



**ENTERPRISE AND CULTURE COMMITTEE**

**13th Meeting, 2004 (Session 2)**

**Tuesday, 27 April 2004**

The Committee will meet at 2 pm in the Hub, Castlehill, Edinburgh

1. **Scottish Executive 2005/06 budget (in private):** the Committee will receive a briefing from the adviser to the Finance Committee, Professor Arthur Midwinter.
2. **Scottish Executive 2005/06 budget:** the Committee will take evidence from:
  - Alastair Dempster, Chairman, **sportscotland**;
  - Ian Robson, Chief Executive, **sportscotland**;
  - Lee Cousins, Head of Policy, **sportscotland**;on the Scottish Executive's 2005/06 budget.
3. **Scottish Executive 2005/06 budget (Tourism, Culture and Sport):** the Committee will take evidence from Mr Frank McAveety MSP, Minister for Tourism, Culture and Sport on the Scottish Executive's 2005/06 budget.
4. **Scottish Executive 2005/06 budget (Enterprise and Lifelong Learning):** the Committee will take evidence from Mr Jim Wallace MSP, Deputy First Minister and Minister for Enterprise and Lifelong Learning on the Scottish Executive's 2005/06 budget.
5. **Committee Annual Report 2003/04:** the Committee will consider a draft of its annual report for the parliamentary year 2003/04.
6. **Work programme (in private):** the Committee will consider its work programme for the period May to December 2004.

Simon Watkins  
Clerk to the Committee  
Room 2.7, Committee Chambers  
Ext. 0131 348 5207

The following meeting papers are enclosed:

**Agenda Item 1**

Budget papers

[EC/S2/04/13/1](#)

**Agenda Item 2**

Submission from **sportscotland**

[EC/S2/04/13/2](#)

**Agenda Item 5**

Draft Annual Report 2003/04

[EC/S2/04/13/3](#)

**Agenda Item 6**

Work programme – PRIVATE PAPER

[EC/S2/04/13/4](#)

**Enterprise and Culture Committee**

**Meeting 27 April 2004**

**Budget 2005-06**

**Sport and Arts budgets**

The Committee took evidence at its last meeting from the New Opportunities Fund, the Scottish Arts Council and COSLA. At this meeting the Committee will take evidence from **sportscotland**.

**Annual Evaluation Report**

The appropriate extracts from the Annual Evaluation Report are attached at **Annex A**. The Finance Committee has provided guidance to subject committees, which is attached at **Annex B**. Professor Arthur Midwinter has also provided a paper on the Enterprise and Lifelong Learning budget, which is attached at **Annex C**. Professor Midwinter will attend the meeting and speak to his papers prior to the witnesses giving evidence. A paper from SPICe on the key trends in the budget from 1999-2003 is also attached at **Annex D**.

The Minister for Tourism, Culture and Sport will give evidence on this section of the budget, and the Deputy First Minister and Minister for Enterprise and Lifelong Learning will give evidence on the budget for which he is responsible.

**Next steps**

Members will recall that the deadline for reporting to the Finance Committee is 18 May. A draft report on the budget will therefore be brought to the meeting on 11 May for consideration. Members are invited to consider this draft report in private.

**Recommendation**

**Members are invited to:**

- 1) **consider the issues to be raised in the report to the Finance Committee in the context of the guidance attached at Annex B;**
- 2) **to agree to consider a draft report in private.**

Simon Watkins  
Clerk

## SCOTTISH EXECUTIVE'S 2005/06 BUDGET (STAGE 1)

## TOURISM, CULTURE AND SPORT

The Tourism, Culture and Sport portfolio's aim is to enhance everyone's quality of life in Scotland through widening participation in sport and culture and building on a successful and sustainable tourism sector to create jobs and opportunity across Scotland. All three elements of the portfolio have a role to play in delivering this overarching aim and the six related and integrated objectives:

- ensuring that everyone of all ages has the opportunity to take part in a variety of cultural and sporting activities;
- supporting social inclusion by ensuring the widest possible involvement in cultural, social and sporting opportunities;
- promoting a high standard of conservation of historic buildings and the highest standards of contemporary building;
- generating jobs and wealth for Scotland by assisting young people to be creative and enterprising, and by promoting and developing the tourism, cultural and sporting sectors of the economy;
- developing Scotland's tourism potential through Historic Scotland and VisitScotland, and in partnership with all relevant bodies; and
- promoting excellence in sport and culture.

Progress against the key performance targets published in *Draft Budget 2004-05* is set out below.

## TARGETS

**Target 1**                      By 2006, increase the numbers taking part in cultural events and activities supported by bodies funded by the Executive by 3% and the numbers taking part in sport to 70% of adults.  
(SLIPPAGE)

*Data is being collected by the Scottish Arts Council, Scottish Screen, the National Museums of Scotland, the National Galleries of Scotland, the National Library of Scotland, and sportscotland. The Scottish Arts Council's annual audit of core funded organisations records participation, audience and attendance totals of 5.4 million in 2002-03. Attendance at regional film theatres in Scotland rose from 441,000 in 1999-00 to 517,000 in 2002-03. The National Museums of Scotland received a record 1.33 million visitors in 2002-03 and The National Galleries of Scotland's Monet Exhibition in 2003-04 attracted a record 173,000 visitors. The adult participation rate in sport stood at 62% averaged over the three years 2000-02. An increase to 70% would require a 12% increase against*

*a decline in population numbers in the key participating age groups. The target for sport will therefore be difficult to meet, which is why it is being classed as “slippage”.*

**Target 2** By 2006, increase the numbers of under-represented groups, especially children and young people, taking part in cultural and sporting activity by 5%.  
(ON COURSE)

*Data is being collected to measure achievement against this target for the first time in 2003-04. Survey work has been commissioned by the Scottish Arts Council, Scottish Screen, the National Museums of Scotland, the National Galleries of Scotland, the National Library of Scotland, and sportscotland.*

**Target 3** By 2006, increase the number of cultural and sporting programmes in areas of economic and social disadvantage and the number of partners engaged in supporting these programmes by 10%.  
(ON COURSE)

*Data is being collected by the Scottish Arts Council, Scottish Screen, the National Museums of Scotland, the National Galleries of Scotland, the National Library of Scotland, and sportscotland. Scottish Arts Council funded projects in Social Inclusion Partnership (SIP) areas under its Arts and Social Inclusion Scheme until 2003-04. In 2002-03 seven awards totalling £429,000 were made. National Lottery funding of almost £500,000 in total was given to a further eight projects. The Sport 21 Strategy has a target for 2007 that 49% of those aged 14 plus in Social Inclusion Partnership areas will take part in sport at least once a week – the current rate in area-based SIPs has been measured as 46%.*

**Target 4** To raise the standards of, and increase investment in, the conservation and sustainable development of historic buildings by completing condition surveys by 2005-06 for all properties looked after by Historic Scotland and using Historic Scotland funding to promote increased investment from other bodies in conserving historic buildings.  
(ON COURSE)

*Progress is well ahead on condition surveys and the full cycle will be completed by 2005-06. Grants leverage is calculated following the end of the financial year and is therefore not available at present.*

**Target 5** To establish a method by 2004 to assess the contribution of tourism and the creative and cultural industries to the Scottish economy, and to identify how this contribution could be increased.  
(ON COURSE)

*This work is being taken forward by the Office of the Chief Economic Adviser and is on track for completion before the end of 2004. Further detail is available on <http://www.scotland.gov.uk/about/ASD/OCEA/00018300/TSAintro.aspx>.*

**Target 6** To restore visitor numbers and spending to the levels before the foot and mouth disease outbreak and the September 11 terrorism attack by 2004; and to set new targets for subsequent years at that time.  
(ON COURSE)

*Data from the International Passenger Survey and the UK Tourism Survey confirm that this target is on track, with both visitor numbers and spending levels*

*approaching what they were before the foot and mouth disease outbreak. Decisions on future targets will be announced in due course.*

**Target 7**                    **By 2005, have 75% of accommodation bookable through the internet.**  
(ON COURSE)

*On track for achievement through rapidly increasing use of [visitscotland.com](http://visitscotland.com).*

**Target 8**                    **By 2006, increase the number of Scots achieving success in key sports and events from the position in 2000.**  
(ON COURSE)

*This target will be measured by data collection from sportscotland. Under the Sport 21 Strategy, sportscotland has a target for 2007 of 148 Scottish medalists in key and targeted sports at key events. Sportscotland has highlighted significant progress in medals at the Commonwealth Games in 2002 compared to Kuala Lumpur in 1998. Scotland won 10<sup>th</sup> place in the medals table with 30 medals in 2002 compared to 12 in 1998.*

**Target 9**                    **To develop by 2003-04 the means of identifying the number of Scottish world class artists, companies and institutions, and to set targets for 2006 in light of this.**  
(SLIPPAGE)

*Development work on this target is unlikely to be concluded by the end of March 2004. The Scottish Arts Council has done some preliminary consideration of means of recognising artistic achievement and international standing as well as collection of data on excellence. The Scottish Arts Council has advised the Executive on some options and Scottish Ministers have announced the creation of a post of Scotland's Makar – a national poet for Scotland. Proposals, in particular those requiring for example peer group assessment, would require consultation with the cultural sector.*

## Spending plans 2003-06

Full details of the proposed budget for 2003-06 were set out in *Draft Budget 2004-05*, including information on what each section of the budget delivers and the priorities for action for the forthcoming year.

The plans for 2005-06 provide the baseline for the forthcoming Spending Review, and are therefore set out below in summary form for ease of reference.

**Table 4.01 Tourism, Culture and Sport Spending Plans (level 3)**

£m	2003-04 Plans	2004-05 Plans	2005-06 Plans
<b>Tourism, Culture and Sport</b>			
VisitScotland	31.76	33.77	36.77
National institutions	58.86	59.75	62.53
Scottish Arts Council	36.42	47.47	50.27
Other arts	26.34	23.24	23.85
sportscotland	15.39	29.00	47.11
Historic Scotland	37.29	39.64	42.57
<b>Total</b>	<b>206.06</b>	<b>232.87</b>	<b>263.09</b>

These figures take account of the following significant changes made since the publication of *Draft Budget 2004-05*:

### **Scottish Arts Council**

The budget increases in 2004-05/2005-06 of £5.6m/£10.6m result from the correction of the allocation of the music development money (£5m/£10m) which was previously shown in *Other arts*, the repayment to the central contingency fund (£4m) in 2005-006 of the money advanced to the Scottish Arts Council to assist the cash flow problems at Scottish Opera and other small internal portfolio transfers.

### **Other arts**

The decrease in the budget in 2004-05/2005-06, £5.46m/£10.35 reflects the correction of the music development money and other small internal portfolio transfers.

## ENTERPRISE AND LIFELONG LEARNING

The Enterprise and Lifelong Learning portfolio's aim is to foster the growth of the Scottish economy and create a highly skilled, learning, earning, connected Scotland.

