money.

The Convener: But that may be to do with the timing of deals and a range of issues.

Iain Carmichael: Yes, but they have not run out of money.

The Convener: So to the best of your knowledge, the story is not true. I am glad to hear it.

Over the past 15 years or so, Scottish Enterprise has spent roughly £6.5 billion of public money. If the 13 key performance indicators of the Scottish economy are benchmarked against those of the Organisation for Economic Co-operation and Development countries, there is only one—I think that it is the number of employees who are in training at any one time—in which we are in the first quartile.

Charlie Woods: And exports.

The Convener: What about the other 11 indicators? As a country, we spend a lot of money on Scottish Enterprise. To be honest, none of the key four or five original strategic objectives—on R and D spend, business birth rate and whatever—has been achieved. On most measurements—on productivity, business birth rate and whatever—we have been pretty static over those 15 years. What will you do differently in the next 15 years that will impact on those performance indicators?

Charlie Woods: That is a big question.

The Convener: It is a big question to answer in five minutes.

Charlie Woods: You highlighted the measurement framework for "A Smart, Successful Scotland", which is an important part of setting the landscape within which we work. There is no question but that the whole area of stimulating business demand for R and D skills is crucial. That is the area in which we tend to bat around the third quartile relative to OECD performance. On the global connections side, there is a combination of measures. Some are more towards the top end and some are around the third quartile. On the skills measures, by and large we are towards the second top quartile of OECD performance.

Over the past four or five years, some of the trends have been encouraging, in the sense that they are moving in the right direction relative to other OECD countries. That could sound a bit complacent, and we recognise that significantly more has to be done, not least because the rest of the world is not standing still. We are not aiming at a static goal. Using the resources that are at our disposal to stimulate more business investment in research and development and the other aspects of investment that are critical to the performance of businesses, and hence the economy, is fundamental to what we must do in the future. We do that by trying various things. We have to be at the cutting edge. Innovations such as R and D plus, the ITIs and the high growth start-up unit have all been implemented over the past few years to address the issues and to have a bigger impact. They are built on the results of evaluations and on learning from how programmes work, but they are also built on looking at what others are doing, which is a key part of the process.

The Convener: According to your own figures, you are spending £2.5 million on R and D plus. That is peanuts in relation to what is required.

15:30

Charlie Woods: Absolutely.

The Convener: That brings us back to Susan Deacon's point. We need to know whether another £20 million or another £10 million is being leveraged, how many jobs are being created and what impact there is on overall R and D spend. If we are to make a proper assessment, the linkage between those 13 performance indicators and the money that you spend has to be clearly established.

Charlie Woods: Absolutely. We, and organisations like ours throughout the world, are trying to do that. We are trying to make that connection between our input and the final impact. In the past couple of years, we have begun to pay much more attention to that, looking not just at the

outputs that we achieve but at whether those outputs are having an impact on the outcomes and on the economy. To some extent, R and D plus is a demand-driven programme. If you can begin to get the demand driven by industry to do more of that stuff, we will respond. At a minimum, the leverage ratio for that would be 4:1, but in many cases it would be more than that. Leverage ratios in the co-investment fund are around 4:1, or something of that order of magnitude, so as far as business investment is concerned that is the sort of leverage that we would be looking for.

You have put your finger on the point. Having an impact on business investment demand is critical to us. Increasingly, it is a matter of working with the indigenous base within Scotland as well. It is also a question of looking for opportunities to attract investment from outside, wherever possible, and to combine that with some of the opportunities that we have in Scotland. More and more, it will be dependent on our making the most of our own skills and resources. In answer to Susan Deacon's earlier question, that is a good case in point. We are trying to work more closely with the university sector and its funding council to ensure that research that is being done in Scottish universities is commercialised more than it is at present. That is the sort of thing on which our future will depend.

The Convener: I am sure that we could spend another two hours talking, but we do not have time, unfortunately. I thank both witnesses and I look forward to receiving a response from them next week after Friday's board meeting.

We now come to our third panel of witnesses. Once we have finished this session, I intend to have a five-minute break before the minister comes. I welcome, from Highlands and Islands Enterprise, Forbes Duthie, who is director of corporate services, and Sandy Brady, who is director of strategy. Before I hand over to them, I should point out that today is the 40th birthday of the Highlands and Islands Development Board and its successor, Highlands and Islands Enterprise. Happy 40th!

Sandy Brady (Highlands and Islands Enterprise): Thank you very much.

The Convener: Where is the party?

Would you like to say a word or two of introduction?

Sandy Brady: I will do so briefly, taking my lead from Charlie Woods. Having considered the discussions that the committee held last year about the desire for a further breakdown of the figures for the enterprise networks, we have tried to do that in a format that is broadly similar to what Scottish Enterprise offered you earlier.

I have a couple of points to make about the Highlands and Islands Enterprise network. We are similar, in many respects, to Scottish Enterprise, our big sister agency, but the main difference is one of scale, and that may emerge in the questioning. We are dealing with half of the geographic area of Scotland, but it is an area that contains only 9 per cent of the population, so we are dealing with a sparsely populated area and the intensity of our work, effort and deployment of staff and programmes reflects the kind of area that we work in.

Like Scottish Enterprise, we take our strategic framework from "A Smart, Successful Scotland". Because of the difference in scale of the Highlands and Islands, we have developed, as we did in 2001, a little sister version called "A Smart, Successful Highlands and Islands". The DNA of the two documents is very similar. However, we try to say in our document a little bit about what we feel will be required to build on the relative success of the Highlands and Islands over the past 40 years. We are not just looking at the medium term but, as our chairman says, casting an eye further forward, perhaps into the next generation, to see what might be required to achieve a smart, successful Highlands and Islands region that is truly sustainable.

The Convener: The area that is covered by the agency has experienced a net increase in population. Ten or 20 years ago, there was severe unemployment throughout the region, but now there are pockets of severe labour shortage.

The Irish witnesses to our business growth inquiry identified four contributing factors to the growth of their economy. What are the top three or four contributing factors to the turnaround in the economy of the Highlands and Islands?

Sandy Brady: The turnaround is spectacular at the overall regional level, but it is not uniform across the area. Areas such as the inner Moray firth have done exceedingly well; others are lagging behind.

There are several factors. One is the diversification of the economy. There are now types of activity in the Highlands and Islands that simply did not exist 10, 20 or 30 years ago. They include industries that have established themselves in the region and are now part and parcel of what we do.

In the primary sector, salmon farming is, in effect, a new industry. It is experiencing some troubles at the moment, but it is an industry that we did not have a generation ago. The health care cluster that we are developing is a phenomenon of the past 10 years, which has created high-quality employment in the area.

We have also seen the fruits of a continuous policy framework in the Highlands and Islands. There has been a successive commitment not just by HIE and the HIDB but by local and central Government to creating the conditions that will turn the economy of the area round. It does credit to everyone who stuck with it over the long term.

Other factors have come into play. North sea oil gave a major boost to the area in the 1970s, 1980s and 1990s. It brought a great deal of income to both central and outlying communities. Much of that money was reinvested by the people who worked in the oil sector in building a life in the area.

