OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 27 March 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 27 March 2018

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
11th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)
Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
Gillian Martin (Aberdeenshire East) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mark Baxter (Galliford Try Investments)
Stephen Good (Construction Scotland)
Annie Gunner Logan (Coalition of Care and Support Providers in Scotland)
Graeme Jones (Scottish Financial Enterprise)
Dr Donald Macaskill (Scottish Care)
Dr Peter Mowforth (INDEZ)
Joshua Ryan-Saha (The Data Lab)
Louise Smith (HM Treasury)
Emil Stickland (Thrive Digital)
Chris van der Kuyl (4J Studios)
Alastair Wylie (CCG (Scotland))

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 27 March 2018

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the 11th meeting in 2018 of the Economy, Jobs and Fair Work Committee. I remind everyone in the gallery to turn all electrical devices to silent so that they do not interfere with the meeting. We have received apologies from committee members Jackie Baillie and Gillian Martin.

Under agenda item 1, the committee is invited to take agenda items 3 and 4 in private. Do members agree to do so?

Members *indicated agreement.*

Scotland's Economic Performance

09:31

The Convener: We turn to our inquiry into Scotland's economic performance. This morning, we will have two round-table sessions, which are a slightly less formal way of taking evidence than just putting questions to a panel of witnesses. Hopefully, the discussion will start to flow once we get going.

We have a number of guests. Before we get started with questions, perhaps each of you could introduce yourselves by giving your name and briefly explaining who you are and which organisation you represent. There is no need to operate the microphone system, as that will be done by the sound desk. If you want to take part in the discussion, simply raise your hand and I will try to bring you in at an appropriate point.

I thank all our witnesses for coming in. By way of introduction, please give your name and organisation and say what your organisation does. We will start with Louise Smith.

Louise Smith (HM Treasury): As well as being one of the Treasury fintech envoys for Scotland, I work for the Royal Bank of Scotland, largely in the retail bank. I am accountable for the transformation of the retail bank, particularly in digital.

Chris van der Kuyl (4J Studios): Hello. I am a technology entrepreneur, and I am here today as chairman of Entrepreneurial Scotland and chairman of a number of technology companies in the games and data analytics space.

Emil Stickland (Thrive Digital): Good morning. I am here from Thrive Digital, which is an e-commerce consultancy, but I am also representing a prospective institute, the institute of e-commerce, which will, I hope, have the goal of raising awareness of and improving e-commerce across Scotland.

Dr Peter Mowforth (INDEZ): I am the chief executive of INDEZ. We are a long-standing e-commerce business based in Glasgow. We look after and work with a large number of mostly small and medium-sized enterprises in Scotland that sell products online through e-commerce.

Joshua Ryan-Saha (The Data Lab): Hi. I am the skills lead at the data lab, which is one of the eight innovation centres that are sponsored by the Scottish Government. My role is to help Scotland to grow by training as many data scientists or artificial intelligence experts as needed.

Graeme Jones (Scottish Financial Enterprise): Good morning. I am the chief executive officer of Scottish Financial Enterprise. I am a board director of the Financial Services Advisory Board, and I am also a director of Scottish Investment Operations.

The Convener: Thank you very much.

I will start with a fairly general question for our guests. How has the Scottish economy performed over the past 10 years, both generally and from the point of view of your interest in your sector? If we look not just to the past but to the future, what do you see as being the key opportunities and risks that face Scotland? I have read in the press that small business confidence is slightly down at the moment. Do you have any comments on that? Who would like to start off?

Emil Stickland: On e-commerce, it is quite difficult to tell how well Scotland is doing in relation to the rest of the United Kingdom. We know that, per capita, the UK is the best performer. Globally, it is number 3 in terms of total e-commerce retail sales, so it is punching well above its weight on an international scale. Anecdotal evidence suggests that that performance has not been replicated in Scotland. I do not have any numbers—as far as I am aware, they do not exist—but it is possible to look at things such as Google trends, which indexes Google search volume across the internet. If we look at various regions in the UK, the term “e-commerce”—people who search for “e-commerce” are not looking to buy things; they are looking to engage in some way with e-commerce—we see that London indexed at 100, which is the highest search volume. As you move out from there, the performance gradually dips. Wales is at around 70. The performance in the midlands is quite strong, and in areas such as Manchester it is very good. The lowest level that I have seen—30—is in Scotland. That shows that the search volume and the amount of interest in e-commerce as a subject are much lower in Scotland than in the rest of the UK.

There is another piece of anecdotal evidence. Alibaba is the world’s largest e-commerce company. Business-to-business trade forms the majority of Alibaba’s trade, although it owns some business-to-consumer elements in China. Companies can list their products on Alibaba—it is a bit like eBay for B-to-B trade. In order, the top countries for Scottish whisky are China, Germany, Japan, Thailand, Taiwan, United Arab Emirates, England, the United States, Hong Kong, Hungary and then Scotland. Therefore, we are quite a way down when it comes to selling our biggest export on the world’s largest B-to-B export market. Although it is difficult to draw any firm conclusions from that, I think that that would stand us in pretty bad stead as a whole e-commerce country.

The Convener: Is there any way to improve that?

Emil Stickland: Yes. We need to begin to teach people and tell them about the opportunities, because such business-to-business trade is not difficult to set up. The distilleries could be doing it direct and selling at a much higher margin. It is the case either that other countries are exporting at wholesale price and putting Scottish whisky on to Alibaba or that fakes are being sold. We are talking about brand protection. If there is a demand there, there should be a supply there, but we are giving a big chunk of a major export to other countries, because they are clearly able to sell it—there is a market for it.