Virtually all of the Enterprise and Lifelong Learning portfolio's programme expenditure focuses on post school education and training and jobs, including resources to increase support for science, innovation and investment. Our objectives here are also supported by the Structural Funds programmes. Much of our spending is aimed at closing the opportunity gap in employment and training.

In 2005-06 we will deliver the commitments in the Partnership Agreement by focussing our resources on:

- supporting science and innovation;
- enhancing the enterprise, skills & employability of those in work and without it;
- encouraging the creation, growth and transformation of businesses;
- supporting and obtaining best value from higher education and further education
- encouraging connectivity and digital access;
- contributing to the Executive's priorities of sustainable development and closing the opportunity gap;
- supporting Enterprise Networks' performance; and
- communicating Ministers' strategy, listening to business and promoting effective joint working at local level

Progress against the key performance targets published in *Draft Budget 2004-05* is set out below.

### TARGETS

**Target 1**                      Increase business investment in research and development  
(ON COURSE)                      compared to OECD competitors.\*

*Research and development (R&D) expenditure by businesses in Scotland as a proportion of Gross Domestic Product (GDP) was 0.53 per cent in 1999, or 35 per cent of the Organisation for European Co-operation and Development (OECD) average figure of 1.53 per cent for that year. By 2001, R&D expenditure by businesses in Scotland had risen to 0.65 per cent of GDP, or 40*



per cent of the OECD average figure of 1.62 per cent for that year.

The Executive has commissioned research into business decisions on innovation and R&D that will inform future policy. Government measures to help improve business expenditure in research and development have included R&D tax credits introduced in recent budgets, and a number of policy measures to encourage R&D, commercialisation and knowledge transfer activity in Scotland.

**Target 2**                    **Improve productivity levels in Scottish industry compared to OECD competitors.\***  
(ON COURSE)

*Between 1999 and 2001, Scotland's productivity declined by 1.5 per cent against the UK average as measured using Gross Value Added (GVA) per filled job. Over the same period, the UK position relative to the average for the G7 countries for GDP per worker has improved by approximately 2.4 per cent points, which implies an overall improvement in Scotland's position relative to the G7 countries of about 1.0 per cent.*

**Target 3**                    **Applications for Regional Selective Assistance (RSA) grants of £2 million and over will be assessed against the Executive's sustainable development objectives by 2004.**  
(SLIPPAGE)

*The proposed methodology was originally intended to be in place by 31<sup>st</sup> March 2003, and ready for roll-out on 1<sup>st</sup> April 2004. The proposed methodology is currently being considered by Ministers, with implementation anticipated as occurring later in 2004.*

**Target 4**                    **Increase Modern Apprenticeships to over 25,000 in employment and training by 2006, targeting under-represented groups.**  
(ON COURSE)

*The Partnership Agreement increased this target to 30,000 Modern Apprentices (MAs) in training by 2006. The latest performance management figures from the Enterprise Networks for January 2004 show that this figure has been reached and there are around 31,000 MAs in training. Numbers in training can be volatile, however, although we are confident they will be sustained by 2006, and are closely monitoring the situation.*

**Target 5**                    **Increase the number of people in employment undertaking training.\***  
(ON COURSE)

*The proportion of those in employment of working age undertaking training has increased from 27 per cent in Spring 2001 to 28 per cent in Spring 2003. Since 2001 there has been an increase of 1 percentage point. No international comparisons with OECD countries are possible as no directly comparable information is available. This information is from the Labour Force Survey and will be subject to revision in Spring 2004 when the Labour Force Survey is re-weighted to reflect the 2001 census.*

**Target 6**                    **Close the gap in unemployment rates between the worst 10% of areas and the Scottish average by 2006.\***  
(ON COURSE)

*Average claimant count unemployment rates for the worst 10 per cent of ward areas fell from 9.2 per cent in 2001 to 8.7 per cent in 2002 and the Scottish average fell from 4.0 per cent in 2001 to 3.9 per cent in 2002. Therefore, since 2001 the percentage point gap has reduced from 5.2 percentage points to 4.8 percentage points. No international comparison with OECD countries is possible for this indicator.*

*This information is calculated using annual claimant count rates which are residence based. This information will be subject to revision later in 2004 when 2001 census information becomes available.*

**Target 7**                    **Reduce the proportion of 16-19 year olds not in education, training and employment by 2006.**  
(ON COURSE)

*In the year ending February 2001 the proportion of 16-19 year olds not in education, training or employment was 15 per cent. In the year ending February 2003 the proportion fell to 14 per cent. Therefore, since 2001 there has been a decrease of 1 percentage point. Previously this information was calculated using spring quarters in each year. In order to improve statistical reliability this has been changed and the information above is calculated using annual averages. The information shown above is an annual average ending February in each year stated. For example the information for 2001 is for the calendar year March 2000-February 2001.*

*This information is from the Labour Force Survey and will be subject to revision in Spring 2004 when the Labour Force Survey is re-weighted to reflect the 2001 census.*

**Target 8**                    **Increase supports to 16-19 year olds from low income families to stay on at school and/or FE college, thereby raising the participation and retention rates of this group by at least 5% by 2007-08.**  
(ON COURSE)

*National roll-out of Education Maintenance Allowances (EMAs) will begin, as planned, in August 2004.*

**Target 9**                    **Increase graduates as a proportion of the workforce.\***  
(ON COURSE)

*Graduates as a proportion of the workforce (taken as 25-64 years) has increased from 18 per cent in Spring 2001 to 20 per cent in Spring 2003. Since 2001 there has been an increase of 2 percentage points.*

*This information is from the Labour Force Survey and will be subject to revision in Spring 2004 when the Labour Force Survey is re-weighted to reflect the 2001 census.*

*It was published in 'A Smart Successful Scotland 2003' that in 2001 Scotland was ranked 17<sup>th</sup> in a 31-country sample with 16% of the workforce (taken as 25-64 years) having a degree, placing it in the third quartile.*

**Target 10**            **Assist 150 joint academic and industry ventures by 2006.**  
(ON COURSE)

*At present, this target is still in its first year, and therefore full data for financial year 2003-04 is currently unavailable. However, the early indications are that this target appears to be on course. The introduction of Small to Medium-sized Enterprises Collaborative Research (SCoRe) and Scottish Executive Enterprise Knowledge and Innovation Transfer (SEEKIT) programmes will help boost these figures.*

**Target 11**            **By 2006, have awarded project grants to train 38,000 unemployed beneficiaries for employment 12 months after training, and to generate 112,000 qualifications by 2008.**  
(ON COURSE)

*Although the target is multi-annual, outputs are reported on an annual and cumulative basis in programme implementation reports which are submitted to the European Commission in June of each year. The target is being revisited in the light of recommendations made in the mid-term evaluation reports for all Structural Funds programmes. These reports are available on each of the 5 Programme Management Executive websites.*

**Target 12**            **By 2006, have awarded project grants to assist 28,000 socially excluded people into employment by 2009.**  
(ON COURSE)

*Although the target is multi-annual, outputs are reported on an annual and cumulative basis in programme implementation reports which are submitted to the European Commission in June of each year. The target is being revisited in the light of recommendations made in the mid-term evaluation reports for all Structural Funds programmes. These reports are available on each of the 5 Programme Management Executive websites.*

**Target 13**            **By 2006, have awarded project grants to assist 23,000 existing businesses by 2008.**  
(ON COURSE)

*Although the target is multi-annual, outputs are reported on an annual and cumulative basis in programme implementation reports which are submitted to the European Commission in June of each year. The target is being revisited in the light of recommendations made in the mid-term evaluation reports for all Structural Funds programmes. These reports are available on each of the 5 Programme Management Executive websites.*

**Target 14** By 2006, have awarded project grants to create 83,000 net jobs by (ON COURSE) 2009.

*Although the target is multi-annual, outputs are reported on an annual and cumulative basis in programme implementation reports which are submitted to the European Commission in June of each year. The target is being revisited in the light of recommendations made in the mid-term evaluation reports for all Structural Funds programmes. These reports are available on each of the 5 Programme Management Executive websites.*

#### Notes

\* These are from *A Smart, Successful Scotland*. The aim is to improve Scotland's performance and move towards the top quartile of OECD countries.

### Spending plans 2003-06

Full details of the proposed budget for 2003-06 were set out in *Draft Budget 2004-05*, including information on what each section of the budget delivers and the priorities for action for the forthcoming year.

The plans for 2005-06 provide the baseline for the forthcoming Spending Review, and are therefore set out below in summary form for ease of reference.

**Table 7.01 Enterprise and Lifelong Learning Spending Plans (level 3)**

£m	2003-04 Plans	2004-05 Plans	2005-06 Plans
<b>Student Awards Agency for Scotland (SAAS)</b>			
Tuition fees	136.14	136.13	136.13
Grants and bursaries	108.31	113.01	110.33
Student loan subsidy (RAB)	96.98	101.98	131.98
Graduate Endowment	0.00	0.00	(29.00)
Capital charges (SAAS admin RAB)	1.18	1.18	1.18
Unwinding of Discount on Debt sale subsidy provision	7.00	7.00	7.00
SAAS running costs	4.73	4.99	4.99
Capital expenditure	0.83	0.83	0.83
Student Loans Company administration cost	5.18	5.18	5.18
	<b>360.35</b>	<b>370.30</b>	<b>368.62</b>
Student loans net new lending	153.60	171.57	168.13
Loans subsidy to banks	13.22	13.22	13.22
<b>Total net new lending and loans subsidy (outside TME)</b>	<b>166.82</b>	<b>184.79</b>	<b>181.35</b>

<b>Scottish Higher Education Funding Council</b>			
Higher education institutions	733.77	782.90	820.35
SHEFC administration costs	3.25	4.00	4.14
Resource accounting and budgeting charge	0.50	0.50	0.50
	<b>737.52</b>	<b>787.40</b>	<b>824.99</b>
<b>Scottish Further Education Funding Council</b>			
Further education institutions	403.76	431.83	464.12
Capital grants to FE colleges	20.92	37.92	37.92
SFEFC administration costs	3.25	4.0	4.14
Resource accounting and budgeting charge	0.52	0.52	0.52
	<b>428.45</b>	<b>474.27</b>	<b>506.70</b>
<b>Scottish Enterprise</b>			
Growing business	102.06	109.39	101.39
Global connections	100.00	82.00	82.00
Skills and learning	157.08	155.92	155.78
Administration	92.00	91.53	91.88
Voted loans (Net)	0.44	0.44	0.44
Resource accounting and budgeting charge	9.62	9.62	9.62
	<b>461.20</b>	<b>448.90</b>	<b>441.11</b>
<b>Highlands &amp; Islands Enterprise</b>			
Administration	15.00	15.35	15.29
Skills and learning	19.56	20.08	20.11
Growing business	16.00	16.08	16.08
Global connections	22.00	22.00	22.00
Strengthening communities	5.00	5.00	5.00
Resource accounting and budgeting charge	13.99	13.99	13.99
	<b>91.55</b>	<b>92.50</b>	<b>92.47</b>
<b>Regional Selective Assistance</b>			
RSA	43.21	40.21	48.21
	<b>43.21</b>	<b>40.21</b>	<b>48.21</b>
<b>Other enterprise and lifelong learning</b>			
Education Maintenance Allowance	5.00	13.00	28.40
Learn Direct Scotland	8.40	8.25	8.50
Energy efficiency	6.10	10.00	10.00
Renewable energy	1.00	3.95	4.00
Renewable Obligations (Scotland) (SRO)	18.90	12.00	12.00
Innovation support & new initiatives	11.93	13.75	14.10
Research	1.31	1.31	1.31
Royal Society of Edinburgh	1.10	1.20	1.30
Scottish Qualifications Authority	1.50	1.48	1.53