There has been an appreciation of quality of life. The region has attractive features that, although available in other rural areas, exist in a greater mix in the Highlands and Islands. The region has a rich natural heritage; it has an attractive scale of settlement; its countryside is easily accessed; and it provides cultural and arts facilities. It also has its own distinctive attractions—the Gaelic language generates employment in the Gaelic heartlands.

Those are some of the factors that have helped to turn the economy of the Highlands and Islands round.

Susan Deacon: I would like to ask about the development of information and communications technology links. As one who has spent all her life in the central belt, I am always struck when I visit remote communities in the Highlands and Islands by the potential that e-communications have in those areas, whether for businesses or individuals. Therefore, I was surprised to see in your submission that relatively small sums—although perhaps I am judging the scale wrongly—are being invested in the development of e-business and in connecting with the rest of the world, under the global connections heading. This is an area for which I have a particular enthusiasm. I was struck when on a family holiday last year to Unst, Scotland's most northerly island, by the developments that were taking place there. Those developments had all kinds of economic, social, and sustainability impacts. Investment in technology at that level is critical. What are you doing in that area?

Sandy Brady: We fully agree that digital telecommunications have been one of the most important factors in shrinking distance in the Highlands and Islands over the past few years. Our first investment was in ISDN, which is now old hat as far as technology goes. In its last few years, the HIDB decided to invest £5 million in bringing ISDN to the area. At that time, Sir Bob Cowan faced some criticism for that—people asked what ISDN was for and argued that there should be a concentration on more traditional forms of infrastructure, such as transport. Transport and

technology are not mutually exclusive areas when it comes to spending, of course. The people who made that decision had the courage of their convictions and the provision of ISDN gave the area a significant boost.

Since then, there have been successive waves of investment in technology, the most recent of which was in broadband. If the figures in our submission do not do justice to the extent of our investment, I assure the committee that we have put a lot of money into broadband and are on course to meet the target of 100 per cent coverage for all significant communities by the end of this calendar year. That has been achieved thanks to European structural funds and investment by us and by the telecoms providers. Some of the technical problems of taking that technology to the last glen and the last island have been considerable, but we felt that overcoming those problems was worth the investment that was required, because broadband shrinks distance and puts communities and businesses in extremely remote parts of the Highlands on a level footing. Having broadband will not overcome physical distance or transport costs, but will enable people in those areas to trade and to operate in a world in which such technology removes distance as a factor in the equation.

Susan Deacon: That is helpful and interesting. What you have said ties in directly to a piece of work that the committee undertook on the roll-out of broadband. I recall that, during that inquiry, we had extensive deliberations on what needed to be done to provide the final 1 per cent or 2 per cent of the population with broadband. From what you are telling us, is it fair to say that that box is almost ticked?

Sandy Brady: I would say that the box is almost ticked. It helped that the Executive showed a national determination in the Parliament to ensure that broadband technology would be available to Scottish citizens. That was an important symbolic decision and although converting it into reality has not been easy, the current technology has meant that it has been doable. The lesson of history is that although we have already invested, the likelihood is that we will have to reinvest in the next generation of broadband because, as happened with ISDN, the technology moves forward and we would lose our competitiveness if we did not make further investments. As a rural area, we will continue to ensure that we are as far up the technology curve as we can get.

Susan Deacon: In relation to the budget lines that I highlighted earlier, if I understand you correctly, you are saying that investment in that area would have been more sizeable in previous years, for the reasons that you have outlined. We know that, in general, the take-up of broadband

still needs to be encouraged. Is take-up more or less of a challenge in your area than it is in other parts of the country? Can you benchmark for us the extent of the challenge that is faced in the HIE area? Are the sums of money that you identify in your submission being used to address that or is the matter being dealt with through some other activity or in someone else's budget?

Sandy Brady: After saying a bit about the uptake, I will ask my colleague Forbes Duthie to talk about the expenditure.

The uptake is good. Although we are behind the Scottish national average at the moment, we are moving forward rapidly and the uptake is particularly good in those areas in which a good-quality broadband service is available. We still have areas in which that is not the case and in which uptake is relatively modest. However, the curve is steeply upwards. We have been working with our local enterprise companies and with the telecoms providers to mount publicity campaigns around the area. The first one, which we ran about 18 months ago, was about getting people to sign up for broadband. It sought to get people to express an interest in having broadband. We are now working hard to convert some of that interest into usage of the technology. The picture is encouraging, but I will not pretend that we are more than a third of the way up the curve. We must move further forward because there is no point in spending all that money on the technology unless people in the area use it daily.

Forbes Duthie (Highlands and Islands Enterprise): On the spend, we set up a scheme that enables companies to apply for grants to get broadband. To be honest, the uptake has been quite slow, but we still have a large amount of residual funding for that, which is contained in the budget.

15:45

Richard Baker: I will ask a couple of questions about progress with the UHI Millennium Institute. I noted that it features prominently in one of your key operational activities for 2006-07, which is the commercialisation of research, for which you have allocated £1.1 million to the UHI research strategy. However, it does not feature in your key operational activities on skills and learning. Why is that? What are your general feelings about the pace of development of the project?

Forbes Duthie: The budget for UHI is fed over several years, which is why only a small portion of the budget is shown for this year. The spend this year is only £1.6 million, but the total spend will be in the order of £5 million to £10 million in the next five or six years.

Work with UHI on research and development is close to the heart of what we want. Our chairman

outlined this morning that HIE wants the R and D part of UHI to make it a successful university and not just one that achieves title and academic success. It must have research success to make it key to the area. All successful small regions have at their heart a successful university. Achieving that is an intrinsic part of HIE's strategy.

Sandy Brady: One of the university's key objectives is to attract people to live, study and work in the Highlands and Islands. It may encourage some youngsters from the area not to go away to the more traditional universities elsewhere, which is fine, but that is not its primary purpose. We would still expect young people from the area to go off to the traditional universities in the rest of Scotland or further afield.

The Highlands and Islands have lacked the vibrancy of a student population. The UHI model is intended to build on the network of colleges so that that vibrancy does not just come from a student body in Inverness but is scattered around the 15 or so locations of the colleges in the Highlands and Islands. That will be one of the most important ways to attract youngsters to the area.

The region's demographic has a gap of about 10,000 youngsters in the 18-to-25 age group. That is a measure of the number of young people who go away for higher and further education elsewhere. In the long run, if UHI can help us to close that gap wholly or partially, that will be the major contribution of its teaching side.

Richard Baker: Are you satisfied with the pace of the project's progress towards achieving goals that seemed to be only round the corner when I was first involved in the project as a student leader in 1998? Now I have been elected here, unfortunately—[*Laughter.*] It is not unfortunate that I was elected here—although others may feel that it is—but it is unfortunate that we are still discussing objectives that we thought were much closer to achievement.

Sandy Brady: There is broad satisfaction with the pace of the project. A huge volume of investment has been made. The Millennium Commission invested a very large sum in UHI, we have put in a large amount of money and the European regional development fund has also contributed, together with the Scottish Higher Education Funding Council, the Scottish Further Education Funding Council and the Scottish Executive. A huge set of partners has put money into the project and given it serious commitment and we have made progress. Investment has been made in all colleges and some of its results are striking. For example, several mini-campuses around the Highlands and Islands have brand new, purpose-built facilities.

