Education and Skills Committee

Wednesday 7 December 2016

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 7 December 2016

CONTENTS

EDUCATION AND SKILLS COMMITTEE
14th Meeting 2016, Session 5

CONVENER

*James Dornan (Glasgow Cathcart) (SNP)

DEPUTY CONVENER

*Johann Lamont (Glasgow) (Lab)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Ross Greer (West Scotland) (Green)
*Daniel Johnson (Edinburgh Southern) (Lab)
*Richard Lochhead (Moray) (SNP)
*Fulton MacGregor (Coatbridge and Chryston) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Tavish Scott (Shetland Islands) (LD)
*Liz Smith (Mid Scotland and Fife) (Con)
*Ross Thomson (North East Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)
Paul Smart (Scottish Government)

CLERK TO THE COMMITTEE

Roz Thomson

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Education and Skills Committee

Wednesday 7 December 2016

[The Convener opened the meeting in private at 10:00]

10:32

Meeting continued in public.

Enterprise and Skills Review

The Convener (James Dornan): I welcome everyone to the 14th meeting of the Education and Skills Committee in this session of Parliament. I remind everyone who is present to turn their mobile phones and other devices to silent mode for the duration of the meeting.

The second item of business is an evidence session on the enterprise and skills review. I welcome Keith Brown, the Cabinet Secretary for the Economy, Jobs and Fair Work, and, from the Scottish Government, Hugh McAloon, the head of youth employment, and Paul Smart, the head of the colleges, young workforce and Scottish Further and Higher Education Funding Council sponsorship division. I understand that the cabinet secretary wants to make a short opening statement.

The Cabinet Secretary for Economy, Jobs and Fair Work (Keith Brown): Thank you, convener. I will be brief. I thank the committee for the invitation to come here today to speak on the enterprise and skills review—in particular, on the impact of that review on two of the agencies that are involved: Skills Development Scotland and the Scottish funding council.

The First Minister announced the review on 25 May 2016, saying that it would cover the work of the Scottish Government and four agencies: Scottish Enterprise, including Scottish Development International, Highlands and Islands Enterprise, SDS and the SFC. I published the phase 1 decisions of the enterprise and skills review on 25 October. The aim was to take fresh action towards our long-term ambition, which is encapsulated in Scotland's economic strategy, to rank in the top quartile of Organisation for Economic Co-operation and Development countries for productivity, equality, wellbeing and sustainability.

That ambition is the foundation for the work of our four enterprise and skills agencies, both individually and together with each other and the Scottish Government. We recognise the vital contribution that the four agencies make to creating a more successful country with opportunities for all of Scotland to flourish through the delivery of inclusive and sustainable economic growth.

Our agencies and their staff already carry out excellent work with a diverse range of partners around Scotland. As Audit Scotland noted, they have been successful in their respective roles, with clear strategies and good governance. The enterprise agencies, for example, collectively work with or assist around 11,200 businesses each year and there are good examples of them all working with partners to achieve a positive impact, such as creating jobs.

Although the review has been undertaken in the context of post-recession public sector expenditure and we have all been closely examining the opportunities for savings and investment that provide the greatest return, its primary purpose is to identify ways in which we can strengthen the support that is on offer and the economic outcomes that it delivers. That is why we aim to establish an overarching single board that will allow us to strategically position our agencies and effectively align the services that they deliver.

A key focus in phase 2 of the review will be to work very closely with the public bodies and stakeholders to ensure that the new structures enable a more integrated approach to enterprise and skills support while maintaining distinctive approaches where appropriate. I emphasise that the autonomy of universities will be protected and that I recognise the value of arm's-length bodies advising ministers about further and higher education matters. We are alert to stakeholders' concerns about the process of closer alignment between the agencies and the creation of a single board, in particular the concerns expressed by the university sector. Therefore, we will work closely with the bodies and they will be integral to the next stage of the review. We recognise the integrity of the universities' academic freedom, and I emphasise that it will be protected.

I am happy to try to answer any questions that the committee may have.

The Convener: Thank you very much, cabinet secretary. You ran the formal call for evidence between 15 July and 15 August. How confident is the Scottish Government that the views that were heard during that relatively short consultation period are representative of the various people and organisations with an interest in, or who are served by, the enterprise and skills agencies?

Keith Brown: We had a substantial response. There were 329 responses during the consultation from a broad spread of interested parties. The

review is not finished yet. We have phase 2 of the review and the level of involvement across the sector and from stakeholders is still substantial. For example, a difference from phase 1 is that the four agencies will have representation on the ministerial review group.

For three reasons, we are actively considering the possibility of establishing a transitional body that will include the agencies. The first reason is to provide reassurance to the agencies about the central nature of their involvement in the process and to reassure the staff. Secondly, decisions will need to be taken over the remainder of the review. Those decisions properly rest with the agencies but, where they can, they will want to co-ordinate them to achieve the alignment that I mentioned. The third reason is to provide support to the ministerial review group, whose work includes a substantial number of workstreams.

That level of stakeholder engagement is extensive. It has involved the people with the greatest interest in the review. The ministerial review group's work includes a large number of workstreams, and it will be open for them to take on board other expertise as we go forward. The engagement has been widespread and substantial.

The Convener: In the consultation responses, there was talk of a cluttered landscape, difficulty in accessing support, tension between national and regional approaches and a lack of partnership working. Will you give us some details of the specific focus of activity and the actions that are being pursued through the second phase of the review that might help to deal with some of those issues?

Keith Brown: We are considering a large number of areas, perhaps the most important of which is governance. In my opening statement, I mentioned the concerns that the university sector has expressed and those that have been expressed about HIE. A substantial piece of work is being done on how we acknowledge the strengths and requirements of those sectors in the new governance structure that will be built around the new, overarching board.

Another area that is interesting to members is regionalisation. From the start the Convention of Scottish Local Authorities has been involved in the ministerial review group at a high level. COSLA has been very helpful in recent weeks, saying that it is willing, as we move forward into phase 2, to allow its current business gateway and economic development functions to be considered alongside our on-going work on how skills development might be delivered on a regional basis. That may well result in much closer collaboration through the different economic development and skills functions of the different bodies. That may also

result in greater autonomy for bodies across Scotland, including the Highlands and Islands and the south of Scotland.

In addition to the governance and regionalisation streams, there are separate streams for what we call decluttering. We are aware that there are a substantial number of initiatives and different bodies. We have asked for work to recognise that there are only so many people who can service all those initiatives and bodies. If we find that there is any overlap or duplication, we will look to eradicate it to make it more effective.

Those are three areas that I can mention off the top of my head.

Paul Smart (Scottish Government): Based on the decisions that came from the first phase of the review, there is—as the cabinet secretary has already mentioned—stronger governance at the top, with an overarching strategic board. In addition, the second phase is taking a proper look at national local enterprise skills delivery in a much more co-ordinated way, and is facing up to the observation from several of those who gave evidence that the landscape is cluttered, or that services could be better aligned to improve delivery. It is looking at better international co-ordination of activity to respond to opportunities in international markets and at simplifying innovation to support ecosystems—the way in which innovation is promoted by the range of agencies that are engaged in that. It is also looking at aligning the functions of learning and skills agencies, principally the Scottish funding council and SDS.

We are looking thoroughly at the learner journey for 15 to 24-year-olds through the education and skills development systems, and reviewing the effectiveness of investment in that, which is fundamental. During phase 1, evidence suggested that we needed to be much more effective at measuring the impact and outcomes of our interventions.

Keith Brown: Digital is another fundamental workstream. Having had the first ministerial review group since the end of phase 1—so the start of phase 2—we are writing out to the members of the group to see which areas they want to see taken forward and where they want to be involved. That is under active discussion.

Johann Lamont (Glasgow) (Lab): We have already been able to see how substantial and significant the work is—it involves huge numbers of people in very important roles. What prompted you to have a review that lasted only a month and took place during the summer holidays?