Scottish Credit and Qualifications Framework	0.50	0.57	0.57
Enterprise in education	7.00	13.00	22.00
Beattie Inclusiveness	1.48	1.68	1.88
Adult literacy and numeracy	2.35	0.00	0.00
Scottish Union Learning Fund	0.80	0.80	0.80
Sector Skills Councils	0.65	0.65	0.65
Export Partnership	0.72	0.72	0.72
HQ and training grants	0.44	0.64	0.64
ILA Scotland	15.40	18.80	19.30
Miscellaneous	5.53	14.09	17.38
	<b>90.11</b>	<b>115.89</b>	<b>145.08</b>
<b>European Structural Funds</b>			
<b>Support To local authorities</b>			
European Regional Development Fund	29.00	45.80	40.60
European Social Fund	22.60	18.60	16.60
	<b>51.60</b>	<b>64.40</b>	<b>57.20</b>
<b>Central government</b>			
European Regional Development Fund	44.97	48.37	47.62
European Social Fund	41.93	33.78	33.48
	<b>86.90</b>	<b>82.15</b>	<b>81.10</b>
<b>Total</b>	<b>2,350.89</b>	<b>2,476.02</b>	<b>2,565.48</b>
Student loans net new lending and student loans subsidy to banks (outside TME)	166.82	184.79	181.35

These figures take account of the following significant changes made since the publication of *Draft Budget 2004-05*:

#### **Grants and Bursaries**

Decrease of £0/0/2.93 mainly due to the transfer of access funds to the *Scottish Further Education Funding Council* (£0/0/2.78m).

#### **Student Loans Net New Lending**

Increase of £0/17.97/14.53m due to an increase in the level of student loans net new lending.

#### **Graduate Endowment**

Reduction of £0/0/-29.0m as this is the anticipated income for the Graduate Endowment. These monies will be used to supplement student support by way of the *Student loan subsidy*.

#### **Student Loan Subsidy (RAB)**

Increase of £0/0/29.0m, due to the anticipated income for the Graduate Endowment scheme. These monies will be used to supplement student support by way of the *Student loan subsidy*.

**Scottish Higher Education Funding Council (SHEFC)**

Increase of £0/5.83/9.38 mainly due to a transfer for additional employers' contributions for teachers' pensions, previously funded directly by HM Treasury (£0/5.88/6.18m). There has also been a transfer from the *Scottish Further Education Funding Council (SFEFC)* to reflect the University of the Highlands & Islands status as a *SFEFC* funded institution (£0/0/8.88m). There was also a transfer from *SHEFC* to the *Department for Trade & Industry* for the Scottish Executive's share of the Arts & Humanities Research Board (£0/0/-5.72m).

**Scottish Further Education Funding Council (SFEFC)**

Increase of £0/8.82/3.25m mainly due to a transfer for additional employers' contributions for teachers' pensions, previously funded directly by HM Treasury (£0/8.82/9.35m). There was also a transfer of access funds from the *Student Awards Agency for Scotland (SAAS)* (£0/0/2.78m). There has also been a transfer to the *Scottish Higher Education Funding Council (SHEFC)* to reflect the University of the Highlands & Islands status as a *SFEFC* funded institution (£0/0/8.88m).

**Education Maintenance Allowance**

Decrease of £0/0/2.60m due to a reduction in Education Maintenance Allowances because of an extension of the lower income threshold.

**Adult literacy & numeracy**

Decrease of £0/-2.95/-3.35m mainly due to a transfer of responsibility for the programme to the Communities portfolio (£0/2.45/2.55m). The remainder of the budget was transferred to the Finance & Public Services portfolio to form part of the Revenue Support Grant (£0/0.50/0.80m).

**European Structural Funds – support to local authorities**

Increase of £0/1.6/1.6m due to a correction to the figures published in the *Draft Budget 2004-05*.

**European Structural Funds – support to central government**

Decrease of £0/-1.8/-1.8m due to a correction to the figures published in the *Draft Budget 2004-05*.

**Enterprise and Culture Committee**

**Meeting 20 April 2004**

**Budget 2005-06**

1. At the first stage of the annual budget process, the terms of which have been approved by the Parliament, subject committees are asked to consider and report on the future spending priorities within their responsibilities. At this stage, there is little scope to reallocate resources for 2005-06 and as this is a Spending Review year, Committees are asked to consider their priorities for the period to 2007-08.
2. The new Annual Evaluation Report (AER) is in a revised format. The Finance Committee had recommended that the format should be altered and this has been accepted by the Executive. This revised format refocuses Stage 1 on strategy and performance issues as originally envisaged in the Financial Issues Advisory Group (FIAG) report, and recognises the centrality of the Spending Review process in planning and allocating resources. The AER now contains a new statement of strategy and priorities; an assessment of performance against the portfolio targets set out in previous budgetary documents; and an updating of the expenditure plans for 2005-06. As this is a novel approach, Committees will recognise it has further scope for improvement.
3. In particular, Committees should recognise that it has not been possible to provide a financial report, as the first year of the SR2002 Budget cycle – 2003-04 - only ended on 5 April. The Finance Committee will discuss with Ministers how this can be included in future years. In addition, the targets too only represent an interim report as these were set to cover the period to 2005-06 and beyond, in some cases. Finally, the AER has no sections covering portfolio priorities, what the Budget does, and what the Executive will do with the money as these will appear in the Draft Budget in September/October. Committees can, however, refer back to Draft Budget 2004-05 as necessary.
4. Those developments apart, the arrangement whereby the Executive will cost any specific spending options Committees want to pursue, if these go beyond the simple identification of Levels 2 and 3 programmes as priorities, will continue. Parliament's recommendations will be discussed by Cabinet in the summer. The Finance Committee will assess Committee recommendations against the revised budget strategy. Subject Committees should ensure that their advisers are



aware that whilst they may raise process issues in their advice, the format of the documents needs to be consistent with the agreement between Parliament and the Executive, and responsibility for the process remains with the Finance Committee.

5. The Finance Committee recognises that there may be budgetary issues which are internal to their subject area, and Committees can address these directly with the Ministers concerned. The Finance Committee, however, shall receive a corporate response from the Executive regarding the overall issues raised in its Stage 1 Report. It would therefore welcome responses from the subject Committees on the undernoted key questions:

- Is the Committee satisfied that progress has been made over any outstanding issues made in its recommendations last year?
- In the context of the 2005-06 budget, does the Committee wish to recommend any realignment of resources within the Departmental Expenditure Limit (DEL)\*? Committees should note that any increase proposed for programmes must be balanced by a compensating reduction from other programmes within their portfolio.
- In the context of the forthcoming Spending Review which is expected to provide for a lower rate of growth in real terms than SR2002, which programme(s) should be given priority in the allocation of resources? If Committees recommend more than one programme (at Level 2 or 3) these should be ranked and the case for the priority made. If the Committee feels any programme should be a low priority within the portfolio, it should state which and why. Finally, if the Committee wishes to identify a specific proposal **below** Level 3, it can do so, and the Executive will cost this if necessary.
- As the Executive's budget strategy has been extensively revised and focussed on crosscutting themes, the Committee's view on this approach and its relevance to its responsibilities would be welcome. In short, is the Committee content with the new strategy?
- The performance reporting material sets out progress so far against portfolio targets. How does the Committee view that progress; does it consider the targets are challenging enough and are they appropriate?; and does it feel there are any gaps in the targets?
- What written evidence is available to the Committee in making its recommendations, and from which individuals and organisations did it take evidence?

\* Committees will notice there have been significant increases in Annual Managed Expenditure (AME) but this is ring-fenced

**Enterprise and Culture Committee**

**Meeting 20 April 2004**

**Budget Process 2005-6 – a Briefing Paper by  
the Budget Adviser**

1. The publication of the *Annual Expenditure Report (AER)* marks the beginning of this year's budget process, which is also a Spending Review year. As a result, subject committees are asked to advise on spending priorities within their responsibilities. However, 'growing the economy' is a crosscutting objective as well as a portfolio objective, so this paper provides comment on spending plans across a range of portfolios.
2. The AER contains a new statement of strategy and priorities; an assessment of performance against the portfolio targets set out in previous budgetary documents; and an updating of the expenditure plans for 2005-6. The material on "what the budget does" and "what we shall do with the money" and "portfolio priorities" will now only appear in the Draft Budget, and the 2004-5 version should be referred to as appropriate.
3. The guidance from the Finance Committee sets six questions for the committees. As Questions 1 and 6 need administrative responses, I shall concentrate on providing comment to assist you to address Questions 2-5.
4. "*Does the committee wish to recommend any realignment of resources within the DEL?*" The AER reports only modest changes to the 2005-6 expenditure plans, but the overall pattern remains as reported in my earlier paper. The ELL budget as a whole, is growing less than the overall budget increase, whilst the budgets of the enterprise agencies are *falling* slightly. So too are the budgets from European Structural Funds. Any such realignment would have to be "self-financing" within the portfolio, and in terms of realism, would in practice be *within* the increment of growth over 2004-5.
5. The Finance Committee is also seeking recommendations for high and low priorities in the Spending Review. The rate of growth should fall in SR 2004, but there will still be real growth in funding available. Communities are asked to rank these if more than one recommendation is made, and recommendations can be made for specific projects below Level 3.