Gordon MacDonald (Edinburgh Pentlands) (SNP): To what extent does that situation reflect the fact that much of Scotch whisky is owned by large international companies, which means that there is a lack of a headquarters function in Scotland?

Emil Stickland: I do not know the answer to that, but given that China and Germany are the top countries, I would think that a lot of the Chinese products are fakes, whereas it is probably just the case that the Germans are good at exporting and using Alibaba. I do not know the intricacies of the market, but such simple evidence—I understand that it is simple—would suggest that Scotland is not performing as well as it could. I am referring to just the search volume on the first few pages, so all the small distilleries that are still owned by Scottish companies and all the craft distilleries that are coming through on the back of the gin boom could be listing globally. They could have access to a global market overnight, but there is no support for doing that.

Graeme Jones: In answer to the question about what the past 10 years have been like, I would say that the world has changed a lot in the past 10 years. Customers and customer expectations have changed a huge amount in the past 10 years. I have been working in banking and financial services for 40 years, and I would say that the change has been faster in the past 10 years than in the previous 30.

In our analysis, the downturn in the oil and gas industry has had an enormous impact—it has been felt much more deeply than in just the surrounds of Aberdeen. Everyone who is involved in the supply chain, from hotels to engineering companies that are based down here in Edinburgh and Glasgow, has been affected. The impact has been enormous even in North Yorkshire. However, it is fair to say that the price of a barrel of Brent crude is quietly coming back up again, which I think is good. There are signs of a recovery there, and no one welcomes that more than we do.

As far as the impact on banking and financial services is concerned, we serve the community. We are very large businesses but, at the end of the day, we serve customers. One of the first things that happen when people come under a bit of economic pressure is that discretionary spend goes out the window. People make the car do another couple of years and do not renew it. Rather than move to a bigger house, they might decide to build an extension on their existing house. They might not go on holiday. People do a whole raft of things—I have been there myself, so I know what I am talking about. There are things that people have to do to tighten their belts, and that affects the economy enormously. If we look at consumer-led growth in the UK economy, the Bank of England says that it will be around 2 per cent. It is a consumer-led economy, so anything that interrupts the ordinary customer—the ordinary man in the street—will have an impact.

We also have lower population growth, combined with slightly lower productivity, although we have made great inroads in productivity lately. That is also a contributor. Our businesses were ninth out of 12 in the percentage of gross domestic product that is spent on research and development, so we need to look at correcting that. Although the number of private sector enterprises is at a record high, we are still only ninth in the UK when it comes to new business registrations—there were only 50 new business registrations for 10,000 members of the adult population in 2016, compared with a UK figure of 67—so we need to do our bit to stimulate our young people to want to set up on their own. We will talk about the very exciting world of fintech, which in banking and FS links into what Emil Stickland was talking about with e-commerce.

In the UK as a whole, levels of business investment remain lower than in many of our competitor countries. However, I think that the recently announced Scottish national investment bank will be another lever that we can push and pull ourselves.

That was a banking and FS overview, which I hope was helpful to everyone around the table.

Chris van der Kuyl: The 10-year horizon is an interesting one to look at from my perspective. In the video game industry, 10 years ago many of us on the SME side of video games development were looking at what was to come with a lot of trepidation. It seemed that bigger corporations with ever-bigger budgets were starting to dominate the industry, but the great news is that we were completely wrong, because of the democratisation of distribution that has taken place over the past 10 years, whereby distribution is done through digital platforms rather than through physical retail.

09:45

We always bemoan the fact that the high street is shrinking and becoming less important as a terrible thing for us all. The flipside of that is that, for small creative businesses, the distribution model being online has completely opened up the market. It is no longer the case that we are completely restricted by large-scale distributors that would, in effect, decide what the public would buy by distribution alone. That has led to a plethora of enormous growth in the past 10 years, with businesses being created almost out of nothing. Scotland has benefited significantly from that. At the high end, we have, a stone's throw from the Parliament, what is reputed to be the most valuable video games property—in fact, the most valuable entertainment property in the world—in Rockstar North's Grand Theft Auto. Who knows how to put an exact figure on it, but the franchise value is certainly north of £7 billion or £8 billion; it is probably now more than £10 billion. That is principally created here in Scotland.

4J Studios, of which I am the chairman, has been fortunate enough to be the console partner for PlayStation, Nintendo and Microsoft formats for Minecraft. Minecraft is a franchise that was created by one individual in Sweden who, within five years of creating the franchise, sold it to Microsoft for $2.5 billion. The most successful console development on Xbox 360 is the one that was developed in Scotland, and it continues to be developed in Scotland today.

Recently, a large-scale business in America, Epic Games, acquired a small Edinburgh company called Cloudgine. I think that Epic happens to be 20 per cent owned by the Chinese giant Tencent Holdings, which is now approaching becoming the biggest video games company in the world, with a market capitalisation of $0.5 trillion. If anyone has knowledge of the video games industry, Epic does. It is responsible for a game called Fortnite, which is reputed to be generating revenues of around $100 million a month at the moment, and that is from a standing start a few months ago. Those industries are accelerating to an order of magnitude above where they were 10 years ago, and the opportunities for small businesses to enter are significant.

We in Scotland have created some of those businesses. There is a venture capital-backed business in Scotland called Outplay Entertainment. Outplay is in the free-to-play mobile space, and it has seen significant growth, with principal backing from Scottish investors. We have a really bright outlook in that core video game sector, and we need more talented individuals to come in. We need indigenously created people. The University of Dundee is clearly a shining light globally in the training and development of individuals for the sector, but great people are being delivered by the core of our science, technology, engineering and mathematics subjects in Scotland. Some of the skills that we do not have at the moment are in what are called live operations, which relate to how the games are developed and published, and how the audience is engaged. I am talking about digital marketing and discoverability skills, which are shared with industries such as e-commerce.