Keith Brown: The review lasted substantially longer than that—I think that Johann Lamont is referring to the consultation period.

As I said in my opening statement, we must recognise that we had not achieved our ambition—this is also true of previous Governments—to move Scotland from the third quartile of the OECD index on economic performance, relating to competitiveness, productivity and internationalisation. If we are not achieving our ambition, it seems right and proper to review those agencies that are most central to that work—as the First Minister announced. That was the prompt.

In addition, concern had been expressed in Parliament in recent years about whether there was duplication of effort. We felt strongly that the agencies could justify the work that they were doing and could point to their successes—sometimes very substantial ones—but we could not necessarily see the alignment of the agencies working across each other so that they had the right level of focus, for example, on international activity.

I remember in previous years that a minister went to China with a Scottish university to promote both Scotland and our university sector. I think maybe two or three other universities turned up on the day because they were worried about missing out. Whether it is that or whether it is in relation to some of the work that we do through SDI, the fact is that we have substantial presences around the world with universities; we want to be selling Scotland as a whole and, as a result, we need our activities to be more substantially co-ordinated. That was the prompt for doing this.

The review did not last just a month—it is on-going. We are still in the review period, and there are some months to go before it is concluded.

10:45

Johann Lamont: The consultation lasted a month and was held over the summer holidays.

Keith Brown: I think that you said that the review lasted a month.

Johann Lamont: Well, I am now saying that the consultation lasted a month over the summer holidays. From your time in government, can you give us examples of consultations that were held for a month during the summer holidays on such a substantial issue?

Keith Brown: In most of my time in government, I have had a particular focus, and I can talk only about the areas in which I have been involved. I cannot answer your question with regard to other consultations.

Johann Lamont: When you find out whether there are any examples of Scottish Government consultations that have lasted a month over the summer, can you ask whether in any of the responses to the consultation anyone suggested the need for an overarching board? I am not saying that people did not talk about a cluttered landscape or problems, but which of the people who responded identified that as a solution?

Keith Brown: I can mention a number of individuals on the ministerial review group who represented bodies that responded to the consultation and who voiced support for the idea.

Johann Lamont: That is not what I asked. It is one thing to voice support for a proposal that comes before you. Did anyone in the consultation say, "You know what? We think that the solution to this is an overarching board"?

Keith Brown: It might not be what you asked, but that is my answer. There were people on the ministerial review group who, without having a proposal in front of them, came forward in support of the idea of a single overarching board. They represented bodies that were consulted, and that was their view.

Johann Lamont: So the Government makes a proposal, and in some cases, people agree with it.

You said that the four agencies will be represented and part of all this as things go forward. Will they have the freedom to speak out publicly against Government policy if they think that it will be damaging?

Keith Brown: Again, your first statement was incorrect. I did not say that there was a proposal from the Government that people agreed with; I am saying that as part of the consultation people came back with that point. It is an important distinction to make.

Johann Lamont: I am not clear what the distinction is.

Keith Brown: You have said twice now, I think, that we made a proposal that people could choose to agree with, but I am saying that that was not what happened. There was no proposal made during the course of the ministerial review group. People came forward voluntarily to say that they thought that a single overarching board was a good idea.

Johann Lamont: Who said that? That is what I am asking.

Keith Brown: It happened in the context of the ministerial review group.

Johann Lamont: Which organisations came forward independently and, rather than agreeing with a proposal made by the Government, brought the proposal for an overarching board to the table?

Keith Brown: It is probably invidious to mention people involved in the ministerial review group, but Colleges Scotland is an example. Others can be seen if you peruse the consultation responses, which are all publicly available.

I believe that there was a second part to your question. Can you remind me what that was?

Johann Lamont: You have said that the agencies involved will be part of the group and have the freedom to contribute to what happens next. Do they have the freedom to speak publicly about the implications of the proposals for an overarching board? If they had, it would give people some comfort. As you will be aware, we have had a conversation with the Scottish funding council about its giving advice privately to ministers and its not making that advice public. Would it be able to speak publicly about these proposals and their implications for the economy and skills?

Keith Brown: There has been no order that people cannot speak publicly. Indeed, one of the members of the review group is Universities Scotland, which has voiced its concerns publicly. That is the purpose of the ministerial review group; it is all about getting those most involved in the sector to give straightforward advice to Government. Some of them have chosen to make that public, and it is their right to do so.

Johann Lamont: I am interested in finding out the extent to which the Scottish Government has an open mind on the matter. Given what Mr Swinney appears to have said—that things have already been decided—is it possible that at the end of the process the Scottish Government might decide that an overarching board would be overly bureaucratic, would not be able to deal with regional differences and so on and might actually not pursue that proposal, or is it something that it has been decided should happen as we move into the second phase of the review?

Keith Brown: It has been decided, but we would not have taken the decision if we thought that it was going to be overly bureaucratic. That was not the idea behind it; in fact, it is a way of helping to achieve the alignment that I have mentioned and decluttering the system.

We have made the decision, and what is now being looked at not just by the original members of the ministerial review group but by all the members of those bodies is the governance structure around all this. We have an open mind on that and Universities Scotland and the funding council will, I am sure, be involved in the governance process to make sure that the concerns that they have expressed are dealt with.

Johann Lamont: You have started with your own proposal and the second stage is for people to make it work. The second stage is about how the process is carried out rather than the principle of the overarching board.

Keith Brown: No. For the third time, we did not start with a proposal; we started with the review and the ministerial review group. We had a consultation, which led us to the proposal for a single, overarching board.

We are now going into the second phase of the process in which the governance structure of that board will be examined. I have assured members of the board that we are open minded and that they will lead on how the governance structure is set up. The process is open and board members will have the chance to express their concerns and influence what we eventually agree.

Johann Lamont: For the avoidance of doubt, there will be an overarching board.

Keith Brown: Yes.

Johann Lamont: Thank you.

Liz Smith (Mid Scotland and Fife) (Con): I will follow up on Johann Lamont's questions. The Royal Society of Edinburgh has no problem with the need for a better industrial, research and innovation strategy, but it raises two specific issues, one of which is exactly akin to what Johann Lamont was asking. It says:

"The Phase One Report indicates that Phase Two of the Review will be about the implementation of the conclusions—with there having been little Parliamentary scrutiny to date as to whether the conclusions are well founded."

The second point that it makes is:

"The RSE notes the publication of the Report of the Phase One, but is concerned that it does not present a strong evidence base for the approach that the Government proposes to take in establishing a new ... statutory board".

Where is the clear evidence to support what you are proposing—and you have just indicated that they are firm proposals and that they will go ahead?

Keith Brown: What we produced was reported to and debated in Parliament. The conclusions that we have reached as part of phase 1 are backed up by the evidence, which was published at that time.

I have given you the rationale for undertaking the review in the first place: we have not achieved what we want to achieve. We have involved all the different stakeholders and the proposals have undergone active consideration by the people in the ministerial review group who represent, for example, Universities Scotland, the college sector and business.

To go back to the previous point, business is also very seized of the view that we should do this as quickly as possible.

I should add that the need for the pace that we are going at is underlined by the fact that we find ourselves in a new environment because of Brexit. A number of people expressed the need for urgency to do this because the situation is changing rapidly with Brexit, which is having an impact on international activity.

The RSE said the things that you mentioned, but it has been quite supportive of some of the proposals. The other point to make is that we have not finished the review. We have come to some conclusions, but we do not know how they will be fleshed out over the course of the whole review. By most estimations, that will result in further parliamentary and legislative processes, which will mean a further opportunity for parliamentary scrutiny. Individual members might want to look at the evidence for what we are doing at that time, but they can already see what we have produced so far. They will see further evidence when we come to the conclusion of phase 2 and they can form their own view on that. It will be interesting to hear the views of RSE and others who have commented once we have reached our conclusions after phase 2. Paul Smart might want to add to that point.