6. The third question relates to the new strategy . *Is the committee content with the Executive's new budget strategy?* This is set out in the introductory chapter, and it identifies four key challenges – the need to grow the economy; deliver excellent public services; build stronger and safer communities; and revitalise democratic frameworks. The Executive regards these themes as interlinked objectives rather than competing priorities, with sustainable development as a thread running through all four themes.
7. *Economic growth* is a major crosscutting priority as well as a portfolio programme. My earlier paper advocates a more systematic and transparent approach to priority-setting. In last year's process, Mr Wallace argued that the low rise of growth in the ELL budget needed to be seen in the wider context of growth in programmes which assist economic development, naming transport in particular, which was in the ELL budget in SR 2002.
8. It is certainly the case that other budgets can contribute to economic growth. In a recent paper for the Finance Committee, Professor Peter Wood distinguished expenditure which is intended to increase economic activity (i.e. promotes economic growth) from expenditure which supported economic activity. Professor Wood notes that almost any spending has *some* economic effect, and his approach was to focus on programmes where the impact is significant – roads, transport, education and ESF. Primary economic development expenditure also included programmes within the Environment and Rural Development Budget (See his Tables 2.1 and 2.2 page 6).
9. This research covers the budgets of 1999-2000 to 2004-5. It shows that economic development spending covered 5.5% of the Scottish Budget, whilst support spending covered 13%. He concluded that, over time, *primary spending* has *not* experienced sustained growth, (10% in real terms) over the period, whilst *support spending* has grown much faster (22%). These findings however, need to be qualified by the subsequent conclusion that the *relative budget share* of both categories has fallen since 1999. This is consistent with the findings of our SPICE paper (Midwinter and Burnside 2004) that the ELL budget grew far less than the Scottish Budget as a whole.
10. Professor Wood's paper also shows that the growth in support spending has been in public transport and schools spending – not roads – and that higher and further education spending has also experienced “noticeably slow” growth (p 16). The committee may wish to raise these findings with the Minister during the budget process.

11. *Does the Committee consider that suitable progress has been made on ELL targets, are these challenging and relevant, and are there any gaps in targets?*

The ELL portfolio has fourteen targets. Of these thirteen are reported as being on course, and one as showing slippage. Of these fourteen targets, some are outputs, some are outcome measures, and others are organisational targets. An output increases the product of a service, whilst an outcome has a societal impact. Organisational targets refer to efficiency in service delivery, and policy and practice. In my judgement, targets 1, 2, 5, 6, 7 and 9 are outcome measures, targets 4, 8, 10, 11, 12, 13 and 14 are outputs measures, and Target 3 is an organisational measure. The committee's views on the relevance and toughness of these targets would be helpful.

12. My final point relates to gaps in funding and targets. The committee may have helpful insights into such gaps on the basis of its ongoing work. Particularly in the case of funding gaps, it could put down a marker for future budget rounds – as such proposals would require subsequent financial appraisal and policy development.

Professor Arthur Midwinter

**Table 1: Enterprise and Lifelong Learning Plans**

<b>Programme</b>	<b>2004-5 (£m)</b>	<b>2005-6 (£m)</b>	<b>% Change</b>
Student Awards Agency for Scotland (SAAS)	370.30	368.62	-0.45
Scottish Higher Education Funding Council	787.40	824.99	+4.77
Scottish Further Education Funding Council	474.27	506.70	+6.84
Scottish Enterprise	448.90	441.11	-1.73
Highlands and Islands Enterprise	92.50	92.47	-0.03
Regional Selective Assistance	40.21	48.21	+19.89
Other ELL	115.89	145.8	+25.18
<i>European Structural Fund</i>			
a) Support to Local Authorities	64.40	57.20	-11.8
b) Central Government	82.15	81.10	-1.28
<b>Total ELL</b>	<b>2476.02</b>	<b>2565.48</b>	<b>+3.61</b>
<b>Scottish Departmental Expenditure Limit (DEL)</b>	<b>21445.59</b>	<b>22966.06</b>	<b>+7.08</b>
<b>Scottish Total Managed Expenditure (TME)</b>	<b>25071.01</b>	<b>27135.43</b>	<b>+8.23</b>

## KEY TRENDS IN THE SCOTTISH BUDGET 1999-2003

ARTHUR MIDWINTER & ROSS BURNSIDE

At its Away Day in Dunkeld on 27 August 2003, the Finance Committee agreed that a paper covering key trends in spending and outputs should be produced to inform the Committee analysis of the UK Spending Review Process in 2004.

Real terms changes in spending are difficult to measure over the first period of the Parliament because of the staged introduction of Resource Accounting and Budgeting (RAB). This paper utilises spending data from 1999-2000 to 2002-03, provided by the Scottish Executive to the Finance Committee for its Review of Children in Poverty, as it is on a consistent accounting basis.

Last month Arthur Midwinter produced a briefing highlighting outturn trends for all identifiable government expenditure in Scotland from 1997-2001, using data from the Government Expenditure and Revenue in Scotland (GERS) reports. In this paper, we focus on allocation between 1999 and 2002 in the Scottish Budget.

It is recognised that the issues raised in this paper over priority setting require political judgement, usually on the basis of imperfect information. Our objective is to highlight key issues to assist robust scrutiny of the Executive's proposals in the forthcoming Spending Review. In short, it is a background paper with limited information at the beginning of a comprehensive budget review exercise, and should be treated as such, rather than a fully developed assessment of recent performance.

Much of the information contained in this briefing is of relevance to the subject committees looking at the budget, and may assist them in their budget scrutiny.

Arthur Midwinter is Budget Adviser to the Finance Committee.

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## KEY POINTS OF THIS BRIEFING

- *Building a Better Scotland* (BABS) (Scottish Executive 2002) outlines five Executive priorities, namely health, education, crime, transport and jobs, and two cross-cutting priorities, namely closing the opportunity gap and sustainable development. The Executive, however, have not defined what it means by a policy area being a “priority.” This paper will assess whether the Executive priorities presented in BABS could be deemed “spending priorities”
- For the purposes of this paper we have determined a “spending priority” to be a budget area receiving a higher than average percentage increase in expenditure. Over the period covered in this paper, the average budget increase in real terms was 12.9%
- When looking at budget increases in percentage terms, however, one must proceed with caution. For example, if expenditure is at a low base level, the same absolute rise in expenditure will produce a higher percentage increase than it would if the increase was from a higher base level. For instance, expenditure on Children and Education increased by 55.5% between 1999-00 and 2002-03, with a real terms increase of £111.1m. Compare this with the local government budget where spending base levels are high. From 1999-2003, in percentage terms the local government budget increased by a below budget average level of 8.7% despite an increase in real terms expenditure of £519.2m
- Budgets in the first parliamentary session reveal that roads and transport, health and closing the opportunity gap (which comes under the Communities budget) have been Executive spending priorities; school education has received an average increase; whilst programmes which contribute to the jobs and crime priorities (Enterprise and Lifelong Learning, Justice and Crown Office) were not priorities in spending terms
- Analysis of available output information shows that percentage increases in identified outputs are significantly lower than the percentage increases in expenditure. Some of the gap between outputs and funding increases reflects improved pay and conditions for public sector staff
- Analysis of broad “indicators of need” for services reveal that from 1999 to 2002 there were reductions in the numbers of school pupils, medical patients and reported crime. There were increases, however, in road traffic levels and Higher Education and Further Education students
- Looking ahead at budget projections for 2003-04 to 2005-06 reveals Education and Young People, Transport and Health again receiving above average increases in budgetary terms, with Justice, Enterprise and Lifelong Learning and Local Government receiving below average increases. However, as is indicated in Arthur Midwinter’s (2004) GERS paper, Executive performance at outturn was inconsistent over these priorities, and the Health and Education increases were both below average
- The briefing concludes by raising issues that the Finance Committee and subject committees may want to pursue further with ministers and others during their scrutiny of this year’s budget

## INTRODUCTION

The Executive's approach to budget-making aims to link objectives and targets to resource allocation. This approach was outlined in the foreword to *Building a Better Scotland* (BABS) (Scottish Executive 2002) by the Minister for Finance and Public Services:

*“For each aspect of government presented in this report we set our high level aims and objectives so everyone can understand the policy goals we are pursuing. Moreover, we lay out in broad terms a set of targets for each, which are the results we want to achieve as a result of the Spending Review.”*

In practice, however, there can be difficulties with linking resources to results. For example, there are problems of relating funding decisions directly to targets, and problems of attributing effects directly to Executive actions, as external factors can also influence outcomes. The Executive has agreed to provide a preliminary assessment of progress in meeting targets set in BABS, and updated in the new Partnership Agreement. Some of these are outcome measures, others measure aspects of organisational efficiency, and others are qualitative.

The purpose of this briefing is more limited. It seeks to inform the Parliament's consideration of the 2004 UK Spending Review by providing an overview of some of the key trends in the Scottish Budget since the start of the Parliament in 1999. It covers both **trends in budgets**, and **trends in outputs** for major services. In public finance terms, an *output* (for example, the number of teachers) stems from *inputs* (for example, the amount of funding for school education) which should facilitate the desired *outcomes* (for example, improved educational performance).

Recent years have seen unprecedented growth in public spending, and the increased levels of resources will have facilitated increases in service capacity in the major public services. For some key public services, staffing levels are considered important indicators of capacity and can be regarded as improved quality. For example, an increase in the number of school teachers which helps reduce class sizes in education can in qualitative terms be regarded as improving the service as it allows teachers to give more individual attention to pupils. Similar arguments pertain with regard to doctors and patients; or social workers and clients.

However, measuring success in public sector outputs is not always straightforward. Indeed, the importance of staffing capacity makes the application of productivity measures difficult to apply sensibly in public services. For instance, a doctor who treats more patients might be deemed more productive, even if treating more patients leads to more mistakes through human error. Another complication in terms of measuring the benefits of increased funding comes from the fact that a proportion of the increased expenditure will have been spent on tackling some of the more fundamental problems of key worker groups, like the salary and working conditions of teachers or junior doctors. This paper does not attempt to quantify these kind of effects on the services we are examining, however, it is an area where further primary research would be useful.

## THE TRENDS IN SCOTLAND

### BUDGET TRENDS

The spending data we present in this paper is provided on a portfolio basis, at Level One. The output data we provide is by staffing category or by physical outputs such as houses completed

and road mileage built. We have chosen the particular outputs based on the information available. We have not utilised all programmes, as some of these are for specific initiatives and are not directly related to the services we have identified for this briefing. Examples of budgets not included in our analysis are Modernising Government, New Deal, or the costs of the Scottish Parliament or Scottish Administration. These cover very small portions of the budget.

The focus of this briefing is on *education, health, police, roads and transport, housing and social work*. *Education* is funded through the Education and Young People portfolio *and* the Local Government budget for school education *and* the Enterprise and Lifelong Learning portfolio for higher and further education. *Health* is funded in the Health portfolio budget; the *police* is funded in the Justice and Local Government budgets; *roads and transport* are funded through the Transport and Environment and Local Government budget; *housing* is funded through the Communities budget; and *social work* which is funded mainly through the Local Government budget, with some training costs funded in the Children and Education budget. Together, these services broadly correspond to the five functional priorities of the Executive (Health, Education, Crime, Transport and Jobs) and the closing the opportunity gap cross-cutting priority, which were outlined in *Building a Better Scotland* (Scottish Executive 2002).

The trends in spending in real terms are set out in Tables 1 and 2. Table 1 shows that there were major increases in real terms in the *Children and Education; Communities and Transport and Environment* budgets, well above the Scottish average; whilst the *Health* budget grew by about 1% per annum more than the Scottish Budget average. However, *Enterprise and Lifelong Learning and Local Government* programmes received well below average increases, while the *Justice and Crown Office* programmes broadly stood still in real terms.