We need more of that. When I say that we need more of it, I mean substantially more. I have just come back from our annual game developer conference in San Francisco, where I talked to a number of people who were interested in starting and supporting businesses here in Scotland. The one question that they ask is, "Are there enough people? Is it worth my while going there? Will I find the people?" Obviously, my immediate answer is, "Of course there are." The more nuanced answer is, "Of course there will be, if we invest." We need to overinvest in the sector. We will probably need to make some tough decisions not to invest elsewhere, but the skills in question are very transferable.

We have two other businesses in Scotland that we started in the past 10 years. One of them provides television data analytics for TV advertising. It is called TVSquared, and it is based in Edinburgh. Over the past five years, TVSquared has grown from a start-up idea to a global company that analyses the TV output of some of the biggest brand names in the world. The other business, which is called Broker Insights, has just started in Dundee. It operates in the commercial insurance space. Both those businesses have one big thing in common: they could not have existed 10 years ago. Ten years ago, there was no platform for cloud-based computing like, for example, Amazon Web Services in the way that there is today. That revolution has allowed people with amazing ideas, but without the enormous amounts of capital that need to be invested in hardware and infrastructure, to realise those ideas and build businesses of tremendous growth and scale.

Those businesses are incredibly close to success stories in Scotland such as Skyscanner and FanDuel in terms of the market environment that has allowed them to grow. The market environment is there. It is now all about the deployment of skill base, and if there is any restriction on growth for those companies, it is one of scale; it is no longer one of access to capital or access to the right core idea-generation talent. The potential restriction relates to the development of the right scale of talent—scaling is our biggest challenge from here on in.

The Convener: We will move on to questions from Gordon MacDonald. I will try to bring in other guests who may wish to comment on those aspects as well as on what Gordon MacDonald asks about.

Gordon MacDonald: Chris van der Kuyl has helpfully led us into the area that I want to ask about. What are the opportunities that could be replicated across the economy and what would the challenges be in trying to select key growth areas and replicate them? Chris van der Kuyl touched on that, but what about the other panel members? Where are the opportunities in your sector that could benefit the Scottish economy?

Dr Mowforth: I will give a direct answer to your question, but I just want to make a few more background points about e-commerce, which two people have mentioned and which is about companies that trade online and sell products and services through the internet. If those round the table were asked what the top 20 or top 50 e-commerce businesses in Scotland are, I think that everybody would probably have a question mark—they would not really know. That is surprising, given that the most recent statistics from the Office for National Statistics show that the total e-commerce turnover in the UK is £511 billion, which is absolutely huge. Those are not my numbers—you can go to Google and check them.

I spend a lot of time moving around within the UK. When I go down to England to do business, I find that the term "e-commerce" is used frequently and regularly, and yet for some reason it is not a word that is in common usage in the Scottish business community to the same extent. A few minutes ago, I looked on Adzuna, which is a website that pulls together all the jobs that are available across all sites in the UK. As of about six minutes ago, there were 3,126 e-commerce jobs available just in London whereas for the whole of Scotland there were 114. That is an interesting statistic about the degree of interest in and understanding of the subject here.

To answer Gordon MacDonald's question on what we can do about it, so much of the issue is down to skills. A long time ago, I used to be a university lecturer and I am embarrassed that, for something as technically specialised as e-commerce—it is a very distinct subject; e-commerce web design is different from web design and e-commerce marketing is different from digital marketing—to the best of my knowledge, as of today, not a single college or university anywhere in Scotland runs a dedicated course on e-commerce. I find that really surprising.

We have been advertising jobs in my company and trying to recruit engineers in the area of e-commerce but they are like hen's teeth—you cannot find them or recruit them. There is an absolute dearth of training, skills, knowledge and expertise. If there is one thing that we need to focus on, it is getting those skills. That is not just an issue for specialist companies such as us. One of the great things about e-commerce, I suspect even more so than with fintech, is that it directly applies to lots and lots of small and medium-sized enterprises. As I think Emil Stickland mentioned, lots of small SMEs could immediately take advantage of e-commerce and sell in a global market and so create wealth, exports and jobs if they could get the people, the advice and the skills, but it is difficult to know how to get started. It all comes back to a lack of skills.

Emil Stickland mentioned the fledgling organisation called the institute of e-commerce, which has no funding or support. It has the backing of the Scottish Chambers of Commerce, Scotland Food & Drink, ScotlandIS and about 20 companies, but that is all a token gesture unless we can mobilise group support and say, “Okay, guys—let’s try to do something about it.”

Gordon MacDonald: Is the skills shortage just in Scotland or does it affect most of Europe or the world? A report that came out last year said that there were in the region of 150,000 information and communication technology vacancies across Europe.

Dr Mowforth: E-commerce is a very specific niche subject, with very specific skills. Personally, I feel that the higher education system has completely failed to address that. The reasons behind that are interesting. In part, it is because people do not know where to fit e-commerce. It does not fit naturally within the Government agencies’ models, as I said in my written submission. If you go to the Skills Development Scotland website and type in “e-commerce”, you get nothing, which is shocking. If you go to Scottish Development International’s website, again there is nothing.

How do we start? We almost have to bootstrap what is already a colossal industry. The UK as a whole is the third-biggest player in e-commerce in the world. Remarkably, five years ago, we were number 1, but we are now second fiddle to China and the United States. However, within that, 99 per cent of all the e-commerce activity is in Greater London and the English midlands. That means that, although the average Scot is just as likely to buy things, when we buy stuff, whether that is business to consumer or business to business—most e-commerce is business to business—we are replacing local Scottish companies that would have sold to us with companies down in England. I suspect that, if we had the statistics, we would see that our e-balance of trade is considerably worse than our normal balance of trade.