Paul Smart: At the same time as the call for evidence, we commissioned a number of academics to look at how international comparators shaped up against our own perspective. We had Professor Alan McGregor look at operations in places such as Denmark, Norway, Northern Ireland and New Zealand, where there is clear evidence of a more joined-up and co-ordinated approach. It seems that such an approach is necessary to ensure that we provide a coherent approach to the development of skills and learning. That was coupled with a report on international business support from Dr David Skilling, which went into the consideration of the decisions and recommendations that came out of phase 1.

Keith Brown: One of the key pieces of evidence was in the Skilling report and related to HE. We top the league for people going through HE but, given what I said earlier about economic performance and productivity, we have not had the dividends that we might have expected from that level of investment. One of the conclusions in one of those reports was that investment in more essential basic skills than those that are delivered through HE might provide a bigger economic impact. The whole ministerial review group considered both those reports in the first part of the review.

Liz Smith: I do not think that there is any disagreement about the need for a strategy. That was very clear in all the submissions that I have read, and the parliamentary debate that took place was very much about some of the issues that you have set out here and what can be done about them.

As I understand it, you will abolish the existing boards and establish a new, overarching board—if your answer to Johann Lamont was accurate, you are suggesting that that will happen. What is the evidence on which you are basing the decision that the new board will work better, when a lot of the institutions involved are raising pretty serious concerns about the abolition of the existing boards, which I know that some of my colleagues will come back to a bit later on. What is the evidence that the new board will work better? Frankly, I cannot see it.

Keith Brown: As I said, we produced a substantial amount of evidence in coming to our phase 1 conclusions. Other evidence that we took was, for example, from account managed companies and those currently being provided with services by Highlands and Islands Enterprise and from those using the services of Skills Development Scotland. I was very keen at the start of the process that we had evidence from people receiving those services. That evidence led us to the picture that there were elements of duplication and that there was not the level of joint working that we wanted to see. I have mentioned that in relation to international activities.

To some extent, that was reinforced by some of the contributions from people from the agencies themselves, which addressed whether, for example, HIE currently receives the level of service that it requires from SDI in relation to international activity, and whether there is the level of collaboration that there should be between universities when they are acting overseas, and between SDI and other elements of Government. We took a substantial amount of evidence, we have produced what we have taken so far and we will produce further evidence as we go through phase 2 and reach the conclusions on that.

Liz Smith: Will you clarify something, cabinet secretary? My understanding is that the Scottish funding council board as it exists just now would no longer be in existence and there would be a new overarching board. If you abolish the current funding council board, in effect you abolish the funding council, because they are one and the same thing. Is that what you intend to do?

Keith Brown: We have said what we have said about the existing boards, but Liz Smith is right to suggest that there is still an open question as to what form of governance structure should apply to

the funding council and, in particular, to the universities.

As I have said, we have a piece of work that is being undertaken on the governance structure, which will look at those issues. We will come back to how that is best serviced; you have heard some of the concerns about ensuring that academic freedom is preserved and that ministers are not able to take certain decisions, which should be at one remove from ministers. Those things are actively being considered, and that consideration will involve both the funding council and Universities Scotland. We are not at the stage of reaching a conclusion on that yet.

Liz Smith: Right. Obviously, some conclusions have been reached, but others have not. In other words, this morning you are categorically saying that you have not made a decision about the governance structure of the new board. Is that correct?

Keith Brown: Absolutely, yes. We made that clear in the debate.

Richard Lochhead (Moray) (SNP): I have one question on that theme and then I will return to HIE. As someone who has been in Parliament since 1999, if I had a pound for every time that politicians from across all the parties called for a bonfire of the quangos or for the public sector landscape to be streamlined, I would be a very rich man. I very much understand where the Government is coming from and what it is trying to achieve, and I support much of that agenda.

I would just like you to comment on where regional policy sits in relation to where we are going with the review. A number of initiatives are happening across Scotland and I want to understand better how regional policy is being delivered. We have this review, city region deals and a number of other initiatives. However, the city region deals tend to be focused on the cities. I ask you to explain the difference between a cities policy and regional policy in Scotland. My fear is that we may have a national approach in some respects but a city approach in other respects and that all the areas in between fall through the net. Will you expand on how the Government is trying to deliver regional policy in Scotland?

11:00

Keith Brown: You are correct about the unique nature of the city deal framework that is emerging. That initiative began in the Glasgow region with a proposal from us, the United Kingdom Government and the relevant local authorities. You are right to say that city deals do not fit readily into the structures that we have. For that reason, it is right to reconsider those structures. However, a feature of city deals is that they involve more than

cities. The Aberdeen city deal involves Aberdeenshire; a number of authorities that are not cities are involved in the Glasgow deal; the Stirling deal involves Clackmannanshire, which is obviously not a city; and the Tay cities deal, despite its title, will involve more than cities. Nonetheless, I understand your point about how the city deals fit with regional policy.

I am keen that, in phase 2—which is when we examine the matter in more detail—we preserve that feature of the deals because the benefit of them is that they have been organically grown through local authorities. The projects and initiatives that we and the UK Government are funding in each deal are ones that the local authorities have said that they want. There is something important about that, so we want to maintain those deals. Our stated aim is to look encouragingly on the deals that are still to emerge—the Tay cities, Edinburgh, and Stirling and Clackmannanshire deals. I think that I am right in saying that they will mean that all the cities in Scotland and much more will be covered.

Beyond that, we are looking at the terms of regionalisation. One of the conclusions of the review's first phase was that we should establish a new south Scotland agency, because evidence was led to us about concerns that people have felt in the region. Perhaps the most frequently expressed anecdote was that, if we look at the respective trajectories of Inverness and Dumfries over a number of years, we can see that Inverness has done well but Dumfries less so. People asked how we could have a focus on the south of Scotland.

Regionalisation is one of the workstreams that are being developed. We should not be too rigid about how that develops. As I mentioned, there is something important about the fact that city deals are developed from local authority proposals. Therefore, as we go through phase 2, we have a relatively open mind about the geographical area that different initiatives cover and what services are provided. I am not suggesting that this is what will happen but, if a proposal is made that skills functions and some of the functions of local authorities should be delivered differently from one area to another, we should look at that.

I am happy to concede that the picture is not tidy and clean but, not least on city deals, there is something organic and vital about the way in which we provide the services.

Richard Lochhead: I urge ministers to consider the matter a bit more closely. We have not only the review but various other initiatives. I need to be, and I am sure that the Parliament wants to be, confident that those initiatives deliver an appropriate regional policy. It should not be that the enterprise and skills review does one thing and

the cities are looked at as a way of addressing some of the other issues but the rest of Scotland falls through the net. There is a danger of that happening if we do not think through regional policy in Scotland and learn from other countries.

Keith Brown: On the cities review, it is worth bearing in mind that, if you were to look at the deals that are likely to emerge for Scotland's seven cities, you would find that the area covered by the non-city authorities vastly exceeds the area covered by the city ones, given how the deals are configured. Take Aberdeenshire and Aberdeen, for instance. Inverness is the only one that stands alone for fairly obvious reasons. Seven or eight authorities that are involved in the Glasgow city deal are not city authorities. The area that is covered by the city deals is substantially greater than the cities themselves, but I take the point that you make.

Richard Lochhead: As I said before, I understand where the Government is trying to get to in addressing the public sector landscape, but Jim Hunter, the Highlands historian and former chairman of Highlands and Islands Enterprise, wrote a scathing article about the decision to disband the Highlands and Islands Enterprise board. It would be good to hear what comfort you could give Jim Hunter and other people in the Highlands and Islands who have expressed concern over that decision. Clearly, people want to know how Highlands and Islands interests are going to be represented in the overarching framework.

Keith Brown: What I said in the parliamentary debate is that Highlands and Islands Enterprise will remain as a legal entity. It will still have a chief executive and a headquarters based in Inverness. The same people who are currently providing its services to individuals and companies in the Highlands and Islands will be providing those same services to those same individuals and companies and, I hope, to many more. That was something that came back to us in the evidence from the consultation—people said that they valued those services.