**Table 1: Budget Trends (1999 price base)<sup>1</sup>**

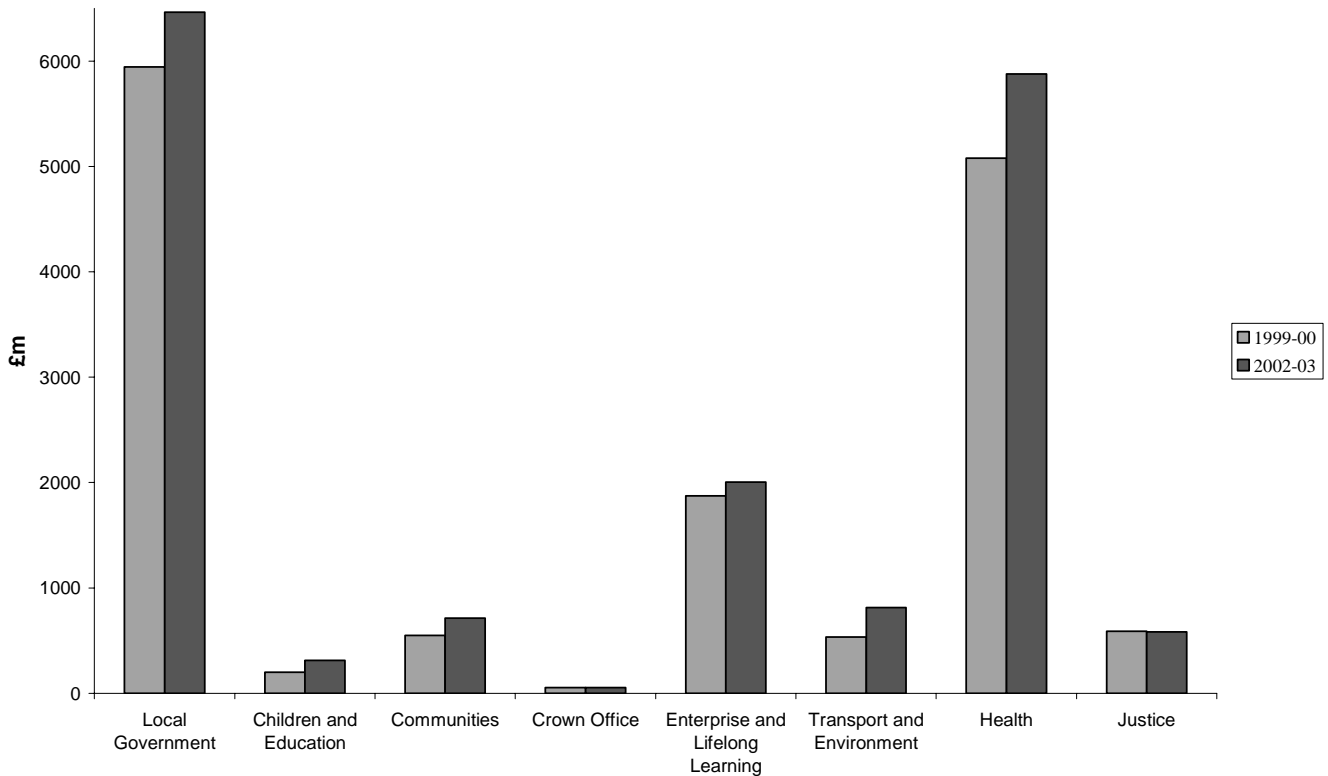
	1999-00	2002-03	Increase	Increase
	£m	£m	£m	%
Local Government	5945.8	6465	519.2	8.7
Children and Education	200.1	311.2	111.1	55.5
Communities	549.5	715.7	166.2	30.2
Crown Office	55.8	54.6	-1.2	-2.2
Enterprise and Lifelong Learning	1872.9	2004.4	131.5	7
Transport and Environment	535.1	813	277.9	51.9
Health	5079.1	5878.2	799.1	15.7
Justice	588.7	584.3	-4.4	-0.7
<b>Scottish Budget Total</b>	<b>16302.7</b>	<b>18417.3</b>	<b>2114.6</b>	<b>12.9</b>

Source: Scottish Executive 2003c

Figure 1 below serves to visualise the increases in percentage and money terms. For example, although local government has had a below average increase of 8.7%, it is the budget with the largest base level, suggesting that one must approach with caution when looking at budgets purely in terms of percentage increases.

<sup>1</sup> The figures in table 1 do not add up to the "Scottish Budget total" as programmes not included in our analysis have been excluded.

**Figure 1: Budget Trends (1999 price base)**



Source: Adapted from Scottish Executive 2003c

Over the four-year period, the Executive's expenditure on its five stated priorities for the 2002 spending review (Scottish Executive 2002) was variable. These priorities, however, also receive funding support through the local government block grant, and Table 2 sets out the Grant Aided Expenditure (GAE) provision for the same period for the related local government services.

**Table 2: Funding for Local Government – GAE Provision for Key Services (1999 price base)**

	1999-00	2002-03	Increase	Increase
	£m	£m	£m	%
Education	2573	2816.5	243.5	9.4
Social Work	1100.1	1227.8	127.7	11.6
Police	714.7	766.2	51.5	7.2
Fire	178.5	198	19.5	10.9
Roads and Transport	322.9	543.4	220.5	68.3
<b>Scottish Budget Increase</b>				<b>12.9</b>

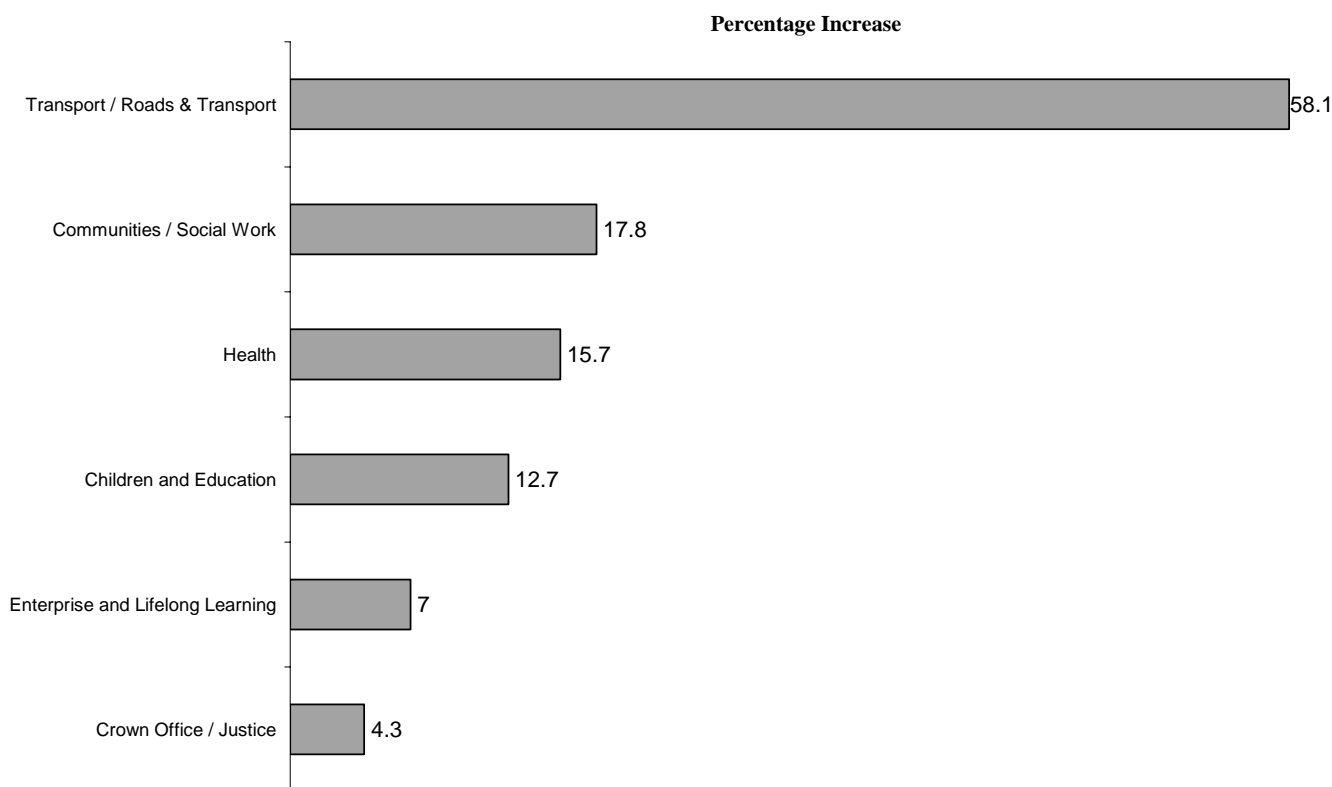
Source: Scottish Office 1998, Scottish Executive 2002b

Table 2 reveals that increases for all these services, apart from Roads and Transport, are below the Scottish Budget average. When the education GAE is combined with the Children and Education central government budget, the education increase does not look as dramatic as it does in Table 1, with a 12.7% increase, broadly in line with the average Scottish Budget

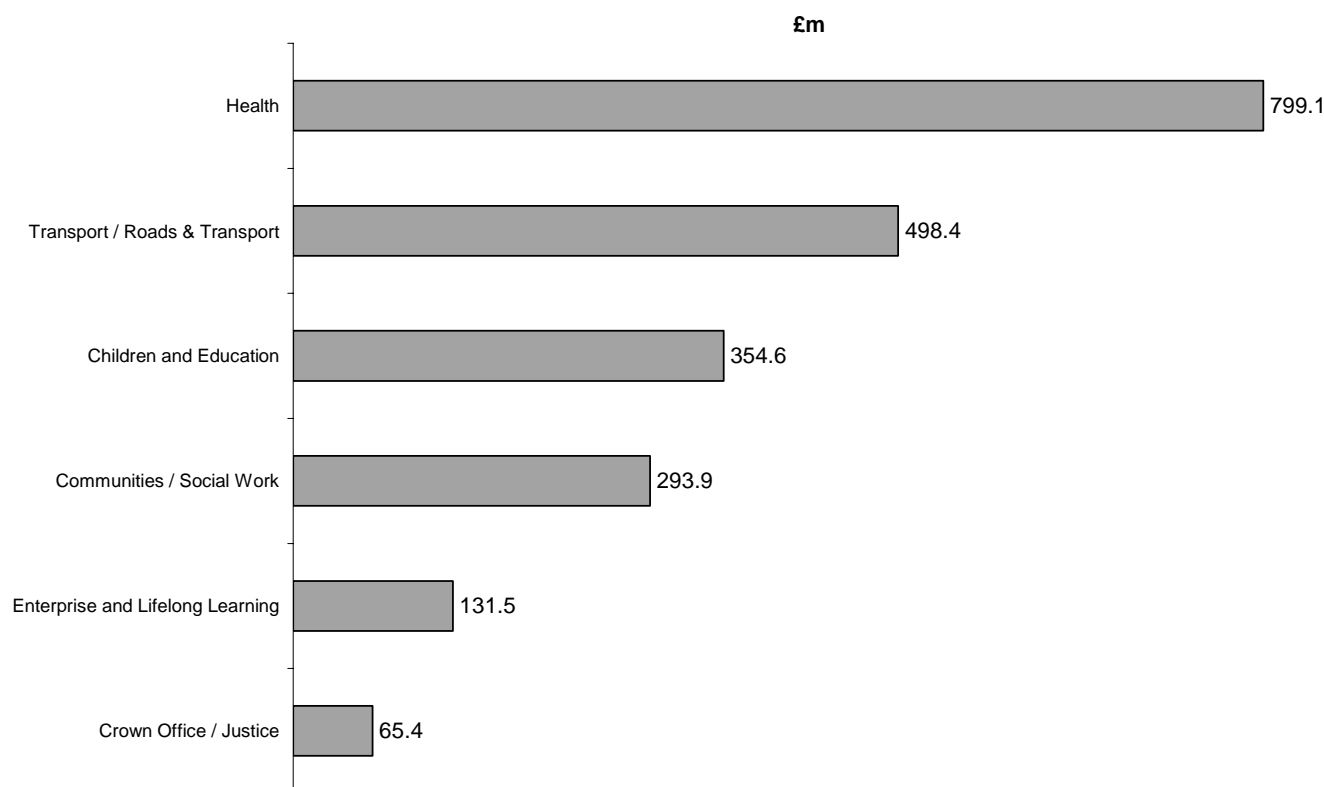
increase. Social work, which is important for the social justice agenda, is also in line with the average, whilst the police increase is less than the Scottish average.