Joshua Ryan-Saha: The underpinning commonality in a lot of the evidence that has already been provided is about data analytics and data science. TVSquared is an analytics company and to a large extent e-commerce is driven by data analytics. It is also a huge part of fintech and financial services. We have talked about potential skills shortages, and there is a global skills shortage in that area.

I like to think that the work that we are doing at the data lab is trying to resolve that in some way. To give just one example, our masters programme across 11 Scottish universities has grown from 40 to 160 places within a few years, and there is no difficulty in filling those places. The University of Edinburgh has one of the world’s leading informatics departments and it is something that we should be very proud of. It is providing people for the world. Data analytics will be essential to future economic growth, but we need to create the skills so that we can have clustered companies. To create clusters of economic growth, we need a broad base of skills. We are getting close to doing that, but we need to keep on investing in data analytics skills in particular.

Gordon MacDonald: On that point about creating clusters, Edinburgh has an ambition to become one of the data capitals of Europe. We heard about the skills shortages in e-commerce, but are there particular issues for Edinburgh in trying to achieve that ambition?

10:00

Joshua Ryan-Saha: Edinburgh is in a very good position, not least because of the University of Edinburgh, but also because of other universities and because of developments that SDS has been doing to try to boost cyber security as well as data analytics at college level. To meet that skills shortage, we cannot rely only on universities; we also need to get people from school and college to do the broad-base data level jobs of data management. Therefore, the modern apprenticeship in data analytics is very important. Edinburgh is well positioned, but it needs to work across the central belt with Glasgow, which also has a lot of expertise.

Jamie Halcro Johnston (Highlands and Islands) (Con): Joshua Ryan-Saha mentioned going into schools. Obviously, we want students to come through and be able to go into courses when they are 16 to 18. How early on do students need to take subjects that will feed them into that process?

Joshua Ryan-Saha: It needs to start very early. Previous Royal Society reports on computing in schools have shown that the UK is behind, and I know that there has been a drop in computer teachers. There needs to be investment in computing, and in statistics and maths, from primary school upwards. Those are key areas.

I do not want to focus too much on data analytics, although I of course think that it is very important. Chris van der Kuyl mentioned creativity and the creative professions, and the combination of creativity and technology is where some of Scotland's pre-existing strengths can be built on. At the moment, the biggest gap at primary and secondary school is perhaps in computing and maybe statistics, but we do not want to diminish the great work that we are doing in creative learning as well.

Louise Smith: On skills, we produce new talent by working with schools and universities, and particularly schools. There are several examples of where we are creating code clubs and trying to get more people into those particular areas quicker. However, we already have a strong workforce, and it is also about working with people to redeploy them, upskill them and help them to move into roles that today are probably unknown.

Chris van der Kuyl and, I think, Graeme Jones mentioned that we now have a customer-driven market. Particularly with fintech, providing more choice is healthy. It also means that organisations, whether large existing ones or new ones, need to have the customer at the heart of their model, because otherwise it is not sustainable. We are already seeing strong examples of collaboration. Again, it is a simple strategy. I personally believe that collaboration and partnership, whether on skills, talent, start-ups or people moving into Scotland, are absolutely critical. The changes are challenging whether we are agile, innovative and fast enough in how we work. Some of those challenges are global and are not unique to here. There is a clear and strong targeted focus on two or three areas where we in Scotland really have an opportunity that we can harness.

Kezia Dugdale (Lothian) (Lab): I feel as though I have been hearing from ScotlandIS for several years that Scotland has a digital skills gap, but it does not appear to get much better as each year goes by. What fundamental shift do we need to address that and what does it look like? Where are the failings in the higher education sector—Peter Mowforth referred to the problems there—and where are the problems in the enterprise and skills agencies in delivering on this problem? If it is not about Scots entering those careers or reskilling, as Louise Smith mentioned—that is a key point, given that only 15 per cent of Scottish SMEs are properly digitised at the moment—if we have to look beyond Scotland's borders to attract new skills, what impact will Brexit have? There is a nice easy question for you all.

The Convener: Graeme Jones, would you like to come in on that one?

Graeme Jones: I am delighted to go first.

First, can I just say that everything that Chris van der Kuyl said really chimed with me. It would be great if he and I could have a chat about how we can come together on some of the stuff that we are doing in financial services. For example, we are thinking about people who are looking for things like retirement advice and how we make it entertaining for them to track their pension funds and their options. I cannot think of a better person to speak to on that than Chris van der Kuyl.

To get back to Kezia Dugdale's question, I can speak only for banking and financial services, because I am in a monoline sector, but we have great collaboration with SDS. I probably speak to SDS once a week on average. It forms part of a network that we have called the STAR—skills, training and research—network, which is dedicated to banking and financial services. SDS, Scottish Enterprise and SDI are part of it, so we work closely with them.

At the moment, we have enough computing science graduates and digitally skilled people coming in who are attracted to our biggest financial services brands. Peter Mowforth made the point, which also chimed with me, that the difficulty is that, if they are being hoovered up by the large successful brands, it becomes more difficult for the smaller enterprises to recruit staff and they may have to pay over the odds to do that. From that point of view, the STAR network is considering how we address those shortfalls. Funnily enough, we, too, have 11 universities that are part of that and they work hand in glove with us. We are trying to match our anticipated demand with the types of graduates that we will require. We also have an unknown box, which Louise Smith alluded to. We know that some stuff will happen that nobody knows about at the moment. As Chris van der Kuyl said, 10 years ago, Minecraft and Grand Theft Auto could not have existed in the way that they do now.