In relation to the board, it is important that we await the outcome of the governance initiatives that I mentioned—for phase 2 of the review—to see how those things that some people, such as Jim Hunter, have been talking about will be preserved after the governance review. Highlands and Islands Enterprise will be intrinsically involved in that governance review.

To go back to a previous question, the reason for the initiative is to determine the extent to which bodies can get the support of, and work actively with, other public bodies to achieve more. Look at many of the initiatives in the Highlands in recent years. There is the Mosstodloch bypass, to mention a local one. We are the first Government to commit to dualling the A9 and the first Government to commit to dualling the A96. We have struck a city deal for Inverness. There is the recent work done by my colleague Fergus Ewing on the Rio Tinto development in Fort William, whereby 130-plus jobs have been safeguarded, with the prospect of many more. Those things have been achieved either not through HIE or through HIE working with other bodies. We want to maximise our ability to do that in future.

In relation specifically to HIE, I think that the ability to work on an international basis is very important. Scottish Enterprise and SDI have a particular relationship, but I do not think that we have had sufficient ability to prosecute HIE's interests on the international stage in the way that I would like to see happen. Whether it is through universities or SDI, we want to maximise the international opportunities that are there.

I think that we will have something greater than we have now as a result of the changes. People should take a view on the governance once they have seen exactly what is proposed in relation to the Highlands and Islands.

Richard Lochhead: To close, I think that it is important that ministers keep an open mind by listening closely to the concerns that are being expressed in the Highlands and Islands and about how we address those concerns.

Tavish Scott (Shetland Islands) (LD): Is the chairman of Highlands and Islands Enterprise allowed to say publicly what his views are on the abolition of his board?

Keith Brown: Tavish Scott will know as well as I do the code of conduct for people who are appointed to Government bodies, but there has been no injunction on Lorne Crerar not to speak out. In fact, I think that he has spoken on this matter on a number of occasions.

Tavish Scott: He told Highlands and Islands MSPs last night that he was not.

Keith Brown: He was not—

Tavish Scott: Going to speak out publicly.

Keith Brown: I cannot really comment on third-party conversations, convener.

Tavish Scott: Can you give me a practical example of, as you just said to Richard Lochhead, where SDI has not been servicing HIE properly?

Keith Brown: I think that evidence came up during the course of the ministerial review group that the level of support from SDI could be greater. We have had that expressed to us.

Tavish Scott: It would help if you could give an example, just to help us understand.

Keith Brown: You cannot give an example of investment that did not happen.

Tavish Scott: You said that there was evidence from companies that you have been discussing that issue with, which I thought was a very fair point, so you must have some evidence. I am just asking whether you could lay it before the committee.

Keith Brown: As I said, I do not think that you can give an example of an investment that has not happened, but evidence was laid before us, in both the ministerial review group and submissions from others, that there could be a higher level of international support.

The Convener: If there are submissions that you could send to the committee, we would like to see them.

Keith Brown: I am happy to do that.

Tavish Scott: Similarly, could you furnish the committee—I do not expect it today—with a written list of the organisations or individuals who said that a central board was the right solution for the structure that you described?

Keith Brown: We have already published all the submissions, convener.

Tavish Scott: Will you send the committee a letter that specifies the organisations and bodies that made such comments, which Johann Lamont asked about?

Keith Brown: I will examine whether the minutes of the ministerial review group, where the issue was raised, can be published. If we can publish them, I will be happy to do so, but that will be in addition to the 329 submissions that we received in response to our call for evidence.

Tavish Scott: I am really sorry—I am not trying to be awkward; I am just asking for a specific list of the organisations or individuals who said in reply to your consultation that there should be a single board. That is all that I am asking for. I am not asking for minutes; I am asking for the evidence that will help us to understand the case that you are making.

Keith Brown: I have heard the question twice from Tavish Scott and I have given my answer, convener.

The Convener: Thank you.

Tavish Scott: Why are we not going to get the evidence then?

The Convener: The cabinet secretary has answered.

Johann Lamont: With respect, it is not an answer if the cabinet secretary says that he is not going to answer the question.

The Convener: Well, he gave an answer.

Tavish Scott: So we are not going to get that evidence. Okay—there is no evidence.

Will a minister chair the new single board?

Keith Brown: As I have said, work is being done on the strategic board's governance structure and, as one of the outcomes of that work, we will decide on the membership of the board and who will chair it.

Tavish Scott: So the chair could be a minister.

Keith Brown: We will not know that until we have had the workstream—

Tavish Scott: I will put the point in another way. You have not ruled out a minister chairing the single board.

Keith Brown: In the first instance, we have said that the people who are most involved—the agencies and those from the agencies who are on the ministerial review group—should look at the governance structure. They will report back to the ministerial review group, which will look at the question at that time.

Tavish Scott: I think that that means that you have not ruled out a minister chairing the board.

Has the University of the Highlands and Islands regional governance outcome been positive for the future of UHI and therefore for skills in the Highlands and Islands?

Keith Brown: UHI is outwith the skills part of my area; it works with the Scottish funding council. I have already said where I think that there has been duplication, and that has also been said by a number of members of different parties in Parliament. Whether there is a balance between universities, colleges, local authorities and Skills Development Scotland is one of the things that we are actively considering in relation to the regionalisation workstream that I mentioned.

Tavish Scott: Will you give me an example of the duplication that you just referred to?

Keith Brown: Duplication occurs sometimes in apprenticeships, when colleges cut across activities in which SDS is involved. Some people who came to the ministerial review group gave evidence that there is uncertainty about which body is responsible for apprenticeships. If that is the feeling out there—whether or not it is the case—we have to address that.

We have not used the usual cliché of a one-door approach; we talk about an any-door approach, which means that people who are looking to access services for skills, whether through local authorities, SDS or services that are funded by the funding council, should find it as easy as possible

to do so. That was represented to us in the ministerial review group and in the submissions that were received in response to the call for evidence.

Tavish Scott: Is it possible to give the committee specific examples of the views that were represented to the ministerial review group?

Keith Brown: I am happy to do that.

Tavish Scott: Thank you. After yesterday's programme for international student assessment report, do you believe that the challenge that we face in engineering, maths and science will be helped by the narrowing of choice at the senior curriculum levels of our secondary schools?

Keith Brown: Convener, I have to say that that is not part of the review that we are carrying out of skills and enterprise companies.

Tavish Scott: But it is part of the SFC's consideration of the work that it does.

Keith Brown: The Scottish funding council's work covers areas that lie substantially outwith as well as within the scope of the review, but that area was not part of the review.

Tavish Scott: How would a single board address that issue?

Keith Brown: I have talked about what I believe the strengths of a single board would be. Alignment across different agencies will make sure that we drive out duplication and more effectively focus effort, and that will apply across the activities of the different agencies.

Tavish Scott: I take your point that the issue has not been addressed as part of the skills review, but would it be addressed by the single board?

Keith Brown: As I have said, the strengths of the single board are reflected by those who made representations in favour of it and those who have spoken for it. The basis of our conclusion is that those strengths will bring greater focus and help to drive out duplication.

As part of the governance review that flows from phase 1, we intend to consider what protections should be in place so that ministers do not get involved in directing curriculum activities and are at one remove from research and other aspects of university funding. As I have said, that point lay outwith the scope of the review that we have carried out.

Tavish Scott: So we do not know where an issue that you accept is currently dealt with by the funding council board will be dealt with, because it was not considered as part of the review.

Keith Brown: I think that education ministers will tell you exactly how they are dealing with the issue. I am just saying that it is outwith the scope of the review that we have carried out.

11:15

Tavish Scott: It is currently dealt with by a board that you propose to abolish.

Keith Brown: Perhaps Paul Smart can answer the point.