We have much more to do. A great milestone on the road is 2007, when it is hoped that UHI will acquire title. Three existing Scottish universities are assisting it in going down that route. However, the job will not be finished after that. The job will continue of investing in and building up physical facilities, academic staffing, student numbers and—critically—the research base. I suspect that that will involve significant investment over a further 10 to 15 years to reach the scale that gives us the university of the Highlands and Islands to which people aspired in the 1980s and 1990s.

Christine May: I will continue the UHI theme. The Highlands and Islands have what most other regions in Scotland and probably the UK do not have—the opportunity to be associated with a higher education institution from the outset. When we were in Sweden and Finland, we heard about the importance of the tripartite relationship between Government, universities and industry. What steps are you taking to build such a relationship in advance of 2007?

Sandy Brady: We have a number of initiatives in which UHI is involved that are taking us down that road. As part of the health cluster to which we referred, UHI is a full partner in the centre for health science that is being built in Inverness. The centre will take forward our aspirations for rural health care, which are not simply to have a facility in Inverness but to have a centre of research and excellence that will develop a number of aspects of rural health care that are very important to the Highlands and Islands and other rural areas. UHI is a full partner in that work. We see health care as being one of the specialisms that UHI will build up.

Marine biotechnology is another area that we are taking forward. We are building up the research that is being undertaken by the Scottish Association for Marine Science at the marine laboratory at Dunstaffnage, near Oban. That research has made a very exciting beginning and UHI is a partner in that initiative. Dounreay decommissioning is a third area on which we are working and in which UHI is involved in a number of ways. We aim to create not only expertise for Dounreay but wider decommissioning expertise, for which there is an international market.

We are very clear that we are not just building up the fabric of UHI as a higher education institution but building up the centres of excellence within it that will give it its name.

Christine May: You did not say what you are doing to develop the confidence of business in those institutions. Can you talk a little about that?

Sandy Brady: That work is at an early stage. There are a number of examples in which private companies are involved, the most obvious of which is Lifescan Scotland, which is part of the

centre for health science and which has helped to put funding into a chair of research. That is exceedingly helpful.

Although it is at an early stage, we have also got other forms of private investment for a number of schemes. One of our difficulties is that R and D are not yet deeply rooted in the small business community in the Highlands and Islands. Part of the challenge in that regard is to develop the R and D capability of UHI and, in parallel, that of our small and medium-sized enterprise sector. Clearly, we are dependent on a large number of relatively small businesses, which means that we struggle with regard to R and D. Increasingly, however, we are beginning to see a small number of potential successes, on which we need to build. UHI will be a partner in almost every case.

Christine May: My final question actually relates to the budget. Like Susan Deacon, I looked down the expenditure headings in your submission. I note what you say about the development of community strengths, leadership and confidence, which comes under the strengthening communities heading. I accept that the anticipated spend is relatively low to begin with, but the actual spend is even less than that. What is the reason for that? For example, were too few applications made for European structural funds?

Forbes Duthie: That may be the case. Strengthening communities is an area in which the budget is often quite difficult to manage. Communities move at different speeds as they try to put together various bids and initiatives. We have to do a lot of hand holding to get the spend through—the work tends to be quite labour intensive. Our aspirations for the budget at the start of the year are sometimes quite difficult to manage as the year progresses.

Christine May: I have one more question. It is the same question that I asked Scottish Enterprise about identifying the areas that need additional spend. What advice do you give to your board on areas in which spending should decrease? Will you describe some of them?

Sandy Brady: As part of the roll-out of the strategy, an intensive set of workshops has been held for all the operating staff right round the entire network. We have been looking at the new areas into which staff feel we should go or areas in which we should extend our current efforts. The workshops have been exceedingly helpful; staff entered into them very enthusiastically and a raft of suggestions was made.

The committee will find a number of those suggestions predictable. They include putting more resources into UHI; redoubling our efforts in renewable energy to try to get that sector firmly

bedded; and doing something to attract population. Staff said that, if population attraction is a long-term aspiration for the region, we may need to be more actively involved in trying to attract more people to come and live in the Highlands and Islands. The growing number of eastern European workers in the area has been an important factor in our economy in the past two to three years. We need to harness that and ensure that people who come to the area are welcomed and made to feel that their economic contribution is important.

We came up with about half a dozen areas in which we are considering extending our efforts. If you asked me to put a figure on it, I would suggest that that will involve a 15 per cent to 20 per cent rebalancing of our efforts, so we clearly need to think about which aspects of our current activities will need to yield a little to allow the change to take place. We are engaged in that exercise. We are considering whether we can achieve our aims by sensible prioritisation and rationalisation and, so far, the answer from our operating units seems to be yes. We are not saying to them, "These are the 23 things that we will stop doing." We are saying, "Are you confident that there is scope to squeeze a little here and there to accommodate some more strategic interventions?" So far, the answer has been positive, but we are still in the process and we will report to the HIE board later this month on the latest stage.

Shiona Baird: Recently, I spent four lovely days in a self-catering cottage in Strathconon. It occurred to me that there must be a conflict between VisitScotland's aim of attracting visitors to the area and providing accommodation and your aim of encouraging people to go and live and work in the area. How do you resolve that conflict, given that you are so dependent on other agencies for providing the homes that people need?

Sandy Brady: It is a huge challenge. Housing is one of the constraints on population growth, although there are a number of others. We have done some research on successful rural areas elsewhere and we cannot find any examples in which broad progress in a rural economy does not go hand in hand with some degree of population growth. We are not talking about large numbers of people; our region has 430,000 people and there is an aspiration to increase that number towards half a million over a period of 20 years.

We are not talking about massive expansion, but we want to see population growth in every part of the area. It would be easier to achieve population growth if we focused solely on the inner Moray firth, but we do not want to do that. The success and growth of Inverness now have their own momentum. The challenge for us is to ensure not only that Inverness grows but that Stornoway,

Thurso, Lochgilphead and Campbeltown grow and, beyond that, that rural communities also grow, where it makes sense for them to do so. That has implications for infrastructure and planning policy, but in the most remote and sparsely populated areas it is population growth that underpins the viability of local primary schools and local services. We are not talking about despoiling large parts of the Highlands and Islands. We are being sensibly cautious in encouraging the turnaround of local populations. We particularly need to address areas in which the population is still declining—in those areas, we need to create the conditions that will allow more families to move in.

Shiona Baird: My second point is on the amount of money that is being put into the Arnish yard, which could be a concern. I gather that Ocean Power Delivery Ltd is building the Pelamis machines there as part of the Portuguese contract. You are dependent on local work in the renewable energy field, which is difficult to obtain. If Portugal insists on the Pelamis machines being built in Portugal, the yard will be vulnerable. How can you address such issues and ensure the continuation of the renewable energy industry?

Sandy Brady: You are absolutely right. The investment in Arnish is an important investment in the future of the economy of the Western Isles. There is no guarantee that the yard will be successful and will go on to become a major contributor, but we are straining every sinew to achieve that. We work closely with OPD and we are aware of the orders that are likely to be forthcoming in the coming months and years.

We are trying to ensure that the company is as competitive as it can be so that it gets a fair share of the work that is available both in Scotland and further afield. The economic benefits will then be captured for people in the Western Isles. It would be great to think that we could increase the number of permanent, full-time workers in the yard to the extent that people who left the islands would consider going back to live there because of the availability of secure, long-term employment. That is the aspiration, but there are no guarantees.