At a banking and financial services level, we are getting great support. However, we can still do a lot more to fine tune what we are doing to ensure that children who come out of school are work ready and go into apprenticeships if that is more suitable for them. Not everybody needs to go to university, so we want children to go into apprenticeships, but they need to have done the right STEM subjects. As Joshua Ryan-Saha said, we need to pitch in and work with the schools to ensure that the industry is attractive to children who aspire to move into financial services.

I am totally with Kezia Dugdale on reskilling, given the rate at which the world is changing.

When I started in work 40 years ago, there were no mobile telephones and desktop personal computers. If you wanted something typed, you went to the typing pool and asked very nicely, and the chief typist might type up your dictaphone tape. Ostensibly, I am still a good old-fashioned banking and FS man but, given the change that I have gone through and the adaptations that I have had to make, I have probably had four careers, and that is with a very much slower pace of change.

I agree with what everyone has said on that but, certainly from a banking and FS point of view, we work closely with the universities and Scottish Government institutions to ensure that we are matching demand with supply.

Joshua Ryan-Saha: The persistence of the digital skills gap is partially to do with the global growth in digital jobs. As I mentioned, the University of Edinburgh and other universities provide people for the world and not just for Scotland. There are some good things going on here—CodeClan is a good example—on lifelong learning and on different routes. We have to do more to keep people here. That is partially about selling Scotland. One thing that we do is to ensure that people get a placement in a Scottish company, so that they get that foot in the door and have a greater affinity. Universities in many places take a similar approach. It is also important to develop a community so that people have connections in Scotland and feel that they do not need to move.

On lifelong learning, the majority of people who will be working 20 years from now are working now, so one of the key skills for the future is being adaptable and being able to relearn. We need an infrastructure that enables people to keep on learning the skills that are required, particularly in technology.

Kezia Dugdale: Do we have that yet?

Joshua Ryan-Saha: I do not think that we have that, at least not in the same way as we have for younger people. The universities are changing so that they can provide more in-work training. We need to offer a different range so that people who are time poor can access training online or elsewhere. Another issue is about how people who are financially poorer can access training 10 or 15 years down the line. There is an opportunity to target the digital growth fund at people who are in work.

The final point that you mentioned was Brexit. That is a risk, because around 50 per cent of the people on our courses still come from Europe, so there is a risk that we lose them. However, that just refocuses us on ensuring that every university, school and college offers an opportunity for people to retrain quickly. We need to manage that risk by reinvesting in the pipeline towards university.

Chris van der Kuyl: I will echo and develop my colleagues' comments. The statement that I keep reflecting on is the one that notes that we have never lived in a period of such fast change as the one that we live in now and that it will never be this slow again. The kind of thing that Graeme Jones has experienced in the past 40 years suddenly starts to compress and compress further into the next five years or so.

To answer Kezia Dugdale's question directly, there is an unlimited appetite for the kind of skills that we are talking about. We can never do enough, because as much as we do, we will just attract more people. We will complain and moan a bit, saying, "Goodness me, there are not enough people" but that is fine because growth will be going through the roof and we will have an ever more unsustainable appetite for more great people if we skill them in the right way. That relates to Kezia Dugdale's point about skills in our workforce, because they are severely lacking. We are not building a confidence and a belief in our young people from the earliest stage that this area is something for them. In Dundee, I constantly hear people saying, "It is all right for you guys in the games and digital industries in Dundee, but what about the rest of us that are being left behind in manufacturing?" My answer is always, "You are left behind if you think that manufacturing in the way it was 30 years ago is ever going to come back". In my view, anyone is capable of understanding gradations of the skills that we are talking about here. There is no reason to leave anyone behind in our workforce, but if we continue to believe that training for an old economy is the right way to go, we will consign ourselves to the backwaters of economic history.

Joshua Ryan-Saha earlier made an brilliant point earlier around the combination of creativity and digital. Other countries—we can all name them—can hothouse young people to be the best mathematicians that they can possibly be and, in a narrow field, brilliant data analysts. However, the kind of minds that we traditionally have been brilliant at developing in Scotland—minds that are lateral, that are multicultural, that reach across all sorts of divides—have resulted in our unique nature in Scotland that has seen us lead the way in things like video games, design, music and film, and we have exported some of that talent. We must continue to develop minds like that.

On Kezia Dugdale's earlier question on the impact of Brexit, the confusing thing to me over the past few years has been an obsession with some kind of isolationism or even an obsession with Europe because the idea of a European or a UK culture is kind of irrelevant to us now. Culture is global. We need to make sure that there is access to every market that we can possibly have access to. If there is an opportunity in the situation that we find ourselves in now, it involves making sure that we set ourselves up for success and ensuring that we are incredibly attractive inwardly and outwardly, and that we keep that kind of migration cycle. We do not want to keep everybody to ourselves, because if we keep everybody to ourselves, who will know what we are doing and who will understand what to bring back to Scotland?

At the same time, if we plant our flag and set out our stall as the place for people to come if they want to develop creative and technically advanced businesses and as the place where they will find the best young talent and will be able to find a home that welcomes them, we will do brilliantly. It is pretty simple. We need to take not just a 10-year view but a 30, 40 or 50-year view of that and make those changes now. However, we are not doing that; we are playing at it. We make great noises and have great strategic insights with regard to things such as the curriculum for excellence, but we then underfund such initiatives and wonder why they do not deliver. It is not that the strategy is wrong; it is that the implementation is atrocious. That is what we need to address, with a recognition that, if we want to grow our economy, fund our services and provide for our ever-growing and ageing population, we need to develop those core skills that will generate huge value for the country.