Paul Smart: A decision was made in the first phase of the review to incorporate a look at the learner journey from age 15 to age 24, which will look at the pathways and the availability of information to young people in navigating their way through education and training. The consideration of that learner journey will be an integral part of phase 2 of the review.

Tavish Scott: Will it be considered by the single board that you want to propose?

Paul Smart: The learner journey is part of phase 2, but whatever conclusions that comes up with will be referred to the transition or interim set-up that will accompany—

Tavish Scott: Do you at least concede that, if Alice Brown and John Kemp were here today, they would be able to answer all these questions? They know the detail and they are on the policy, which is their responsibility. I put it to you that there is no evidence that such issues will be considered by the new board.

Keith Brown: I have had a number of discussions with Alice Brown and John Kemp. Alice Brown is on the ministerial review group and is perfectly able to put forward such issues to the extent that she thinks that they should form part of what we do.

We have mentioned the governance structure and one of the workstreams—that on the learner journey, which Paul Smart just mentioned. That represents exactly what we have been describing, as it involves making the system as clear as possible for people who are navigating their way through skills and learning support as they go through the system. We have people from Universities Scotland and the funding council on the ministerial review group and such things can of course be taken into account to the extent that those people want to mention them.

Tavish Scott: If there is no Scottish funding council board, where will things such as the capital allocations for colleges get sorted out?

Keith Brown: The position is exactly as I said before. The governance structure will lay out how such things are dealt with. We have agreed that there will be an overarching board. What we have

not agreed and what is open for discussion and review through the ministerial review group and in other ways is exactly how such things will be allocated.

We have reached the conclusion in favour of an overarching board. We know that quite a number of subsidiary discussions need to be had and structural solutions need to be found in relation to that, and they will flow from phase 2. We are at the end of phase 1 and we are entering phase 2. The review is not complete and such things are being looked at.

Tavish Scott: Do you accept that the Scottish funding council board deals with a huge amount of detail, which will have to be replicated by the new superboard, and that that will be multiplied by four, because four different agencies are involved?

Keith Brown: Actually, there will be five agencies, because we are creating the new south Scotland enterprise agency. That is why the funding council, Universities Scotland and many others are involved in the ministerial review group—to make sure that such things are taken into account.

Tavish Scott: Thank you.

Daniel Johnson (Edinburgh Southern) (Lab): My questions will focus on the Scottish funding council. Please point me to the page of the phase 1 report on which there is the recommendation that the board of the Scottish funding council should be dissolved and subsumed by the new superboard.

Keith Brown: I do not have the report in front of me, but that was mentioned. I made it clear in the phase 1 discussion that took place in Parliament and I have made it clear a number of times since. It is public knowledge.

Daniel Johnson: Is that in the document?

Keith Brown: You have the advantage of me, because you have the document in front of you.

Daniel Johnson: On page 5, point 1 refers to a

"Scotland-wide statutory board to co-ordinate the activities of HIE and SE, including SDI, SDS and the SFC."

Do you not think that the idea of co-ordinating is a bit different from what is now proposed, which is direct governance of those bodies by the overarching board?

Keith Brown: I do not think that direct governance is being proposed; governance is still being discussed as part of phase 2. Members of the ministerial review group and people from the agencies have already suggested a number of points that they would like to be replicated in the governance review. We are only halfway through the enterprise and skills review; the second part of

the review is still being undertaken, and that will look—most crucially, as I have said—at the issues of governance.

Daniel Johnson: I am a bit confused because, in response to a question from Iain Gray, the Deputy First Minister said that the boards of the Scottish funding council and SDS would go and that those functions would be subsumed by the new overarching board. Was he not correct in that statement?

Keith Brown: As I have said, the boards are going to go. The governance structure that will be brought in instead will be decided as part of phase 2 of the review.

Daniel Johnson: Sorry—are the boards going or not? I am getting very confused by your answers.

Keith Brown: I do not know how I can say it more clearly, convener.

The Convener: I do not see any ambiguity in the answer.

Keith Brown: For the benefit of Daniel Johnson, I say that the boards are going. I think that I have said that three times. I do not know what the ambiguity is, to be honest.

Daniel Johnson: The document is not clear.

Keith Brown: I am telling you now what is happening. I have said it three times.

Daniel Johnson: Will you explain to me which experts recommended abolishing the Scottish funding council board? Was that particular point discussed and agreed on by the ministerial review group?

Keith Brown: The issue was discussed by the ministerial review group but it was not agreed on. The ministerial review group was there to make sure that all the stakeholders in the sector were able to provide their views. The decision was then taken collectively by ministers; it is our decision.

Daniel Johnson: Do you understand the concern that has been raised? We had a phase 1 document that did not make the point explicit and then, in response to a question, it was made explicit by the Deputy First Minister well in advance of the phase 2 document, which I believe will be published in March 2017. Do you understand the concern that people do not understand what bits are up for consultation and what bits are predetermined?

Keith Brown: No, because the position has been publicly known for a substantial number of weeks. For example, in the convention of the Highlands and Islands, I was asked a specific question on the matter and I made the position very clear. Highlands and Islands Enterprise, Skills

Development Scotland and the Scottish funding council all attended that meeting. The situation has been made plain a number of times in public fora.

Daniel Johnson: In recent weeks, the committee has heard about the results of a large number of educational reforms. We heard from Education Scotland, which could not explain the fall in literacy levels and had poor explanations for the issues that teachers face in relation to the curriculum for excellence. We heard directly from Janet Brown, who said that issues around the reform of qualifications were in their design, their implementation and how they work.

When it comes to reforming how our universities work, why should we trust the Government, given the issues with the fundamental education reforms that we have had? Given the controversy, will you commit today to putting the proposals in primary legislation so that there can be proper parliamentary scrutiny?

Keith Brown: On the first question, we are not looking to reform universities in the review—that is not part of what we are doing. The issues that relate to educational standards are for education ministers to take up.

On the second question, which was about committing to putting the proposals into primary legislation, I go back to the point that I made before. The governance structures are being looked at for phase 2 of the review. The necessity for and nature of any legislative outcome from that will be driven by the governance decisions. If primary legislation is needed for the establishment of the new board or for other subsidiary organisations, we will come back to Parliament to legislate for that. However, the nature of that legislation will be driven by the outcomes of the governance review. I do not think that that is puzzling at all.

Daniel Johnson: I will tell you what I am puzzled by—the idea that you can reform how our universities are governed and somehow claim that that does not constitute a reform of our universities. It is clear that governance and how universities operate are absolutely and intimately linked.

Further to that, will you point me to what is broken in our university system that needs this level of reform? My understanding is that, as a proportion, our universities produce more spin-out companies and receive more competitively awarded research funding than those in any other part of the United Kingdom, so what is broken and why do they need the reform?

Keith Brown: You spoke about the reform of universities. I repeat that we are not seeking to

reform universities as part of the review—that is not what we seek to do.

You raised the issue of spin-out companies from universities. One of the submissions that we received was about the nature of those spin-outs. There has been tremendous success if we think about Edinburgh, Stirling, Strathclyde and Aberdeen—many universities have had huge success. However, there are people in the private sector who feel that universities often take too high an equity stake in such companies, which negates their further growth.

There are questions about whether spin-outs result in scale-ups, whereby such companies become more substantial. Those are live questions that are within the domain of economic development, so we have considered them. However, we are not considering the reform of universities, which was never part of the review.

Daniel Johnson: Will you clarify that point? How on earth can you claim that reforming governance, which is as fundamental as how universities are funded, especially for teaching, is not a reform of our universities?

Keith Brown: All that I can say is that we are not reforming universities. The Scottish funding council is part of the review; universities and the way in which they are structured are not. The governance of the four agencies, which are to become five agencies, is under consideration, but reform of the universities is not.