Taken together, tables 1 and 2 reveal that roads and transport, health and closing the opportunity gap (which comes under the Communities budget) have been Executive spending priorities; school education has received an average increase; whilst programmes which contribute to the jobs and crime priorities (Enterprise and Lifelong Learning, Justice and Crown Office) were not priorities in budget allocations. Figures 2 and 3 combine the information provided in the above tables, with figure 2 showing the percentage increases and figure 3 showing the absolute increases in monetary terms. Despite Health having the largest monetary increase over the period covered, it is the third largest budget in percentage increase terms.

**Figure 2: Percentage increases (including Local Government Grant Aided Expenditure)**



**Figure 3: £m Absolute increases (including Local Government Grant Aided Expenditure)**



## OUTPUT TRENDS

In terms of the increased outputs obtained from this additional funding, some of the results (based on the available output data) are set out in Table 3. This shows the most significant increase in output was in health staffing, but that in all cases the changes were significantly lower than the funding increases. As mentioned above, some of the gap between output and funding increases will reflect improved pay and conditions for public sector staff, but in the context of population decline of 0.2% per annum (General Register Office for Scotland), the growth in funding provided a good opportunity to improve the quality of services, and also to make progress against the targets set by the Executive in the budget documents.

**Table 3: Trends in Key Service Outputs**

Output	1999	2002	% change
New Housing Completed	4992	5171	3.6
Teaching Staff	53599	52802	-1.5
Police Staff	14784	15225	3
NHS Staff	135847	143074	5.3
Social Work Staff	33828	34683	2.5
Road Mileage	53523	54592	2
Local Bus Services	434	441	1.6
Air Journeys	16144	19890	23.2
Water Journeys	4803	4874	1.5
Rail Journeys	67.5m	62.2m	-7.9

Source: Scottish Executive 2000, 2003b, 2003d, 2003e 2004, CIPFA 1999, 2002, HM Inspectorate of Constabulary, NHS Scotland ISD.

We have been unable to obtain directly comparable data for academic staffing levels in further and higher education. Over the period 1998-2001, the number of full-time academic staff in higher education fell by 6.5% from 8855 to 8279, whilst the numbers in further education remained stable – at 4882 in 1998 and 4877 in 2001. In both levels of education, there were increases in part-time and temporary teaching staff, and full-time teaching only staff (a low cost option compared with conventional academic staff who also undertake research). This suggests there was a decline in staffing levels in higher education, but modest increases in further education.

As table 3 shows, however, the scale of the increases in outputs is significantly lower than the real terms increases in the Scottish budget of some 4% per annum over these three years. Members may wish to explore these issues further prior to the Spending Review. It is also fair to record that some 6% of Total Managed Expenditure is on capital programmes, which by definition do not lead to changes in staffing levels (Scottish Executive 2003).

## DEMOGRAPHIC CHANGES

It is worthwhile analysing how these trends compare to the *demographic changes in the client groups* which use these particular services. Overall, the Scottish population is in modest decline and shows increased longevity, putting extra pressure on health and social work services in particular. There are useful broad indicators of **need** for a service and these are outlined in table 4 below. From the data available, there have been reductions in the total numbers of school pupils and medical patients. There was also a fall in reported crime; and increases in road traffic and students in further and higher education. We note that the latter increase is in a programme which has been given low budget priority, whilst the decreases in client groups for health and school education are in programmes given higher budget priority. We acknowledge that assessments of need are complex, and indeed increases in supply can result in increases in “need” (for example, transport). However, at the strategic level of the Scottish budget, the indicators presented in table 4 highlight issues for further consideration.

**Table 4: Trends in Need Indicators**

	1999	2002	% change
School Pupils	807172	792526	-1.8
Reported Crime	934886	927972	-0.8
Traffic levels	39591	41279	4.2
GP Patients	3932895	3855636	-1.9
Hospital Patients	5401198	5224181	-3.3
FE Students (full-time)	333000	353640	6.1
HE Students	119000	121100	1.7

Source: Scottish Executive 2003b, 2003f, 2004. CIPFA 1999, 2002, NHS Scotland ISD.

In part, some of the decreases reflect the general pattern of population decline and low birth-rate in recent years. Population decline looks set to continue for some years, and raises the interesting budget dilemma as to whether this should be used as an opportunity to increase standards of provision, or redistribute resources to other programmes facing pressures for growth, or indeed consider tax reductions to citizens.

## FUTURE PRIORITIES

Table 5 outlines the percentage increases for spending plans for period 2003-04 to 2005-06 produced in *Draft Budget 2004-05* (Scottish Executive 2003). When compared with the past trends for expenditure during the first parliamentary session, they reveal similar patterns of change. For instance, they show Education and Young People, Transport and Health again receiving above average increases, whilst Justice, ELL and Local Government remain low priorities, whilst the Communities budget moves from being a high to a low priority. When GAE figures are examined (see table 6), roads and transport receives a below average increase, whilst the other major local services are all around the average. These trends suggest that after five years of broadly consistent patterns of change, that if there is a political desire for discretionary funding to be directed more at the designated "priority" areas then a change in funding policy may be required.

**Table 5: Budget Increases 2003-04 to 2005-06 (in real terms)**

<b>Programme</b>	<b>% change</b>
Support for Local Government	4.5
Education and Young People	37.3
Communities	3.3
Crown Office	0.2
Enterprise and Lifelong Learning	3.7
Transport	11.8
Health	12
Justice	4.9
Other Programmes	1.6
<b>Scottish Budget</b>	<b>7.3</b>

Source: Scottish Executive 2003

**Table 6: GAE provision in Spending Plans for 2003-04 to 2005-06 (1999 prices)**

<b>Programme</b>	<b>2003-04</b>	<b>2005-06</b>	<b>Increase</b>	<b>Increase</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Education	3409	3663	254	7.4
Social Work	1629	1726	97	6
Police	889	949	60	6.7
Roads and Transport	426	436	10	2.3
Fire	233	249	16	6.9
<b>Scottish Budget Real terms % Increase</b>				<b>7.3</b>

Source: Scottish Executive 2002b

## AREAS FOR FURTHER CONSIDERATION

The trends identified in this paper merit further investigation. For example, the decline in patient numbers for the NHS appears at odds with the importance given to waiting times. As Andrew Walker reported to the Finance Committee (Scottish Parliament Finance Committee 2003), Scotland's health has been improving since 1994 according to the Budget documents (although it is worth noting that in *relative* terms it remains poor) and that this will reflect changes in diet,



lifestyle, income and other public investment (for example, in housing) as well as health care. Does this question the priority given to health? There are a number of issues where trends are complex to understand, and further analysis would be of use.

Questions where further research would be useful include:

- Is the declining priority given to Communities a matter for concern given recent arguments over housing shortages?
- Does the low priority being given to Enterprise and Lifelong Learning in budgetary terms need to be addressed? Ministers have responded by highlighting the increases in Transport spending which benefits economic development. Are members satisfied with this response given that transport **and** jobs were identified as separate priorities by the Executive?
- Is the continuing high priority given to health advisable, given the importance of other factors in health improvement?
- Are the low increases in the Justice budget a matter for concern, given the crime priority stated by the Executive?

It may be that the relevant subject committees may want to look into these questions as they consider this year's budget at the various stages in its cycle.

We have noted that a significant element of the funding growth was committed to increasing public sector pay over this period, and that to some extent this was to be expected given the longer term trend of private sector pay increasing faster, and the recent settlements reached with various groups of public sector professions. It should also be noted that private sector earnings *grew faster* than public sector pay each year during the period of this review (Royal Bank of Scotland 2003). However, the Royal Bank of Scotland (2003) also concludes that public sector pay is **currently** expanding at an annual rate of 5.6%, "nearly double the rate in the private sector." Parliament may want to consider whether some form of indicative pay benchmark should be provided by ministers in the budget documents, as the scope for service improvements may be constrained by these settlements. This problem is also discussed in the Chancellor's *Pre-Budget Report* (HM Treasury 2003). As mentioned above, it is also important to note that some 6% of Total Managed Expenditure is on capital programmes, which by definition do not lead to changes in staffing levels (Scottish Executive 2003).

The issues raised in this briefing are complex and the Finance Committee and subject committees may want to pursue them with Ministers, and draw them (and others) to their attention. Comments and observations on the trends identified in this paper would be welcome, particularly from the subject committees to which the issues raised in this briefing primarily pertain (namely, Communities, Education, Enterprise and Culture, Health, Justice and Local Government and Transport).

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## Enterprise and Culture Committee

### Submission from sportscotland

#### Stage 1 Scrutiny of Budget process 2005-2006

##### Introduction

**sportscotland** is the national agency dedicated to promoting sporting opportunities for all Scots at all levels. We invest government grant and Lottery in an integrated way which is designed to concentrate on needs agreed with our partners. Our investment decisions are based on consideration of the national strategy for sport Sport 21 2003-2007: Shaping Scotland's Future. Our corporate plan for 2003-2007 (copy included with this submission) sets out how we will contribute to the delivery of the national strategy and how we will measure ourselves over the four years of the plan. Our corporate plan also identifies the importance of Scottish Executive priorities contained in its coalition agreement, 'Partnership for a Better Scotland'. The contribution of sport is recognised in the Partnership Agreement and we are working with the Scottish Executive to deliver that contribution and deliver the national priorities for sport which are outlined in this submission.