The progress of the renewable energy sector in the Highlands is exciting, but it has perhaps been less speedy than we might have hoped two or three years ago. However, we remain hopeful that the sector will be important and that, in time, it will involve a blend of technologies—not just onshore wind power but wave power, tidal power and so on. That is why, alongside the Arnish production investment, we are also putting money into the European Marine Energy Centre in Orkney.

Shiona Baird: I gather that there are six projects waiting to be tested at EMEC, which is encouraging.

The Convener: That completes our questions. I thank both witnesses for their submission and for answering our questions today. We look forward to our visit to Thurso in two weeks' time.

Sandy Brady: We are doing our best with the weather for you, but there are no guarantees.

The Convener: I am in favour of global warming on a November day like today.

16:01

Meeting suspended.

16:12

On resuming—

The Convener: We are still on item 4. The final panel is Nicol Stephen, Deputy First Minister and Minister for Enterprise and Lifelong Learning; Chris McCrone, head of the enterprise finance team; Jane Morgan, head of the enterprise networks division; Graeme Dickson, head of enterprise and industrial affairs; and Mark Batho, head of the lifelong learning group—all from the Scottish Executive. I ask the minister to open the discussion.

The Deputy First Minister and Minister for Enterprise and Lifelong Learning (Nicol Stephen): It is a great pleasure to be here to talk about the enterprise and lifelong learning budget for next year. The figures contained in the draft budget for 2006-07 include the resources that were allocated across all the Executive's portfolios resulting from the 2004 spending review.

Growing the economy is clearly not restricted to the Enterprise, Transport and Lifelong Learning Department. It is a key focus and the top priority across the whole Executive. There are a number of areas—transport is the most obvious—where direct spending on infrastructure can make a big difference to the business environment in Scotland. Our education spend in schools also makes a huge contribution to our future economic competitiveness.

All the key budgets that are associated with enterprise and lifelong learning and the future of our economy received substantial budget increases in the period covered by the 2004 spending review, which was positive news. Although the expenditure will contribute to a range of priorities, I am confident that it will play a role in promoting Scotland's future economic success.

I draw to the committee's attention the enterprise and lifelong learning budget plans in the budget document—the pages concerned are 93 to 110—which I am sure you have been considering carefully as the afternoon has progressed. Page 93 sets out the key targets that the department is

working towards during the 2004 spending review period. The work of the Enterprise, Transport and Lifelong Learning Department is focused on Scotland's economy and on developing its growth.

16:15

The largest part of the expenditure is on developing the long-term potential of individuals through lifelong learning; through further and higher education, now that the two funding bodies have merged; and through training, through the provision that is led by Scottish Enterprise and Highlands and Islands Enterprise. We also provide significant amounts of direct assistance to those who want to start or grow a business, and we develop policy and work with business to remove barriers to growth. However, the Enterprise, Transport and Lifelong Learning Department's focus is not just on spending resources; we want to create a more business-friendly and enterprising environment in Scotland. The money that we are now allocating to the determined to succeed initiative in our schools is important in that regard.

I turn to the figures in the tables. The following initial explanations may help on one or two of the points that stand out. Both table 6.03, on the Student Awards Agency for Scotland spending, and table 6.11, on "Other Enterprise and Lifelong Learning" spending, have the same note attached to the bottom of them, which advises of the transfer of £15 million for student support to the SAAS grants and bursaries budget line. The money was shifted from the "Miscellaneous" line of the "Other Enterprise and Lifelong Learning" budget spend for 2006-07 and 2007-08. That provision was made to meet our commitment to improve the young person's bursary, in particular, and I can answer further questions on it. It is important to draw your attention to that £15 million transfer.

I also draw your attention to tables 6.04 and 6.05, which cover the budgets of the Scottish Higher Education Funding Council and the Scottish Further Education Funding Council. Those tables were prepared before the merger of the two funding councils. In future years, you will not be able to make an easy comparison, as there will be only one budget line—the merged budget line—and you will be comparing the old budget lines of the separate funding councils with the new budget line of the new funding council.

The Convener: The budget paper that has been circulated to committee members is a SPICE paper, not the paper that you are quoting from. By all means quote the figures, but we will ask questions on the SPICE paper.

Nicol Stephen: Are the table numbers the same?

The Convener: No.

Nicol Stephen: They are completely different—that is unfortunate.

Christine May: I think that the figures are the same.

Nicol Stephen: Okay. The general point is the same. You have the level 3 figures for the SAAS spend. The £15 million transfer applies to that spend. I am sure that the point that I have made about the Scottish Higher and Further Education Funding Council expenditure is understood by everyone.

The final point that I want to make relates to the Highlands and Islands Enterprise budget. I will not quote from the table, but I draw your attention to the fact that it looks as though, from this year to next year, the HIE budget dips a bit. The reason for that is that an additional allocation of £7 million was made in 2005-06 only. If you compare the spend in 2004-05 with next year's proposed spend, you will see that there is an increase. I draw your attention to that extra £7 million for this year. The additional sums were £2 million for the Scottish land fund and £5 million for capital projects in 2005-06.

That is all that I want to say by way of introductory remarks. I am sure that there will be other issues, which I will do my very best to explain. I have scrutinised the tables and realise that, as always, it will be a frustration for the committee that some changes have been made. Those changes reflect changes in accounting procedures at Treasury level or changes that the department has generated, which make direct comparisons more difficult than ministers and the committee would wish. However, we are ready and raring to answer the committee's questions.

The Convener: Thank you. We should probably have made arrangements with your officials to ensure that we were quoting from exactly the same documents. We will ensure that that happens in the future.

I ask for clarification on the merger of SHEFC and SFEFC. One of the concerns that was expressed by representatives of both higher and further education when we merged the funding councils was that the respective budgets would not be protected. How much flexibility will there be now that there is a merged funding council? Will you allocate a total sum to the new merged funding council and will it be up to the funding council to decide how much is spent on colleges and how much is spent on universities, or will you make a distinction in your allocation between FE and HE or between the colleges and the universities, which is not exactly the same thing?

Nicol Stephen: The merged funding council is chaired by John McClelland. There has been

widespread support for the merger from students as well as from the FE and HE sectors. There will be sensitivities as we move forward. People will look for any subtle changes in balance and in emphasis, but I hope that, by bringing the budgets together, we are providing a greater opportunity to ensure that we can be more enterprising, more innovative and more effective in the overall spend.

An important challenge is to get the additional benefits that everyone expects from bringing the two organisations together. We will continue to monitor the situation. Initially, separate budget allocations will continue to be made to the new funding council—an allocation for higher education and a separate allocation for further education. We hope that, over time, the need for separate allocations may decline. In order to get the two sectors working more closely together, we might allocate some funding to encourage such co-operation. We can revise our approach over time but, initially, to give everyone the extra comfort that they need that the additional resources—both our universities and our colleges are getting big, real-terms increases in expenditure—go where they were initially intended to go in the spending review, we will keep the separate lines in the allocation that we make to the funding council.

The Convener: Will the funding council have enough flexibility—even now—to vire amounts between the allocations?

Nicol Stephen: The allocations are made by us. The funding council would have to come back to us if there was a desire to do that, and we would have to give consent.