Liz Smith: I return to my original point. I understand that you have confirmed that the Scottish funding council board is going. The board is, in effect, the Scottish funding council. Therefore, the council is going. To take Daniel Johnson's point, that will inevitably mean a reform of the funding and governance structures of our universities. There is no other way to put that. Do you agree that that is a fundamental change?

Keith Brown: It is a fundamental change, and the review will result in fundamental changes. As I have said a number of times, the nature of the governance is still open and to be decided. Like me, you will have heard concerns being expressed. We have heard them in the ministerial review group as well. Universities Scotland and the funding council have said that they are concerned that certain things should be preserved in the new governance structure. They will be intrinsically involved in our development of that structure, which will be designed to protect the things that are important to the sector.

Liz Smith: That is a massive change of policy, if you do not mind me saying so. The governance review of universities in the previous parliamentary session created a great deal of controversy. If something new is proposed, surely that should

have parliamentary scrutiny and the Government should set out not only what it wants to achieve but the evidence base to support that. I cannot see that just now.

Keith Brown: As I just said, we have not finalised the governance structure yet. We are in the middle of considering those issues and, when we conclude that consideration, Parliament will of course have a chance to debate them.

Liz Smith: In considering primary legislation?

Keith Brown: As I have said, the single board and some other issues are likely to require legislation, but the exact nature of that will not be obvious until we have concluded consideration of the governance structures. Phase 1 of the review was the subject of a statement and a debate in the Parliament, so I imagine that phase 2 will also be the subject of a statement and a debate, although that is likely to be only a precursor to a full legislative process such as we have for other new legislative initiatives.

Ross Thomson (North East Scotland) (Con): I will pick up on a question that Richard Lochhead raised about the comments by the former chairman of HIE, Professor Jim Hunter. In the article in *The Press and Journal* to which Richard Lochhead referred, Professor Jim Hunter was quoted as saying that, rather than building on HIE's success, the Scottish Government has

"cut HIE's budget, abolished its ten Local Enterprise Companies … and turned the organisation into a Scottish Government 'delivery agency'",

and that it is "centralism run riot". What is your response to those criticisms, cabinet secretary? I would be interested to hear your view. You will be aware that *The Press and Journal* is running a long-term campaign to keep HIE local. Will you consider supporting that aim?

Keith Brown: I will address the first, serious point that you raise. As a Conservative member, you will know all about budget cuts, given that the Government that you support has been responsible for the vast majority of them, including those to the Parliament. You started by saying that there have been budget cuts and that those cuts and the abolition of the local enterprise companies are a vehicle for centralisation. How can you go on to say that the current proposal represents centralisation? We are guaranteeing the continued existence of Highlands and Islands Enterprise; the chief executive will still be there. We have not concluded our consideration of the governance of that agency, but it will still enjoy the level of control and discretion in decision making that it currently enjoys.

My response to your point is that we think that we can achieve more. In fact, you will be aware that we have had demands for more to be done in all sorts of areas, such as increasing job opportunities, increasing the value of those opportunities or increasing economic activity. We believe that we can achieve more through the work that we are undertaking in the review, so we think that it is a very positive thing for the Highlands and Islands. It is building on the best of what is there already and it will serve the greater interests of the Highlands and Islands.

11:30

Ross Thomson: Thank you, cabinet secretary. With all due respect, we are talking about the Scottish Government's political choices and areas for which you are wholly responsible. I am sure that the public will see through the blaming of anybody else.

Last week, at the Public Audit and Post-legislative Scrutiny Committee, Alastair Sim of Universities Scotland, during questioning, said in relation to the proposed single superboard:

"A limited number of people sitting round a table will not have the competence to deal with the huge remit that the board could be given".

Is there a danger that a new single board could be too big to function and that we would be setting it up to fail?

Keith Brown: I do not think that it is going to be set up to fail. On whether it would be too big to function, that issue has to be—and is being—considered as part of the governance review. The extent to which there is a requirement for additional expertise and capacity is being looked at just now, and Universities Scotland, which Alastair Sim represents, is intrinsically involved in that process.

Returning to the point that you started with, I add that political choices or spending choices are not taken in a vacuum. The choices that we make in this Parliament are intrinsically influenced and directed by the resources that we are provided with. That is why I mentioned the cuts that we have had from successive Conservative Governments.

Ross Thomson: I am sure that you will be using the new powers of the Scottish Parliament to rectify anything that you believe is wrong.

The Convener: I ask everyone to concentrate on what is in front of us.

Ross Thomson: I will concentrate on the topic at hand, convener.

At the same meeting, Mr Sim stated that the role of such a single board should be to take

"an expert view that challenges Government and tells it what it has to do to achieve the results that it wants, and that is also able to challenge universities."

He added:

"That intermediary role of being able to challenge both ways is incredibly important."—[*Official Report, Public Audit and Post-legislative Scrutiny Committee,* 1 December 2016; c 20.]

In evidence and feedback that we have had from other agencies, particularly Education Scotland, a lot of concern has been expressed about an increasing politicisation of agencies and, sometimes, the lack of ability to challenge Government. What safeguards can be put in place to ensure that that type of politicisation does not creep into any new board?

Keith Brown: The performance of agencies always comes back to political accountability in any event, as ministers are held responsible for that performance. The first two points that you quoted from Alastair Sim are very good ones. Challenge both ways is extremely important, and we have had the ministerial review group partly so that our thinking can be challenged. We did not include the agencies in the first phase of the review partly because we did not want it to be about the system representing itself; we wanted others who access the system to tell us their experiences and how they find it, and there were some challenging evidence sessions in relation to that for HIE, Scottish Enterprise and others.

As Alastair Sim said, we want to build on that challenge in developing the governance structures. The review is responding to a challenge, which is that we have not achieved as much as we could have, bearing in mind that, as I have said many times in the chamber, two Governments are involved in Scotland's economy, as the UK Government is intrinsically involved as well, although we would not think that from the Conservatives' responses to many of the economic data that are produced.

It is important to have that level of challenge, and that can be reflected in what comes forward as part of the governance review that is being undertaken.

Ross Thomson: Thank you, cabinet secretary.

Convener, I have a couple of questions on theme 2. Would you like me to ask them now?

The Convener: Go ahead.

Ross Thomson: Cabinet secretary, I note from the submissions to the review that the Scottish cities alliance gave some feedback. It commented that we need to align the funding of further education by the Scottish funding council with the regional needs of employers. As you will be aware, there are specific regional needs, particularly in my area, the north-east, where there are skills shortages. The Government's phase 1 commentary response was that it does not share that view and does not support a regional or local approach. Will you expand on that?

Keith Brown: If the comment related to skills, which you mentioned—I would have to see the context—I think that there is scope for that approach to be considered. As I said, we are looking at regionalisation, and we will consider views on the best spread of skills. It is possible to point to specific skills requirements in different parts of the country—in Ayrshire, for example.

It is not for me to pre-empt phase 2; we must wait to see what comes back from the workstreams that have been commissioned. However, if that is what flows from phase 2, we have an open mind. We have discussed with COSLA, which has an interest, and authorities in the Scottish cities alliance—although not all of them—people's view that they want additional discretion in these matters. We have to keep an open mind on that. Our announcement that we will establish a new economic development agency for the south of Scotland shows that we are serious in that regard.

Ross Thomson: Thank you. In the same submission, the SCA proposed decentralisation, on "a principle of subsidiarity". It talked about the need for more "fiscal and non-fiscal levers" and suggested that local authorities are better placed to incentivise investment and meet local need.

However, the phase 1 report responses seem to emphasise the strengthening of co-ordination and control through a national board, and there was no comment from the Scottish Government on the ask for fiscal and non-fiscal freedoms. Are you as open to such asks as you are to others?

Keith Brown: That ask has been made a number of times by the Scottish cities alliance and individual members of the alliance. It is important to understand where it comes from. Each time the alliance has asked, I have asked cities to tell me what powers they require that they do not have just now. I was a local authority leader; I know that local government has substantial powers, and it is genuinely not clear to me what powers cities do not currently have, the lack of which prevents them from doing some of what they want to do.