Louise Smith: I wanted to make four points in response to the question, two of which have been covered by Chris van der Kuyl. Kezia Dugdale's point is right, but we also need to talk about what the digital skills gap actually means, because even that has changed in today's world. Even people in financial services work closely now with the creative industries. That would not have happened previously. We have to talk about the digital skills gap in a different way. What do we actually mean? What types of skills are we talking about?

10:15

We then need to talk about the technology. We are missing a whole section around the human interface into technology, which Chris van der Kuyl touched on. How do we create the right designs to enable customers to adapt and adopt quickly and also gain confidence and security in relation to some of the changes? How do we then maintain and operationalise some of these components?

There is a real opportunity for us to break down what we mean by the digital skills gap, first so that people understand it and then so that we can create a targeted strategy to constantly deliver against it. Chris van der Kuyl is bang on: there is no silver bullet that will suddenly shift the situation. There is a leadership challenge, and we need to continue to drive against that strategy.

My last point relates to confidence, belief and ambition, which Chris van der Kuyl also touched on. We need to help people adapt with confidence and with real ambition against those targeted strategies. That means that we have to be consistent and persistent about it.

Emil Stickland: From my point of view, e-commerce probably differs slightly from some of the other industries represented around the table because there is a lack of public awareness of it. There are some fantastic case studies in Scotland around data and certainly around the computer games industry and fintech, but where are the large e-commerce companies? They exist. There are companies doing amazing things. There are retailers with turnovers of more than £100 million and there are small retailers growing at 200 per cent to 300 per cent a year, but we do not hear about them. There is no one talking about them. Maybe it is because e-commerce is not a hot topic or maybe we just do not like the particular industries that those companies operate in.

The first step in how to make e-commerce better certainly is to raise awareness of it. Subsequently, of course, there is training. Community also plays a huge role in how we move forward as an e-commerce country. If you go down to London there are meet-ups, with little groups of people coming together to talk about e-commerce, saying things like, "We tried this thing and we got an improved conversion rate of 0.1 per cent and it cost us a very small amount of money. Why not go away and try that for your business?" That is how you begin to build on the skills that need to be put in place through training. You need a base level of skills, but the community helps in that regard. Part of the reason why the computer games sector is so successful is because that community is in place. Certainly, fintech is incredibly successful because Edinburgh is a global financial hub. We do not have that in e-commerce and if we do not begin to build that we are in danger of seriously losing out.

The other day, I read that, by 2040, 95 per cent of all purchases will involve some form of e-commerce. That does not necessarily mean that everyone is going to be buying online, but there is a part in that consumer journey that has an interaction online through some form of e-commerce marketing, and it is important that we build on that and that we are aware of it.

In terms of how much impact Brexit is going to have, who knows? The UK is already doing big amounts of trade online with a number of countries. Some 9 per cent of US consumers are happy to buy UK products from UK websites. For

China, the figure is 6 per cent, and we should bear in mind that the Chinese e-commerce market is five times larger than that of the UK. Peter Mowforth made me aware of a company that does 85 per cent of its business—huge volumes—with mainland China, and it is growing at 200 per cent a year. The company cannot keep up. No one knows about these companies, but that activity is happening and we just need to champion that and build on what is there already.

Dr Mowforth: I think Louise Smith made a good point about the need to be clear about what exactly we mean by a digital skills gap. As an observer, I have seen a lot of things said about our need for digital skills and so on. It is almost like it is a persuasive perfume—let us face it, many things in our lives, at home and at work, are digital these days. What is of particular interest to me is this very focused area around e-commerce, for which there is no agenda. There is no agency that takes charge of it; there is no national plan or strategy; there are no courses on it. That is strange when you consider the size of it—if you look at the numbers, e-commerce is considerably bigger than fintech. Maybe it is because it is not cool. My challenge to the politicians around the table is, when did you last talk about e-commerce? When did you last ask a question about it?

I was invited along to the business in the Parliament event towards the end of last year and attended a session on e-commerce. That was a fantastic activity, by the way. It gave me good insight into what goes on here in the Scottish Parliament. It was interesting that the politicians said, “This is not a subject that we have spoken about. We do not talk about it. How often do people mention it?”

It is rather unfortunate that the representatives of the e-commerce industry here today—Emil Stickland and I—are both guys, because half of the e-commerce businesses in Scotland are led by women. It is a very equal-opportunities kind of business because people can have a lot of flexibility if they are setting up a fashion business or whatever. There is a fantastic welding business in Glasgow that is run by a woman who is creating billions of pounds’ worth of online sales but, as Emil Stickland said, nobody knows about that. For some reason, e-commerce is just not cool. Nobody talks about it. It is like Voldemort in Harry Potter. It is the biggest thing and nobody talks about it.

Gordon MacDonald: You have mentioned Scottish Enterprise twice. I am looking at the Scottish Enterprise website. It runs workshops on practical steps to grow your business through e-commerce and on the benefits of e-commerce; it has books on e-commerce; it has information on skills, selecting targets in various markets and culture and language considerations; it has best practice guidance. It provides a whole host of things, yet you are saying that there is nothing on the website of Scottish Enterprise.

Dr Mowforth: I had a look at that last night. All of those courses are run either by staff at Scottish Enterprise or by a teaching company. Nobody from the industry is involved in the provision of those courses. If you were going to be taught heart surgery, would you want to be taught by a teaching company or by somebody who had actually done surgery?

If you look at all the events that are run by Scottish Enterprise, you will see that there are a number of events that mention e-commerce, but for things like international trade, the culture is one of going overseas or going to trade events in different parts of the world. Those considerations tend to dominate the events that are run by the agencies, whereas so much of modern trade is done at the click of a button. As Emil Stickland said, there are loads of companies that can sell directly into China with millions of pounds worth of turnover. You do not need to go on a trade mission to do it; you just list some products on Alibaba and off you go.