Mark Batho (Scottish Executive Enterprise, Transport and Lifelong Learning Department): The funds are currently voted by the Parliament to further education and to higher education. As long as that continues, the matter would have to come back to the Parliament if the funding council wanted to vire between the different sectors.

Nicol Stephen: We could perhaps discuss the issue. I suggested that the lines may be merged in the allocation in future years, but if the committee has a view on the issue and wants to keep the lines separate we could probably do that. However, it would limit our flexibility if separate allocations were part of the budget vote. We all want to ensure that there is an approach that would keep the separate budget lines but encourage flexibility when a good case is made for virement or for the co-operative funding of projects.

The Convener: One—but not the only, or main, one—of the reasons why this committee's predecessor committee in the previous session, the Enterprise and Lifelong Learning Committee, recommended the merger of the funding councils

was to allow greater flexibility. For example, the funding of the UHI was complicated by the higher and further education silos. The Crichton project at Dumfries had a similar problem. It was thought that merging the funding councils would give a degree of flexibility—probably initially at the margins—to allow such projects not to be held up by funding being allocated to higher or further education silos with no flexibility or variability.

Nicol Stephen: I agree. There have been one or two college mergers recently and, although I am sure that this would not happen through a merger, there is a possibility that a university and a college might want to co-locate or work more closely together in future. If a significant level of resource was to be shared, it would be unfortunate if we had to allocate all the funding for such a package to either the college or the university. The message that I am hearing is that we want to avoid that sort of financial straitjacket and create flexibility. With the committee's agreement, I will consider that issue with Mark Batho and finance officials to ensure that we work out a way of best achieving flexibility. We will then explain to the committee how we intend to report on the matter at future budget meetings, to ensure that you are comfortable with the approach.

The Convener: We cannot progress too quickly on that front, because we must reassure people in the higher and further education sectors that they are not losing money, and we do not want to create unnecessary fights between the two sectors. However, the other longer-term strategic issue is about the amount of higher education that is now conducted inside the colleges. Although the funding councils were called the Scottish Further Education Funding Council and the Scottish Higher Education Funding Council, they were, in effect, the university and college funding councils, but a substantial amount of higher education is now provided in colleges. The longer-term strategic issues will need to be addressed if we are to get the full benefit of the merger of the funding councils.

Nicol Stephen: Correct. I hope that, over time, there will be an impact, not just on the organisations—the funding council, colleges and universities—but on our approach to student funding. I would like greater consistency in that approach. It is unfair that people get different levels of funding or support at age 16, 19 or 25 depending on their choice of college or university. I do not promise to change that overnight, but everyone would like a fairer and more consistent approach. In time, the changes will have an impact on student funding, too.

The Convener: Another issue is the difference in funding for part-time and full-time students. The evidence is that part-time students are at a relative disadvantage compared to full-time students.

Nicol Stephen: Exactly.

The Convener: Given that the OECD has identified that our competitiveness is weakest in the intermediate skills area, discouraging part-time students has a potential negative impact on the economy.

Nicol Stephen: The funding of postgraduate students also has inconsistencies. Many postgraduate courses prepare people for the workplace or are seen as a good stepping stone into industry. We must consider all those issues.

The Convener: Perhaps it is time to convene a committee on student finance.

Christine May: I want to pick up on the points that you made in your opening statement, minister, about creating a business-friendly environment. We still hear a view from industry about the labyrinthine bureaucracy in the Government agencies that are normally associated with your portfolio. For example, the budgetary reporting mechanisms allegedly make it difficult for the business-friendly environment that you talked about to be created. Will you outline what steps you are taking to be as hands-off as possible while ensuring that public finances are accounted for properly?

16:30

Nicol Stephen: One of my roles as the enterprise minister is to tackle bureaucracy throughout Government. That applies not only to the Scottish Executive, but to problems at UK or European level. Obviously, that must be handled sensitively, particularly our relationship with the UK Government. We do not expect the UK Government to criticise the way in which the Scottish Executive approaches such issues. However, when business and industry in Scotland have an obvious case, I am happy to carry the cause to Europe, where necessary. Therefore, it is doubly important for me, in terms of credibility, to prevent that sort of bureaucratic approach in the department that I have main responsibility for, which is the Enterprise, Transport and Lifelong Learning Department, and in agencies such as Scottish Water and the Scottish Environment Protection Agency, for example. If those issues still exist in Scottish Enterprise, Highlands and Islands Enterprise or wherever, I want to know about it, and I will do my best to respond. Where the criticism is fair, I want to ensure that we do our best to tackle that bureaucracy.

You mentioned the budget process. It is especially frustrating to find out that the Executive and the non-departmental public bodies that the department is responsible for use different financial accounting methods, which means that people cannot compare a budget total from the

department with one from Scottish Enterprise, for example. Nobody in business or industry understands the sense in that. We have to ensure that, if we must adopt differing accounting methods, there is some sort of reconciliation between the accounts that will make it easier for the committee and businesspeople who are interested in the spend of Scottish Enterprise—and there are a number of those people, particularly in the business organisations—to understand the situation. If there are bureaucratic problems in relation to grants or other forms of support, we must ensure that those are reduced or removed wherever possible.

Christine May: Over the past week, you will have seen the publicity about the ITIs and the alleged constraints that are being put on them by the need for accounts and operational plans to be submitted. Allegedly, there is undue interference in their budgetary processes. What steps are you taking to ensure that that situation is as simple, transparent and hands-off as possible?

Nicol Stephen: I support the ITIs strongly. They are part of an important initiative that is being undertaken by Scottish Enterprise, which is the body that developed the ITI funding mechanism and the general approach to ITIs, for which it is to be congratulated. I smile a bit when I see people such as John Ward and Jack Perry being criticised for being too hands-on in terms of their relationship with the ITIs because I know that they believe in the public sector allowing new initiatives such as ITI Energy, ITI Techmedia and ITI Life Sciences to deliver in a non-bureaucratic and highly opportunistic, enterprising and entrepreneurial way. It will be a number of years before those initiatives become fully successful, so they must be given time to develop. There is a big risk, but we always say that we in Scotland should be taking risks more often, in a measured and appropriate way.

I strongly support the ITIs and I want them to have the opportunity to deliver. All the ITIs have announced good projects and it concerns me when I hear that there have been difficulties. I do not know all the details relating to the allegations that were in the Sunday papers, but I read about them and I speak to John Ward and Jack Perry regularly. Indeed, I spoke to Shonaig Macpherson yesterday about some of those issues. I am sure that they will be resolved this week in the discussions between Scottish Enterprise and Shonaig Macpherson, in her role as the chairman of ITI Scotland, the overall umbrella organisation. However, it is not for me to intervene or get involved in the detail of the situation because it is principally a matter for Scottish Enterprise.

I hope that the approach that I have outlined gives you an indication of my views on the matter.

It is important that what is normally described as the dead hand of Government does not affect the opportunity of any organisation in the business sector to thrive and develop. I am sure that, under John Ward's leadership, Scottish Enterprise will ensure that that does not happen with the ITIs.

Christine May: Have you made that view clear to all the individuals involved?

Nicol Stephen: Yes, and not just in the past 24 hours or in the past few days. Since becoming the Minister for Enterprise and Lifelong Learning, I have discussed the ITIs on several occasions with all the individuals that I mentioned. I have made clear my support for the institutes and have met all the individuals involved in them. The view that I have just expressed is well known to John Ward and Jack Perry.