I have asked the SCA to provide the evidence. More than that, I have asked people to tell me what is intrinsic to cities that means that additional powers are required, because the demand is not being made by all local authorities, although other authorities might share that view. The demand is being made by cities that say that it is in recognition of their particular requirements. Of course, it will be for Kevin Stewart and other ministers to look at the evidence that the cities provide.

For example, Edinburgh and other authorities have talked about a tourist tax. However, such a tax would not necessarily be applicable only to cities; it is possible that other local authorities would want it. It is important to get a coherent set of requirements that apply across local authorities, and cities must specify what is intrinsic to being a city that means that they need additional powers and what they want to do that they cannot currently do.

Ross Thomson: You are saying that you are open to the idea, if the cities can provide evidence and suggestions. I take your point about councils' powers, but I think that a lot of councils feel constrained, given that there has been an agenda of centralisation. The seven cities contribute about £65 billion to Scotland's £120 billion economic output, which is a significant proportion, and they think that if they had more fiscal levers they would meet local need. I take it from what you said that you are open to the idea, if the cities submit evidence.

Keith Brown: We have said as much to the cities.

You talked about an agenda of centralisation. I know that my time as a local authority councillor goes back to a period substantially before yours, but I remember when a huge chunk of our budget—up to 40 per cent—was ring-fenced funding that was directed by central Government. That no longer applies. Substantial decentralisation has happened over a number of years, which I am very pleased about.

I am sure that you know from your experience that local authorities have substantial powers to act if they choose to do so. There are specific provisions in law that enable them to take action.

Ross Thomson: On centralisation, I think that people in the north-east are not keen on the idea of all the council tax that they raise going to the central belt—that is not very local.

The Convener: We will move on. I ask members to try to concentrate on the skills review.

Fulton MacGregor (Coatbridge and Chryston) (SNP): I thank the cabinet secretary for attending. Many of my questions have already been answered; indeed, the cabinet secretary has clarified things two or three times for members' benefit.

I will take a slightly different angle on the new board that is to be set up. I know that there is a phase 2, but has any preference been expressed to you as regards who might be likely to chair it?

Keith Brown: No. I think that Tavish Scott mentioned that there has been public commentary on the issue, which I am sure that you will have seen. I would have to check in all the submissions to the review and the deliberations of the ministerial review group, but I do not think that a specific recommendation has been made.

Fulton MacGregor: Forgive me if you have already covered this, but do you think that it is possible that we could have some sort of system in which the various organisations could chair the board on a rolling basis?

Keith Brown: One or two suggestions have been made about the membership and governance structure as opposed to the chairing. I have been happy to receive those suggestions and to discuss them, but the drivers of the process must be those people in the ministerial review group who have been specifically tasked with looking at the governance structure. A small number of suggestions—maybe two—have been made, but the issue is more properly one for the people who are involved in the review; I will not be directly involved. In all likelihood, I imagine that Highlands and Islands Enterprise, the Scottish funding council and others will be involved.

As far as the ministerial review group and the workstreams that have been established are concerned, we have said that nobody should be precluded from involvement. If somebody is not involved in taking forward a workstream, they should be able to say, "I want to be involved in that." To that extent, it is an open process. However, it is best that the suggestions flow from that work.

Johann Lamont: I am interested specifically in HIE. You said that Inverness was thriving whereas, in comparison, Dumfries was perhaps struggling, and you recognised that by establishing a development board for the south of Scotland, which I understand has been a popular decision. Why do you think that Inverness is thriving in the way that you suggested while Dumfries is not? What has contributed to that?

Keith Brown: I did not suggest that; I said that people had said that to us. More than one person said that. If you check the record, you will find that I said that other people had said that to us.

There has been a substantial benefit to Inverness over a number of years. One reason for that is its establishment as a city. More recently, other work has been done, which I have been involved in. Prior to that, John Swinney did work in relation to the college, and a number of people have worked over many years to build up the life sciences sector in Inverness and the surrounding area.

The city has also had a substantial boost from the prospect of being connected for the first time by dual carriageway or motorway to the other cities of Scotland. That is not the case now, but it is in prospect by 2025 or 2030. Quite a number of

factors have added to Inverness's success over recent years.

Johann Lamont: You would accept that the role of HIE has been significant as well. I will give an example. I am the child of a generation of people from the islands who felt that they had to come to Glasgow for work. My classroom was full of people from places such as Islay, Lewis and Harris, because more rural areas, and the islands in particular, were becoming depopulated. My nephew's generation can contemplate the possibility of staying on the island of Lewis to work. Many people recognise the role that the former Highlands and Islands Development Board, and now HIE, have played in creating that change.

There are still very fragile communities in the Highlands and Islands. Do you accept that the autonomy and authority of HIE, and previously of the Highlands and Islands Development Board, as described by Jim Hunter, have been part of that change?

Keith Brown: There is no question but that HIE has contributed hugely to that, but the point that I tried to make earlier was that many other things have done so, too. The introduction of road equivalent tariff and the substantial reduction in fares have been a huge boon to the Western Isles. RET has provided a huge boost.

Johann Lamont: Has HIE been strategically significant? We can discuss individual policies; I am asking if you accept that the change that I described, which has taken place between the 1960s and the present, was to do with HIE having a strategic role and having the authority at a local level to be committed not just to economic development but to community regeneration and supporting the skills and development of communities in the Highlands and Islands.

11:45

Keith Brown: I have acknowledged a number of times today the work of HIE, which previously evolved—as we are now asking it to evolve—from HIDB. As I am sure that Johann Lamont knows as well as I do, there has been pretty trenchant criticism from the Western Isles about the extent to which it was felt that HIE was centralised in Inverness. I heard that during the referendum campaign when I was involved in a television programme—

Johann Lamont: Will those people welcome HIE coming to Edinburgh, then?

Keith Brown: We have heard that criticism in the past, and it is probably as well to note that some of the developments that have contributed to the success of the Highlands and Islands have come from other sources, but—as I have now

acknowledged three or four times—HIE has played a huge role.

Johann Lamont: I do not think that anybody in the Western Isles who is concerned about the concentration of power in Inverness will be happy about power being further concentrated in Edinburgh. I accept your earlier comment that there will still be a role for HIE, but can you clarify what the difference will be? The HIE chief executive will still be in Inverness, and HIE will still have a board. What will it not be allowed to do? Where would the overarching board—which is definitely going to happen—come in? What would happen if there was a view in HIE that X should happen? In what circumstances would the overarching board say, "You can't do that"? If it is only about partnership working, why do you need to create a body with authority over HIE in order for that to happen?

Keith Brown: That last point is the key. To be perfectly honest—as I have tried to be—we do not feel that, up to now, joint working between different agencies, whether on internationalisation or skills, has happened to the extent that it should have done. The evidence that we cite for that is the fact that we have not achieved our ambition to move from the third quartile to the first quartile in the OECD rankings in terms of internationalisation, productivity or competitiveness. Over the past 10 years, we have had an increase in productivity in Scotland of approximately 4 to 5 per cent, which is not nearly enough. During that time the UK has stood still, with no increase at all, and yet it still has a higher productivity rate than we do. Most of our competitor countries have a higher productivity rate than we do.

We believe that we can do better, whether that involves internationalisation, skilling up companies or getting more investment in, and the way to achieve that is to have a greater alignment between the agencies that are working in those areas. That is what the strategic board is intended to do.

Johann Lamont: But aligning is not the same as overruling, which is clearly a power that the centralised board would have.

The Convener: We will move on. Gillian Martin is next.

Gillian Martin (Aberdeenshire East) (SNP): My question is on the back of what we have been discussing. One of the five actions set out in the phase 1 report is

"An open and international economy".

You mentioned the Brexit decision briefly at the start of today's session. How much has that decision impacted on the proposals for change and the creation of a new overarching board? How

urgent is that change now, given the challenges of the Brexit situation for not only businesses and the economy but our universities?