The Convener: That is certainly a good plug for e-commerce, but it might be that those who are involved need to try to engage a bit more with Scottish Enterprise to get that message across. Of course, part of the point of you being here is to bring that message and those comments to us.

John Mason (Glasgow Shettleston) (SNP): Dr Mowforth has touched on some of this. We are interested in business growth, but we are also interested in inclusive growth. I am interested in your thoughts on whether your sectors are providing inclusive growth or are tackling the issue or whether the issue is not on your agenda. The involvement of women has been mentioned. Clearly, the panel of witnesses today is largely male dominated. Frankly, the committee is also male dominated, although two of our colleagues are not here. Are your sectors ones where the men make the big bucks and the women make the coffee or are they inclusive?

Joshua Ryan-Saha: The data analytics community is still mostly male dominated, as is computing more broadly. I will just quickly mention that the CEO of the data lab is Gillian Doherty and there is a gender balance across the organisation.

When we think about future jobs, there is a risk that those who will not benefit from data science or automation and so on could be those from poorer backgrounds or from particular socioeconomic backgrounds. Also, the roles that are typically likely to be replaced will be mostly roles that are currently filled by women, so there is a challenge around that. There is also a lot of opportunity. When we talk about automation, there is always a risk of being quite negative—rightly so, because there is a risk for some people. However, there will be a huge growth in jobs as well. We do not know what some of those jobs are yet. What we do know is that we need to help the people from those socioeconomic backgrounds who are least likely to be able to fill those new high-skilled jobs.

Within the Edinburgh city region deal discussions, at the data lab, and at our partners in SE and elsewhere—at SDS in particular—we all want to make sure that people get those skills early on so that they can get into those creative and technical jobs at an earlier stage. Again, if someone is potentially at risk of technology-related redundancy, how do you very quickly identify that risk and how do you put them into a lifelong training programme that means that they can take advantage of those opportunities?

We need to make sure that we continue to invest in technological innovation but we also need to make a matching investment in people, to ensure that the people who get into those roles are coming from a broad range of backgrounds.

Louise Smith: I should probably comment on John Mason's question, as a technology leader who is female. We need to be really clear about what we mean by inclusive growth. Most organisations have targeted strategies to get more representation, in its broadest sense, at senior levels. With my Royal Bank of Scotland hat on, I can say that RBS is no different. RBS has stretching targets for the right roles and for new roles. We are doing well against those targets. We are already at 37 per cent in senior positions.

With my fintech hat on, what we are seeing more of is, first, in relation to how to engage schools. We are working on specific areas. There are many different areas—Joshua Ryan-Saha has commented on a couple of them. We are opening up what those new skills look like, whether that is through technology-type courses, through design and creative industries and so on. There are more targeted strategies now, but we need to do more.

Secondly, with an increase in infrastructure, we are also able to access new talent. That is about broader inclusion, not gender representation specifically. It is about including people who need to work remotely or who want to work at home, but have the new skills that we have talked about. We can now access those people, which we could not do before. I think that people are feeling less that the only way to recruit and attract talent is through office-based working. I am seeing more and more targeted strategies in that space. We need to do a lot more and we need to be persistent with that strategy.

John Mason: RBS is a big organisation. It has people within it who are deliberately trying to promote women and give women every opportunity. Is it harder for small businesses, including start-ups, to have all that in place?

Louise Smith: I do not know whether it is harder or easier. The challenges are different for larger organisations and smaller ones. We need to talk about case studies and stories more, whether or not they are about smaller organisations. In relation to some of the stuff that Joshua Ryan-Saha has talked about, some people would probably argue that some of those are the best-kept secrets. I do not know whether it is harder. There are different challenges. We need to give access to those individuals, but we need to be really targeted about it rather than take a generic approach.

10:30

Chris van der Kuyl: In terms of the diversity challenge, I would reflect back on my earlier point about an unlimited appetite for talent. It would seem to be pure madness, if one can only take a certain percentage of a population into our industry, to in any way restrict the pool that we are recruiting from—either by design or by accident. If I can only take 5 per cent of the population, I want that whole 5 per cent, no matter where they come from—no matter their background, gender, sexual orientation or anything else. Otherwise, it would be a missed opportunity along the way.

The computer games industry is interesting in that we come from a place where, in the 1980s, home computing was principally the domain of young males below the age of 16. There are a lot of senior people in the industry now who were exactly of that type, including me. I was an absolute geek when I was a small child. We have struggled with it, because we have been the leaders of the pack, and that imbalance has carried on. We have had this interesting microcosm—an industry that was very much populated by that audience.

We have worked hard over the past decade, as we realised very quickly that 50 per cent of our audience is female and that everyone plays computer games. If we are going to make games that appeal to everyone, we need as wide a representation as possible, so we work pretty hard to make sure that the environment works for everybody. Whereas in the early days, there were the classic stereotypes—it was all about pinball machines and table tennis tables—now other things are important to people, such as their work-life balance.

I have seen a real transition in our industry. That has to continue, otherwise we will miss out on getting some of the greatest talents our industry could ever see, because we have not created an environment that feels welcoming to them. I think that all my colleagues in the industry agree on that and the issue is very high on the agenda. At the game developer conference last week, inclusivity and encouragement of diversity were on the agenda, not just as a token, but because they absolutely impact on what we do every single day. I would hope that we are seen as an industry that is open to anyone.