Christine May: I leave the matter at that for the moment.

Shiona Baird: The Executive regards sustainable development as a major cross-cutting issue. However, given that it could deliver significant savings under the efficient government initiative through better resource management, through reducing the amount of waste and demand for energy and through economic productivity, I find it extraordinary that it is not mentioned in any of the enterprise papers that are before us today. Indeed, given that sustainable development is rarely mentioned as a specific budget priority, how can we measure outcomes? Would it be better to make it a specific priority for the enterprise portfolio in general?

Nicol Stephen: The full draft budget document, which you do not have, contains a whole section on sustainable development. It states:

“Our commitment to nurture Sustainable Development will continue through the following:

- The Forum for Renewable Energy Development in Scotland ...
- Working to encourage participation in renewable energy projects by communities and local authorities ...
- The Executive's commitment to generate 40% of Scottish electricity from renewables ...
- *Going for green growth: a green jobs strategy*”.

That section continues over the page.

One of the absolute priorities for the enterprise and lifelong learning portfolio is investment in infrastructure to help business. Although that is partly to do with issues such as transport and broadband, a major part of it involves renewables and renewable energy. In fact, in one of my earliest announcements as Minister for Enterprise and Lifelong Learning, I adjusted renewables obligation certificates to encourage tidal and wave

power projects. A significant number of wind projects are proposed, and we have ambitious objectives not only for generating power but for reducing energy demand and consumption by business, which could make big savings.

We also support the household and community renewables initiatives and we allocate funding to kick-start some smaller-scale local microschemes. When that funding ran out, I secured an additional allocation to top it up and to ensure that the scheme remained open to the end of this financial year. That additional funding has also been announced.

I give very high priority to sustainable development; renewables offer huge opportunities not only to create a good and better environment in Scotland but, in relation to wave and tidal power, to do something on a global scale. The planet will need Scotland to be firing on all cylinders with wave and tidal power—although I realise that that might be a bad analogy.

We have an opportunity to use Scottish technology—the Pelamis project, for example—to generate a growing percentage of the predicted future energy demands of emerging economies such as India and China. That could make a big impact on climate change and the future of our planet.

Shiona Baird: That is great rhetoric, but I feel that—

The Convener: Remember that we are talking about the budget. This is not a general policy discussion.

Shiona Baird: I know—my point is that it is very hard to identify elements when they are not specifically mentioned in the budget. I take the minister's point about individual actions that have a budget application.

Nicol Stephen: A good example is the public sector energy efficiency programme, under which we have allocated £20 million of new money in 2004-05 and 2005-06 for energy efficiency measures in local authorities, national health service boards and Scottish Water. £15 million is going to local authorities, £4 million is going to the NHS boards and £1 million is going to Scottish Water. We need to take action at every level of government.

To use a good cross-cutting example, I have been involved in trying to ensure that some school public-private partnerships are developed in such a way that they make use of biomass initiatives or build in some other community-level energy efficiency element. There is an argument that such projects need a little bit of extra capital funding up front, or at least some sort of support to ensure that they happen. I would be hugely disappointed

if we spent billions of pounds on new hospitals and schools without using the best energy efficiency or without ensuring that the energy for those new buildings was being generated using the new forms of renewables technology that we all want to be pioneered here in Scotland. I view it as another important priority for the Executive to bend the budget to ensure that that all happens where the enterprise portfolio can make a difference.

Shiona Baird: I realise that you are conscious of sustainable development as an initiative. The wider population is perhaps not so conscious of it, however. If the money that the Executive has allocated to sustainable development was identified somehow as a clear category—although I would not wish to view it as a separate matter—would that help to raise general awareness of the importance that the Executive places on it?

The Convener: If I may help with this point, Patricia Ferguson, in response to a question from Susan Deacon, referred to a Scottish Executive website, I think, which showed the outcomes of the cross-cutting budgets. One would presume that sustainable development would be included there. If that information is available—the minister could perhaps confirm whether it is available on the website to which I referred—it might answer the question.

Nicol Stephen: Sustainable development is certainly one of the key cross-cutting themes. I have not looked at that website, so I do not know whether that information is available there. I am not sure whether anyone here can help me with that.

The Convener: Could we ask your officials to pursue the matter and to reply to Shiona Baird and let us know whether, somewhere among everything that the Executive produces, there is a cross-cutting report on the money that is spent on sustainable development?

Nicol Stephen: That is a fair request. We will answer that question. If our answer is not as helpful as I would like, I will try to ensure that, in any case, the information is provided on the website.

The Convener: Would that be okay?

Shiona Baird: Yes—that would be fine.

Murdo Fraser: I would like to ask about the Scottish Enterprise budget in the context of efficient government. We see from the figures for the current financial year that the total spend on the management and administration of Scottish Enterprise is £93 million out of a total budget of £448 million, which is something like 20 per cent. That does not seem to be terribly efficient. We also see that that figure is likely to increase to £109 million by 2006-07, which will be an

increased percentage of the overall budget. Do you think that Scottish Enterprise is making an adequate contribution to the efficient government programme?

16:45

Nicol Stephen: Scottish Enterprise will make the most significant efficiency savings in percentage terms—certainly in the early years, it will make the most significant level of efficiency savings in cash terms. In later years, there will be greater time-releasing savings in further education colleges and higher education institutions. However, the £5.3 million cash-releasing savings that Scottish Enterprise is being asked to find are certainly significant.

Scottish Enterprise has always been an easy target for criticism because of the number of staff it employs. Its bureaucracy exists, but there have been significant shifts in recent years. The review that Jack Parry conducted in his time as chief executive is an example of that. Significant costs have been taken out of Scottish Enterprise. I support that approach and there must be continuing vigilance on costs. That harks back to an answer that I gave earlier on bureaucratic burdens and complexity. It is important that we continue to work hard on that; I am sure that Jack Perry and John Ward, with whom I discussed the issue, will continue to do that.

I would like ways to be found—I am sure that every member of the committee would—for Scottish Enterprise to reduce its budget but still to deliver as effectively in business support and the huge amount of very good work that it does generally; for example, its work to develop the proposals for the ITIs and set them up.

Murdo Fraser: I thank you for that answer, but I am talking about the figures for management and administration. That money, which is due to increase from £93 million in 2004-05 to £109 million in 2006-07, is not being spent on what we might call front-line activities.

Nicol Stephen: The phrase “management and administration” is perhaps misleading, because it includes all Scottish Enterprise’s staff, including those who are involved in the front line and who deliver the services. No distinction is drawn in the budget figure between senior management staff and staff in the local enterprise companies who deliver the services that Scottish Enterprise offers. I have seen one or two responses recently from the Executive in which administration roles have involved all sorts of extra costs that would not necessarily be termed administrative in a company environment, because they would be part of the core delivery of the service of an organisation. That is perhaps the case with Scottish Enterprise.

Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department): I think that Scottish Enterprise’s written submission to the committee shows how its management and administration budget breaks down and how it can be allocated to delivery staff under headings such as growing businesses and learning and skills.

Murdo Fraser: I accept that the submission does that. I will come on to my second question in a minute, but it was interesting to those of us who were on the business growth trip to Hamburg and Bremen that we found that there were businesses in Hamburg that are delivering a 5 per cent productivity gain year on year. It is a pity that that sort of drive cannot infect the public sector. However, I will leave that sticking to the wall for the moment.