It is not possible at this stage for **sportscotland** to provide detailed information about its budget allocation for the financial year 2005-2006. We have instead provided information based on the 2004-2005 financial year which is outlined in detail within our Business Plan and Corporate Plan covering the two years 2003-2004 and 2004-2005. The investment summary attached shows our intended spend for 2004-2005 in each of the investment priorities identified in our corporate plan. These investment priorities are, in turn, broken down by key building blocks, with an agreed plan for their delivery. An example of an investment area plan is also attached as a guide. On the face of it the figures quoted in the investment summary make encouraging reading with a total budget of £55 million. This demonstrates a £16 million increase in our budget from the previous year. The trends in the twin funding sources to hand our budget are contained in Table 1.

The budget will be invested in an integrated way as a result of feedback from partners reported in our recent organisational review. Integration involves:

- The integration of Lottery and Exchequer funded programmes.
- The creation of a one-stop shop application process including openly communicated planning figures, upfront partnership work, and a revised panel process.
- Upgrading of the IT system that supports our organisation.
- Improving the way we work together internally.

The majority of this investment will be spent on the national priorities i.e. Sport 21, Active Schools the National and Regional Sports Facilities strategy and the review of Scottish Football.

## **Sport 21 2003-2007: Shaping Scotland's Future**

Published in 1998 Sport 21 was the subject of a major consultation exercise involving all the partners in Scottish sport before it was updated and re-launched in March 2003. As the national agency responsible for the development of sport **sportscotland** was responsible for managing and co-ordinating the review of Sport 21. It is important, however, to recognise that implementation of Sport 21 is not the responsibility of one organisation. Implementation of the strategy relies heavily on a partnership approach.

### **Raising Our Game**

'Raising Our Game **sportscotland** Lottery Fund Strategy 2003-2007' describes how we will deliver our responsibilities for distributing a share of the National Lottery funds for the benefit of sport in Scotland. In it we express our commitment to the same broad principles set out in the first strategy that covered the years 1999 – 2003. We will continue to ensure that Lottery funding is available across the whole of Scotland with social deprivation and community planning uppermost in our minds.

### **sportscotland Corporate Plan 2003-2007**

The targets contained in **sportscotland's** corporate plan are inspired by the national strategy for sport – Sport 21. We recognise that the delivery of these targets rely heavily in adopting a partnership approach with key organisations throughout Scottish sport. We have re-structured our organisation so that we can work more closely with our partners particularly at the planning stages of their work. This has led to the integration of our two main funding sources so that investment can now be focussed on the needs agreed with our partners, regardless of the funding source, and not restricted by a predesigned programme. Our plan identifies seven investment priorities on which we will focus in working closely with our partners.

This plan is supported by an annual Business Plan. It is the formation and implementation of this latter plan that assures our funding is clearly linked to our Corporate Plan targets. The Business Plan sets out what we will spend, on what we will spend it, what we need to deliver and the outcomes the expenditure is to obtain. It is the monitoring of this Plan which assures that our investment is delivering towards achieving the targets of Sport 21.

### **Other National Priorities**

#### Active Schools

In February 2003, the Scottish Executive launched the National Physical Activity Strategy and clearly defined the following areas of focus:

- Active Schools
- Active Communities
- Active Workplaces
- Active Homes

The Scottish Executive is now using these areas as frameworks to organise the range of partnerships and actions that we will need to help make Scotland more active under the banner of the Healthy Living Campaign. Since 1999/2000 **sportscotland** has been responsible for the Active Primary School Programme, School Sports Co-ordinators Programme and the Top Play Top Sport (TOPS) Programme. As a result of the successful work in this area **sportscotland** has received an additional budget of £9 million in 2004-05 (total budget of £24 million over 3 years) to roll out this activity under the Active Schools agenda.

### National and Regional Sports Facilities Strategy

In March 2003 the Scottish Executive announced its intention to develop a regional network of sports facilities. Almost £30 million of funding – including resources of £16 million previously set aside for the Euro 2008 bid – has been set aside to underpin the strategy which is dependent on Lottery funding of £21 million from **sportscotland** and investment from local authorities working in partnership with the Executive and contributing to capital costs. **sportscotland** is managing delivery of the strategy on behalf of the Executive and applications to develop the facilities have been invited by 31 March 2004.

### Review of Scottish Football

At the time of writing this submission an announcement, about a review of Scottish football following the Scottish Football Association's appointment of consultants to conduct what was initially a review of youth football development in Scotland, has been made by the Scottish Football Association, the Scottish Executive and **sportscotland**. This will result in £31.1 million being invested in an action plan for youth football over the next ten years.

### **Other Funding Sources**

At **sportscotland** we also work closely with the New Opportunities Fund which is investing significant resources into sports related programmes including £87 million into its PE and Sport Activities Programme. It will fund PE and Sports facilities, out of school hours activity and an Active Steps strand designed to address anti-social behaviour by young people. NOF will also be investing a further £11.5 million in sport which represents Scotland's Lottery share of £100 million made available following the announcement by the government to support a London 2012 Olympic bid.

In addition **sportscotland** is, on behalf of NOF, investing £2.5 million from the Out of School Hours Learning budget, which complements the investment in Active Schools, demonstrating an effective way of working in partnership with other lottery distributors.

Such extra investment will sit alongside continuing funding by the major partners of Scottish sport, national governing bodies and local authorities. Governing bodies spend over £38 million annually (including circa £3 million of grants from **sportscotland**). However, the most significant funding source is local authorities. They spend over £350 million annually, the clear majority of which is spent in the widening opportunities and developing potential parts of Sport 21's vision. At **sportscotland** our new structure has seen us appoint Partnership Managers to work strategically with both Scottish Governing Bodies of Sport and local authorities to

ensure more co-ordinated use of our resources and the resources available to our partners. This has the added benefit of being able to demonstrate consideration of Best Value issues to the Scottish Executive in our quest to attract more resources for sport. Best value considerations are also uppermost in our minds when carrying out evaluation of our investment in the facilities and programmes we deliver with our partners.

Best Value is also a primary consideration in **sportscotland's** approach to minimising our administration costs (see Table 2). We have just completed a Best Value external review of our administration and support services.

On the face of it this presents a positive picture in relation to the investment made in Scottish sport. However, **sportscotland's** Lottery Strategy, 'Raising Our Game **sportscotland** Lottery Fund Strategy 2003-2007', identified that our future investment decisions will be made with fewer resources (see Table 1). In the strategy we reported that Lottery income for sport in Scotland has dropped from a peak of £32 million in 1998 to around £18 million and that it is highly unlikely that we will be able to maintain current levels of investment beyond 2007. More recent projections have identified that the impact of a successful London Olympic bid could further diminish the income of **sportscotland** and the investment in Scottish sport more generally. If the bid is successful it is likely that from 2005 onwards the development of an Olympic Lottery Game, 'Penny Lottery', will begin to impact on the level of Lottery funding available to sport and the other good causes.

Whilst we are greatly encouraged, therefore, by the significant investment that continues to be made by local authorities, governing bodies and the Scottish Executive there are existing threats to the sustainability of investment in sport. This brings into question **sportscotland's** ability to ensure the long-term funding of the Scottish Institute of Sport network that includes the Headquarters at Stirling and the six Area Institutes throughout the country.

### **Infrastructure of Scottish Sport**

The Scottish Institute of Sport has become a vital part of the infrastructure of sport in Scotland and yet continues to rely exclusively on Lottery funding, £16 million over four years to 2007, provided by **sportscotland**. Urgent consideration needs to be given to mainstreaming of the Scottish Institute of Sport structure due to its importance to the overall structure of Scottish sport. This would have the added benefit of taking some pressure of the diminishing income available to **sportscotland** from the Lottery. Currently **sportscotland** investment in Achieving Excellence is around £10.5 million representing 57% of Lottery income in 2004-2005 and 48% of our total investment strategy. Further exchequer funding in the infrastructure of Scottish sport could provide welcome stability and free Lottery resources for further investment in programmes.

In relation to the infrastructure of Scottish sport **sportscotland** welcomes the Scottish Executive's decision to invest in a National and Regional Sports Facilities Strategy. The funding made available will build significantly on the facilities available to sport and we are currently considering a number of applications from local authorities and partners to work in partnership to deliver such facilities.

It is vital, however, that the facilities strategy should be seen in the context of a decaying facilities infrastructure throughout the country. **sportscotland** has been conducting an audit of the state of Scotland's sports facilities on behalf of the Scottish Executive, who funded this work, and it is likely that the work on this audit will clearly identify the need for significant investment in sports facilities the length and breadth of the country. The current strain on local authority resources means that they will be unlikely to have the capacity to deliver on the recommendations of such an audit.

## **Sponsorship**

In terms of trends in financial support beyond that received from the public sector organisations **sportscotland** does get involved in the co-ordination and management of events designed to attract sponsorship into sport. The Scottish Sport Sponsorship Awards recognise excellence and creativity across the sports sponsorship scene. **sportscotland** established the awards in 2001 to reward the best in creative and effective sponsorship. We want to recognise the mutual benefits that can be gained from a sponsor's investment in sport at whatever level.

Such work does not however attract added income for **sportscotland** although we have attracted small amounts of sponsorship income in the past – 2001/02 £150,000, 2002/03 £83,000. No sponsorship income was received in 2003/04 and this was due in the main to existing sponsorship of events i.e. BP Youthfest coming to an end.