Keith Brown: It is extremely urgent, and it explains not just our approach to the review and the conclusion that we should create an overarching board but the other decisions that we have taken—for example, to double the number of SDI staff working across the European Union and to increase our activity substantially by establishing a board of trade.

In making representations, we are obviously not allowed to strike trade deals, but we can do a great deal on trade promotion. The point that I sought to make earlier is that it is best for us to do that in as organised a way as possible. In the past week, the First Minister has announced substantial support for the chambers of commerce to undertake their international activities. Ministers, universities, SDI and others must co-ordinate their work as much as possible to have the maximum possible impact. That is important in any event, but I think that everyone can see how much more important and how immediate it is given the Brexit background.

Gillian Martin: Given the potential economic impact that universities could suffer as a result of not being able to access EU funding, how much more important are links with businesses and the enterprise agencies, which have perhaps not been as strong as they could be? I know that there are very strong links between HIE and the University of the Highlands and Islands, but that has not happened across the whole of Scotland, has it?

Keith Brown: As we have mentioned, the committee will have had the chance to ask the agencies themselves, and I think that the agencies would concede your point that there should be greater collaboration.

There is no question but that the university sector sees itself—by some distance—as the most vulnerable in relation to the Brexit discussions. Within a week of the referendum result, I had a meeting with all the chambers of commerce in Scotland, and I was told by one of the representatives from the north-east that they had already lost an Erasmus-related contract. You will know how vulnerable universities feel with regard to their ability to draw on people from elsewhere. It is an extremely important issue.

Given that context, and given the pressure of Brexit, especially in relation to the higher education sector, I am admitting and conceding the point that the level of collaborative working in the past has not been what it should have been, and I think that the agencies, too, would concede that. That is a large part of what the review is about.

Gillian Martin: So with the overarching board there is the opportunity to share the knowledge and success of Highlands and Islands Enterprise, take what has been very successful in that area and duplicate it across the whole of Scotland.

Keith Brown: That is a very fair point. One proposal that was made by a number of people—I am trying to think whether it was just made publicly or whether it was in the response—was that HIE should take responsibility for the south of Scotland. However, we did not think that that was right, and we decided not to do it, but Gillian Martin is right to say that, as Johann Lamont has already mentioned, a huge amount of what HIE has done is seen by other areas as being very positive—although that view is not universal or across the board—and there are other areas that believe that they can learn from it.

If we have greater alignment between the now to be five different agencies, everybody can learn more effectively by working together in a closer way than in the past. I cannot see what opposition there could be to the idea that they should work more effectively together. They should be more aware of what is going on in the different agencies so that they are not cutting across each other, and where there is good practice, it can be shared across the different agencies. That is very important and, from the Government's point of view, it has not happened to the extent that we would like to have seen. By and large, I think that the agencies would bear that out as well.

Ross Greer (West Scotland) (Green): What implications does the Government expect from the abolition of the funding council's board for external funding from charitable organisations, Europe and so on?

Keith Brown: I might ask Paul Smart to answer, too, but I think that it will come down to what is determined in relation to the governance structure. Indeed, that is one of the issues raised by Universities Scotland. The Scottish Government has no interest in seeing a reduction in that funding beyond the threat that we already have from Brexit, and we are very keen to make sure that that does not happen.

A related issue is classification. The Office for National Statistics seems to take whatever Eurostat says about classification pretty much at its word. We must have regard to that, too; indeed, it is another issue that has been raised by Universities Scotland. Those issues will be dealt with in phase 2 by the group that includes Universities Scotland and the funding council's chair and chief executive, which will ensure that concerns are reflected in the governance arrangements that are produced.

Paul Smart: I will just add that the funding council, Universities Scotland and the Scottish Government already have a strategic funding group, which is considering all the funding implications that have been referred to in relation to looking at future funding packages for the universities. That will continue to be the case under the auspices of the Scottish funding council, the Scottish Government and Universities Scotland.

Ross Greer: Taking on board what has been said, I wonder whether one of the simplest things to do with regard to the question of governance is to rule out right now the idea that the board would be chaired by a minister. That would have pretty significant implications for research funding—or at least for the perceived independence of the institutions. I have already picked up a concern that funding agreements coming up in the next few months are in jeopardy because of the perception that those institutions will end up not being separate enough from Government.

Keith Brown: To the extent that that is true, there is then a requirement to get on and do this—I understand that point. However, we have some substantial expertise among the people who are looking at the issue just now, including, for example, Alice Brown with all her experience in public sector reform. It is perhaps unfair to mention this, but I said to her recently that I remembered hearing her lecturing on that very issue in Brussels a number of years ago. It is right that we let these people do their work rather than announcing on an ad hoc basis different parts of the governance review. I understand the point about the need to get on and do this, but it is right to let those people take this forward in the meantime.

Ross Greer: Your point about classification was important. We need only look at funding from charitable foundations that are based in England. When the issue came up in Ireland, the Wellcome Trust gave Irish universities around half the funding that it usually gave because of their classification as public bodies. That makes me question the entire process and its purpose. Going back to the questions that have been asked about why we have got this far with identifying the need in the first place, are we not simply jeopardising our universities' ability to get this funding in trying to solve a problem that no one seems to have identified?

Keith Brown: For our part, we believe that we have identified a problem: we have to improve our economic performance. The evidence shows that we have not achieved what we set out to achieve, although I have to say that that is true not just of this Government but of previous Governments. In

any event, there is a need for increased alignment and collaboration.

We acknowledge the issue that you have raised, as do the universities. They are intrinsically involved in the process and we do not intend to see a reduction in research or support for universities for the reasons that you mention.

The Convener: The final question is from Colin Beattie.

Colin Beattie (Midlothian North and Musselburgh) (SNP): We have been talking about the dangers of ONS reclassification, which is clearly not desirable. In their joint submission, the National Union of Students Scotland, the University and College Union and Universities Scotland say that reclassification is "under review at present", which is a little bit alarming. Is it under review at this point?

Keith Brown: The major classification that happened recently was something called European system of accounts—or ESA—2010, which is, as its title suggests, from 2010, even though it took four or five years after its development for its implications to become clear. Because of Eurostat guidance, the ONS started to look at ESA 2010. I do not have the reference in question in front of me, but I think that the organisations that produced the joint submission might be referring to further iterations of that classification process.

As I have said, ESA 10 was developed in 2010, but we were told in 2015 that we had to comply with it when we were in the middle of doing the Aberdeen western peripheral route. As a result, we had to change its classification. Public authorities around Europe cannot cope with that kind of uncertainty and there has been a substantial backlash against Eurostat, not least from some of Belgium's regional governments, which have had projects cancelled because of it. I understand—and this is just my understanding—that Eurostat is now acting in a way that is more cognisant of public authorities' need to be able to plan these things, which might mean that the process of further classification is not as drastic or ad hoc as it has been until now. I think that the joint submission is just referring to the further iterations of that reclassification.

Colin Beattie: I just have a couple of random questions because a great deal of what I wanted to ask has been covered by my colleagues. I understand that HIE's remit has some sort of social element. How will that be impacted?

Keith Brown: You are right. If we go back the many years to HIE's formation, we will see that that has been a vital element of what it has done.

As I have said, if I rule something out or in just now, I will undermine the work of those who are taking forward the issue of the governance structure and remit of the new board and how it relates to the agencies. The social element has, without question, been a valuable part of what HIE has done. Notwithstanding what we have said about the boards, our intention is for HIE to have the same structure as it has at the moment, with its own chief executive and legal status. Those things will be protected as we go forward from here.

The Convener: We have finished our questioning, cabinet secretary. I thank you for your time, and I thank Mr McAloon and Mr Smart, too. I look forward to hearing from you with the information that we have requested.

I close the public part of the meeting.

11:59

Meeting continued in private until 12:14.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.