I have a question about the LECs. Do you think that Scottish Enterprise would deliver more effectively if we had fewer LECs?

Nicol Stephen: I think that it is wrong for me, as the Minister for Enterprise and Lifelong Learning, to lead on that question. I have seen in the past ministers trying to take a top-down approach to the future of the enterprise networks—both Highlands and Islands Enterprise and Scottish Enterprise. That kind of approach leads, rightly, to an outcry from business and industry and, no doubt, from the boards of Scottish Enterprise and Highlands and Islands Enterprise. If there were to be change, I would much rather see demand for it coming from the grass-roots level from businesses, industries and companies around Scotland and from the business representative organisations, if it was considered that change was sensible, and if that view was supported by the board and senior management of Highlands and Islands Enterprise and Scottish Enterprise.

I am not saying that the current network is cast in stone for ever, but I do not see it as being my role as enterprise minister to politicise that. There would be strong criticism if I did. There will be a debate on the issue over the coming months and years; if Scottish Enterprise or HIE want to make proposals in that regard, those proposals will be supported by business and industry in their respective areas, and I would be willing to consider the case. However, no such proposals have yet been made to me.

The Convener: Do any changes have to be approved by the minister, under the Enterprise and New Towns (Scotland) Act 1990?

Jane Morgan: There is no mention of the LECs in that act.

The Convener: Would changes have to be approved at ministerial level?

Nicol Stephen: My understanding is that such a significant change would need to involve discussion with the department, and with me as minister. I am sure that if Scottish Enterprise and Highlands and Islands Enterprise wanted to make a change of that scale they would want to ensure that they had the support of the department and the minister. They would also be very interested in the view of the Enterprise and Culture Committee. I would have thought that we, as MSPs, would not want that sort of change to take place without significant involvement from all of us.

The Convener: I do not want to curtail anyone, but it is 10 minutes to 5. I am happy to sit until 6 pm, because we have another item on the agenda, but I ask members to make their questions and answers quite brief.

Fiona Hyslop: I will try to be specific. I wish to address the student funding tables. Did you say that the increase in grants and bursaries was coming out of the miscellaneous budget? The miscellaneous budget in the figures here goes up by more than £15 million; it is losing money, but at the same time it seems to be increasing quite substantially. Why does the miscellaneous line increase by £15 million if it is funding grants and bursaries?

The SAAS lines are either static or going down. In the summer you announced increases in tuition fees for Scottish students. We would expect, therefore, if we are keeping lines of funding continuous, that those lines would go up, because the funding should come through SAAS. If tuition fees are being increased, why does the SAAS line go down in 2005-06 and 2006-07?

Nicol Stephen: The answer is complex. It has to do with the Treasury discount rate for student loans. I will turn to Mark Batho to explain that further, perhaps with Chris McCrone's support. You mentioned the other enterprise and lifelong learning line; that does go down by £15 million, does it not?

Fiona Hyslop: No. Table 6.09, which is the—

The Convener: This is very interesting. You and Fiona Hyslop are working from the same document and there is more dispute over this—

Fiona Hyslop: There seems to be a policy discrepancy. You announced in July that you were increasing tuition fees, but the funding line for SAAS is going in the other direction. That does not make sense.

Nicol Stephen: There is a £28 million impact in there because of a change in the Treasury discount rate. If there had been no change the figure would have needed to be £28 million higher. Am I correct?

Mark Batho *indicated agreement.*

Fiona Hyslop: That is a significant sum. From a purely process point of view, when there are such huge variations—not as a result of your policy decisions but as a result of the change in the Treasury discount rate—it would be helpful to this committee and to the Finance Committee if we were given that information. That is a sizeable variation in funds.

Nicol Stephen: I agree.

Fiona Hyslop: If we do not have that information, we might be led to believe that you were trying to cap tuition fees or that you were going to cut student support, neither of which, unless you have news for us, you plan to do. There is a significant effect.

Nicol Stephen: I agree completely. It is frustrating when those changes are made, as it becomes difficult to compare figures from one year to the next. Perhaps Mark Batho could explain the change in a little more detail so that the committee understands clearly what is happening. We can then discuss how changes of this scale can be properly clarified in future.

Fiona Hyslop: Who saves the cash, Westminster or us?

Mark Batho: The Treasury discount rate is directly concerned with the cost of borrowing money. When the rate goes down because of economic conditions, it costs less in simple terms for us to subsidise the cost of student loans. That is what is going on: because the cost to us of making the same amount of student loan is less, the provision goes down.

Introducing higher fees in 2006-07, although the Parliament has still to agree to that, will be entirely cost neutral across the enterprise and lifelong learning budget because of transfers between the funding council budget and the SAAS budget to ensure that the additional cost for individual Scotland-domiciled students remains covered by SAAS. The institutions do not benefit from getting a higher fee from Scottish students. The simple cash transfer is neutral across the piece.

Fiona Hyslop: That is a major strategic policy shift. In percentage terms, the element of student-led per capita funding to universities will be higher, as opposed to grant allocation through the funding council and other funding streams. I understand the logic, but there is a knock-on effect and a shift in strategic policy direction.

Mark Batho: I am sorry—

Fiona Hyslop: The ELL overall budget will remain the same.

Mark Batho: Yes.

Fiona Hyslop: However, the shift is in student-led funding via SAAS. Therefore, one would

expect the SAAS budget to increase and the funding council budget line to decrease as compensation—I see someone nodding.

Nicol Stephen: That should be happening, but it is masked by the £28 million.

Fiona Hyslop: It might clarify matters for us on the funding council's future funding if we had an explanation of what was being driven by student-led per capita funding and what was coming in through grant allocation.

Mark Batho: We need to capture the effect of the increased fees in the shift in the ELL budget.

Nicol Stephen: We could do that.

The Convener: I am glad that we cleared that up: the nation is gripped.

Susan Deacon: I have three questions, although at this stage of the day I am not sure whether I will be allowed to ask them all—I will give it my best shot. Given the time, I will be grateful to the minister for any clarification that he can provide on what are big areas.

The first question is about information systems. Minister, you said earlier that variations in accounting systems between NDPBs and departments made it difficult for business and the public—and, indeed, parliamentarians—to engage with and understand Government spend. You have touched elsewhere on wider issues of bureaucracy and regulation. Although the committee and I would not disagree with your desire to improve those systems, it has been a source of some frustration that it has taken so long for such improvements to come about in a devolved Scotland. The Audit Committee, of which I am a member, has become frustrated at quite how often we have had to go looking for improvements to information systems. Given that you have been a minister since devolution and have experience of many of these issues, what can you do to accelerate improvements to information and accounting systems in the Executive and its agencies?

17:00

Nicol Stephen: I think that every minister struggles with that issue in his or her portfolio or departmental area. If one moves—as I have done—from one department to another in the Scottish Executive, one will start to realise that there are consistent problems across it. You are right. Concerted effort is required and ministers must work together to solve problems. Ministers now have a real determination to tackle these matters as a priority. I should make it clear that improved systems and greater clarity make for better government, better ministerial decisions, better scrutiny and more informed criticism by parliamentarians and committees.