**Table 1** sportscotland - Sources of Funding

Year	Lottery Income Actual £M	Lottery Income Projected £M	Exchequer Income £M			Total £M
			Grant In Aid	End Year Funding	National Facilities	
2001-02	26.189		13.309	1.000*		40.498
2002-03	23.318		13.029	4.150^		40.497
2003-04		19.269	13.702			32.971
2004-05		18.330	21.902		6.670	46.902
2005-06		17.930	24.302		21.030	63.262

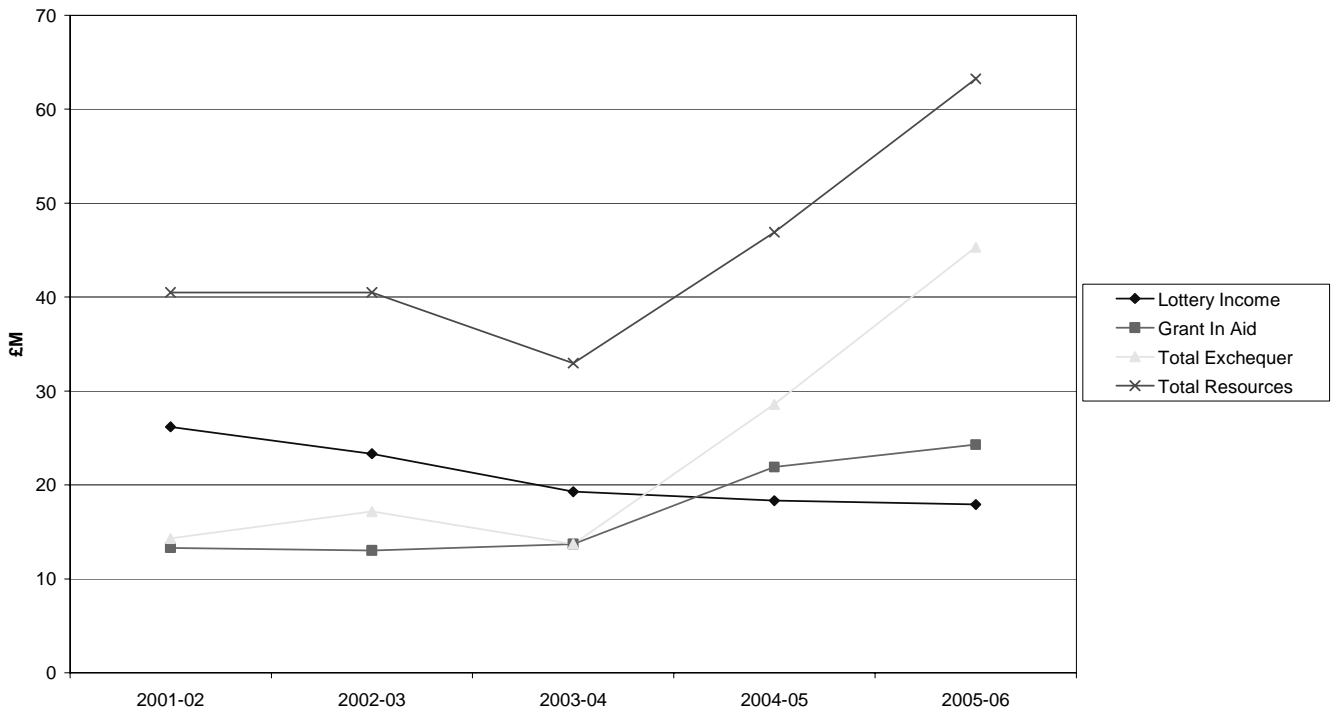
\* Mainly invested in Capital upgrades to the National Training Centres.

^ Mainly invested in Commonwealth Games Council £2.5M: Scottish Disability Sport £0.6M: Active Schools £0.4M and Sports Ambassadors £0.1M

**Table 2** sportscotland – Administration Costs

Year	Exchequer £M	Lottery £M	Total £M	Income £M	% of Income
2001-02	2.168	0.692	2.859	40.498	7.1
2002-03	2.764	0.818	3.582	40.497	8.8
2003-04	2.423	1.333	3.756	32.971	11.4
2004-05	2.500	1.491	3.991	46.902	8.5
2005-06	2.500?	1.500?	4.00?	63.262	6.3

sportscotland Sources of Funding



## sportscotland - Business Plan 2004-2005

## INVESTMENT SUMMARY

	Exchequer	%	Lottery	%	Total	%
	£		£		£	
<b>Active Schools</b>						
Active Schools Network	9,375,085		167,939		9,543,024	
Facilities Access	996,722		3,689,127		4,685,849	
Education and Training	248,979		264,843		513,822	
Total	10,620,786	38	4,121,909	15	14,742,695	27
<b>Club Development</b>						
Facilities Access	35,838		923,061		958,900	
Promotion of Good Practice	267,979		1,026,185		1,294,164	
Education and Training	333,286		23,210		356,496	
Total	637,103	2	1,972,456	7	2,609,559	5
<b>Coaching</b>						
National Strategy	75,449		9,155		84,604	
Coaching Network	1,032,149		9,155		1,041,305	
Education and Development	155,035		159,155		314,190	
Total	1,262,633	5	177,466	1	1,440,099	3
<b>Volunteering</b>						
National Strategy	234,272		9,057		243,328	
Promotion of Good Practice	36,509		209,085		245,594	
Education and Training	77,449		9,113		86,563	
Total	348,230	1	227,255	1	575,485	1
<b>Player Improvement</b>						
Athlete Pathway	659,001		32,292		691,293	
Academy Programmes	511,734		926,644		1,438,378	
Regional Facilities	6,106,177		7,721,988		13,828,165	
Total	7,276,912	26	8,680,924	32	15,957,836	29
<b>Medal Success</b>						
Athlete Support	78,489		3,115,830		3,194,319	
Institute Network	78,489		4,936,790		5,015,279	
Coach Support	78,489		1,176,790		1,255,279	
National Facilities	801,869		122,087		923,956	
Total	1,037,337	4	9,351,496	34	10,388,833	19
<b>Organisational Development</b>						
Corporate Governance	269,048		34,576		303,624	
Professional Infrastructure	1,684,237		34,406		1,718,643	
Education and Training	238,459		5,585		244,045	
Total	2,191,744	8	74,568	0	2,266,311	4
<b>Other</b>						
	142,147	1	1,017,730	4	1,159,877	2
Total	26,392,730		27,193,498		53,586,227	
<b>Corporate Services</b>						
Executive/policy/media/marketing	1,308,072		415,184		1,723,256	
Support	1,567,766		1,154,510		2,722,276	
Total	2,875,838	10	1,569,694	6	4,445,532	8
<b>Trust Company</b>	1,516,144	5	0	0	1,516,144	3
<b>Total</b>	27,908,874		27,193,498		55,102,371	

## sportscotland: Business Plan 2004-05

### Investment Area 1: Active Schools

The employment and training of key professionals and volunteers in Active Schools.

<b>Building Blocks</b>	1.1 Active Schools Staffing Network	1.2 Facilities Access and Capacity Building	1.3 Education and Training
<b>What we will spend</b>	£9,543,024	£4,685,849	£513,822
<b>What we will spend it on</b>	Appointing additional staff to the Active Schools network with a priority on managers and primary co-ordinators.	Making facility awards with a priority on indoor halls.  Developing school/club links by working strategically with local authorities to integrate service provision to schools and clubs.	Providing a planned programme of induction for all new Active Schools staff and further develop the programme of training and support for Active Schools Managers and key sports development staff.
<b>What we need to deliver</b>	Appoint an Active Schools Manager in all 32 local authorities. Appoint 93 additional Active Schools Co-ordinators (Primary) to extend network to 155.	Support at least six new/or adapted indoor halls.  Develop models of practice with a minimum of four local authorities.	Deliver a series of national, regional and local seminars and workshops focusing on induction and capacity building in both the school and community settings.
<b>Important Outcomes by 2005</b>	Increase participation in schools supported by Active Schools Co-ordinators. Increase the number of children and young people acting as physical activity and sports leaders in schools.		

#### Relevant Corporate Plan target for 2007

Deliver a national infrastructure for sport and physical activity in the school/club setting by the establishment of 270 Active Schools clusters.

Increase the number of Active Schools staff required to enable the targets of Sport 21.

	Primary	Secondary
2003-04	62	350
2004-05	155	360
2005-06	270	370
2006-07	270	370



**Enterprise and Culture Committee**

**Draft Annual Report of the Enterprise and Culture Committee for the  
Parliamentary Year from 7 May 2003 to 6 May 2004**

The Committee reports to the Parliament as follows—

**Introduction**

1. The Committee held its first meeting of the new session on 11 June 2004. The Committee's remit is an extensive one, but it has sought to cover the key areas in its first year.

**Inquiries and Reports**

*'Scottish Solutions'*

2. The Committee's first inquiry was into the impact on Scottish higher education of the introduction of variable top-up fees in universities in England. The Committee published its report, which recommended that significant additional funding would be required to maintain Scottish higher education's competitiveness, in December 2003. Copies of the report were sent to all Westminster MPs with Scottish constituencies, and the report was debated in the Chamber on 17 March 2003.

3. The Committee also commented on the apparent lack of communication between the UK government and Scottish Ministers. Following the Committee's report, a UK Liaison Team was established in the Office of the Permanent Secretary, with the stated aim of better supporting and strengthening the Scottish Executive's relations with the UK Government at both Ministerial and official levels

*Renewable Energy in Scotland*

4. From January 2004, the Committee took evidence on renewable energy in Scotland. Members have heard from a variety of witnesses, including manufacturers, petitioners with concerns about windfarms (see below), experts in energy policy, academics and a range of government agencies and regulatory bodies. In total, the Committee has received more than 150 written evidence submissions and taken oral evidence from witnesses.

5. Members of the Committee visited Denmark to explore its experience of renewable energy policy development. The small group of members met with politicians and officials, and visited a number of renewable energy sites.

6. The Committee also went to Campbeltown on the Kintyre Peninsula, where the Celtic Vestas plant provides employment for around 200 local people in making wind turbines. Members held an open public meeting as well as a formal Committee meeting, and around 60 members of the public were able to attend to give their views. The Committee visited the Celtic Vestas factory, and were able to see wind turbines at the Beinn an Tuirc windfarm in operation at windspeeds of 23 metres per second. A draft report is currently in preparation.

#### *Broadband in Scotland*

7. The Committee has followed up on a report published by its predecessor committee in the first session on the roll-out of broadband in Scotland. Following an open call for evidence, the Committee has taken oral evidence from telecomms companies, business and social enterprise users. A draft report is currently in preparation.

#### *Business Growth and Entrepreneurship*

8. The Committee has commissioned external research on international comparators for business growth and entrepreneurship. The Committee intends to use this research to inform its work.

#### *Reporters' Investigation: Scottish Football*

9. The Committee has appointed two members to investigate the current situation with regard to Scottish Football. The Committee will consider the conclusions of this work in due course.

#### *Community Arts*

10. The Committee has undertaken some preliminary work on Community Arts, to inform the remit of a forthcoming inquiry.

### **Bills**

11. The Committee has not dealt with any primary legislation in this Parliamentary year. The Committee has, however, dealt with three Sewel motions, relating to: the creation of an Arts and Humanities Research Council; the inclusion of electronic publications in the Copyright Libraries Act; and various elements of the UK Energy Bill.

### **Subordinate Legislation**

12. The Committee has considered one affirmative instrument, relating to the Renewables Obligation (Scotland). The Committee has considered four negative instruments, relating to: student loans; a change of name for Stevenson College, Edinburgh; provisions to enable further education colleges to provide education for young people under 16; and the re-introduction of Individual Learning Accounts.

### **Petitions**

13. The Committee has considered one petition on the involvement of football fans in decision-making (PE380) and one on funding for Traditional Arts (PE307). The Committee has also considered one petition as part of its inquiry into

Broadband in Scotland (PE694), and five petitions as part of its inquiry into Renewable Energy in Scotland (PE493, PE564, PE559, PE615 and PE664).

**Meetings**

14. The Committee met 26 times from 7 May 2003 to 6 May 2004. Of these meetings, two were entirely in private, and seven were partly in private. Seven of the items considered in private related to draft reports, to work programming, one to the selection of an adviser and one to a briefing from an adviser.

15. All the meetings were held in Edinburgh, with the exception of a meeting held in Campbeltown on 20 January 2003.