I remember when I first gave evidence on a budget document. One of the first questions that I was asked was why the totals on page 1 of the document did not add up to the totals on page 73. I do not think that such documents had been scrutinised in any meaningful way in the past—there was a lack of scrutiny—and the issue is reaching the top of the agenda only because of the scrutiny that this and other committees have carried out and the frustrations that there have been in sessions such as this one.

I think that everybody expected there to have been changes and improvements after five or six years. There have been some improvements—for example, real-terms figures and outturn figures are made available to the committee. However, there is still great frustration among members and ministers and often among civil servants—I am speaking on behalf of the people at my side. Together, we must ensure that the issue is given a high priority. If I am still the Minister for Enterprise and Lifelong Learning at the same time next year, members might want to hold me to account on the issue or to ask me about further developments—perhaps they might want to do so before then. It is important that we are seen to have made significant progress.

Susan Deacon: I am grateful for your answer and will stick to what I said earlier. I will not pursue the issue further for the time being, but the committee is certainly interested in it.

I will not revisit what members have already covered with you on the general need to improve how we can see whether cross-cutting objectives are being met and how expenditure is being linked to those objectives, but I will ask specifically about what is arguably one of the most important strategies of all—the strategy in “A Smart, Successful Scotland”. In addition to the budget documentation that is available to us, what else can you direct us to that would let us see how the Executive's spending across portfolios—I would, of course, be the first to say that outputs and outcomes are every bit as important, if not more important, than expenditure—links to the strategic objectives that are set out in “A Smart, Successful Scotland”?

Nicol Stephen: I do not think that we have one document that pulls everything together—saying that we do not have such a document is a fair criticism. Perhaps such a document would be of interest. We are criticised for producing strategy documents and documents on all sorts of things, but a document that pulls everything together and that is produced in association with Scottish Enterprise and Highlands and Islands Enterprise could be good not only for parliamentarians, but for people who are visiting Scotland. It could show visiting businesses and industrialists our

commitment to economic development in Scotland and all the different ways in which the public sector supports economic development.

I do not know whether officials can say whether there is such a document, but it would be good to produce one. The document should not be dry; a dry document with all the figures will not be interesting and will not be read. However, we could present the information in a more useful way. For example, a document accompanying an event such as the business in the Parliament conference could emphasise the scale of commitment that we parliamentarians have to the issue.

Susan Deacon: I wondered whether other sources might be available. Far be it from me to ask for even more Executive documents to be produced, but it strikes me that there might be other sources of information that we should have an eye to, even with regard to this year's budget process.

Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department): Last year, the Finance Committee conducted an inquiry into economic growth, in which it tried to bring together all the various parts of the budget. That was quite a complex project and I think that the researchers found it difficult to allocate certain parts of the budget to economic growth and other parts to other issues. However, that inquiry provides you with a source document that might be worth looking at.

Susan Deacon: Thank you. One objective in "A Smart, Successful Scotland" relates to the need to take forward the development of our cities and city regions as drivers of economic growth. Some of us spent most of last week considering that issue elsewhere in Europe. The cities growth fund is located in a different departmental portfolio, under the responsibility of a different minister. Could you comment on the location of that fund and that responsibility or on the issue of how you, together with your colleagues, can foster joint working to ensure that the policy is pursued effectively?

Nicol Stephen: The Enterprise, Transport and Lifelong Learning Department will never be responsible for every item that relates to economic development, nor should it be. The important thing is to ensure that there is joined-up working. A good example of that in recent times is the way in which we have tried to tackle the complex issue of regeneration and have dealt with the question of which ministers, NDPBs and public agencies should be involved in that work. There must be co-operation and partnership working. The best examples are achieved through a joined-up approach.

Now that Scottish Enterprise has its new city and city region strategy, it will be making a major

push to ensure that we realise the potential of that approach. It is also important that Scottish Enterprise should work with the Scottish Executive on that and that we maximise the potential that exists. I always like to think about not just how much money the public sector is spending but how much additional funding we can lever into projects from the private sector and other sources. It is important that we consider how Scottish Enterprise is working with our local authorities and the other key public sector bodies. We should never lose sight of the opportunity to ensure that further money is levered in through the private sector.

My simple answer is that we should be making sure that there is a high level of integration. Perhaps it does not always happen, but ministers should be determined to ensure that it does.

Susan Deacon: I do not want to pursue the matter further at this point in the day, but, as we raised the issue with your predecessor, it would be helpful—not only for our budget consideration, but for our business growth inquiry—if we could receive from you more information that would help us to understand better what the linkages are.

Nicol Stephen: I was driving at that point, too. Quite a lot of the cities growth fund is spent through the local authorities. It would be helpful to ask local authorities whether they aligned their spend under the cities growth fund with the work that Scottish Enterprise, through its local enterprise companies, is doing in their areas. It is important that we can be confident that that is happening properly across Scotland.

Jane Morgan: I think that local authorities are required to say that they have done that.

Fiona Hyslop: I suggest that the determined to succeed budget could also be treated in that way.

The Convener: I think that that comes into your bailiwick at the moment, minister.

Nicol Stephen: That is a good example of a fund that is in one department but which it could be argued should be in another. My department is responsible for it but, as it is being spent in schools, the Education Department might want to have responsibility for it.

The Convener: If we could get the follow-up information that we talked about, that would be helpful.

Nicol Stephen: I will try to give you some reassurance that there is a joined-up approach in relation to the cities growth fund and some details of how that is monitored. In other words, does someone tick a box to say that that has happened or do they have to supply more detailed information to ensure that that co-operation exists?

The Convener: I should say that Murdo Fraser apologised for leaving. He had to go because there is a Tory group meeting at 5 o'clock. That is why there was a posse of media present—unfortunately, Nicol, they were not waiting on you.

Nicol Stephen: I resisted the temptation to say anything about the situation when Murdo Fraser was questioning me earlier.

The Convener: I sent him a list of the latest odds, anyway.

Richard Baker: I have a brief question that might be obtuse. The minister mentioned the outturn statements—we received a helpful outturn statement from Chris McCrone. I wanted to ask about the education maintenance allowance line, which displays a 41 per cent variance. What does that mean and why is the variance so big?

Nicol Stephen: I should get Chris McCrone to explain that, as I asked that question as well. Effectively, the figure is a holding figure.

Chris McCrone (Scottish Executive Finance and Central Services Department): The education maintenance allowance budget is in two parts. The part that you see under “Annually Managed Expenditure” is the part that is funded as a national scheme. We also fund the education maintenance allowance under our programmes out of savings relating to the original pilots that were run, which will cease at the end of 2005-06, whereupon everything will receive funding from the AME budget. The AME budget is met by the Treasury, which gives us exactly the amount of money that is spent, which means that we did not have an underspend per se. That is to do with the way in which the budget was approved. When the Treasury pays us for an AME budget, it gives us the exact amount of money that is involved. End-year flexibility comes only from departmental expenditure limits. The reason for the underspend is that the budget was shown as AME but the funding came partly out of the DEL budget.

Richard Baker: Right. I will not prolong my examination of the matter.

The Convener: That covers all our questions. I thank the minister and his officials for being helpful. That was a useful session.

We will now move into private session to discuss item 5 on the agenda, which relates to our inquiry into Scottish football.

17:12

Meeting continued in private until 17:32.

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