Jamie Halcro Johnston: Inclusivity is about, among other things, trying to get more women involved in your sectors and about opportunities for disabled people, but it is also about regional diversity. I represent the Highlands and Islands. One of the big barriers to e-commerce—doing more ordering online and more developing online—is the broadband infrastructure, which is simply not there. In relation to inclusivity, how important is it to get that broadband infrastructure right in the future, whether it is in the Highlands and Islands, where broadband speeds are very low, or in other areas where the speeds are not good enough to meet modern requirements?

Chris van der Kuyl: The broadband issue is a national disgrace. I would happily call out BT Openreach as a national disgrace. It does not deliver what it says it will deliver when it says that it will deliver it. I am sure that it would come here and argue that I am completely wrong. However, in 2018, we should not be able to say that there are poor bandwidth areas anywhere in Scotland.

My understanding is that one of the shining lights of the last economic downturn was that, for the first time in our immediate history, there was not a mini-Highland clearance. People attribute that to the fact that a lot of communities had great broadband, so people were able to contribute, and some people made the positive choice that it was time to get out of main population centres. For everyone I know in my industry, the first thing that they look at is the broadband speed at the property they are going to look at, and then the broadband speed in the area. There are areas that they simply will not move to because of the poor broadband speed.

We have talked about addressing that issue and we are addressing it. I know that the Scottish Government has put extra funding in place, but it is still not enough. A measurement in megabits is not enough; we need gigabits of infrastructure everywhere if we are going to follow up on this promise that Scotland will be accessible to all these opportunities, otherwise the opportunities simply will not exist.

Jamie Halcro Johnston: Would you say that at the moment, we are not delivering in the right way and we are not delivering effectively for the future?

Chris van der Kuyl: We are trying hard to do it, but we need to do more and we need to do it more quickly. In my view, the money that went into the Queensferry crossing would have had a far bigger economic impact going into digital infrastructure. That may be a controversial comment for those who commute from Fife.

Graeme Jones: As somebody who grew up in Dingwall in Ross-shire, I have a deep understanding of and I am passionate about the Highlands. I totally agree with Chris van der Kuyl that some incredibly talented and able people choose to live up there because of the fantastic quality of life. They tend to be creatives. If you do not have powerful broadband—certainly from a fintech point of view—you are not at the races. If I feel a sense of urgency about anything, it is about how you get that piped up and sorted out PDQ. I am 100 per cent behind Chris van der Kuyl and Louise Smith on that.

Colin Beattie (Midlothian North and Musselburgh) (SNP): We have touched very briefly on the fact that the number of new start-ups in Scotland is lower than in the rest of the UK. What do you see as the top two barriers against small companies starting up in Scotland—in your sector, of course?

Chris van der Kuyl: I was hesitating because I am riding my hobbyhorse now. Speaking as chairman of Entrepreneurial Scotland, our ambition is to make Scotland the most entrepreneurial society in the world. We truly believe that that can be done. It would be a society in which no one sees a barrier to pursuing a great idea. Sometimes it will be a great idea in business and sometimes it will be a great idea in teaching—it does not matter. It is about having that mindset of, "We can do this, so let's get on with it".

The biggest barrier is still some form of peer support. In the most entrepreneurial societies in the world, people do things because they know that the person next door or someone in their family has done it. They need that reinforcement. When you have a gap, with no exemplars to follow, there is a place for organisations such as Scottish Enterprise, business gateway and local councils, but generally, the business community needs to get involved and spread that message through early stage organisations such as Young Enterprise Scotland and so on. We just need to keep playing that message.

The great news is that in the 1990s, when I started out, there was a bit of entrepreneurial support but today there are fantastic entrepreneurial support networks for people wanting to start businesses. There are great second, third and fourth-generation business angels and entrepreneurs who are there to help to provide capital. I would challenge people who say that it is very difficult. It should be quite difficult to raise money and to move things forward; it should not be easy. However, there are no barriers to it any more; that capital is there.

The biggest challenge for us is making sure that people can find the routes to do that. There is undoubtedly variability within the Scottish Enterprise network. There are unbelievably brilliant people in there who have supported our businesses over the past 20 years, so we know who to go to and who the A-players are. There are also, unfortunately, people who do not quite reach that mark. Sometimes businesses fall into the trap of being passed from pillar to post with no real, strong advice. To take an earlier point, you need people who are practitioners, not just people who are lifetime Scottish Enterprise employees. The good people in Scottish Enterprise know how to connect those dots.

The bigger challenge for Scotland now is scaling up—we are starting to get beyond the start-up challenge, whether or not the metrics tell us differently. Some great insights can be had from examples such as Skyscanner. Within two years, the great Welsh-born silicon valley entrepreneur, Michael Moritz—who ended up as a major investor in Skyscanner—went from saying that he would never invest in teams outside silicon valley because the teams in silicon valley were on his doorstep and he knew that they were the best people in the world, to saying that under Gareth Williams's leadership, Skyscanner was probably the best team he had ever seen in a digital start-up and he could not wait to find more opportunities where they came from. The world is suddenly starting to look at Scotland and international capital is looking quite specifically at Scotland.

The difference between us and the Scandinavian countries—which have similar demographics, but outperform us in start-ups and scale-ups especially—is that they have a joined-up culture, from government to education to the private sector. They are promoting things such as Slush, which is a massive inward investment conference around high tech in Helsinki that is blowing the roof off in bringing opportunities to Finland.

We had some great success in Edinburgh with the engage, invest, exploit showcase, which is driven by Edinburgh informatics, but we do not take it seriously enough. We do not put our shoulder behind the wheel and support this at the same scale as other countries.

The nascent infrastructure is there, but yet again, we are probably not fully committed. Money is leached away into other things that will never give us a return. This is the gold rush—this is where we should be investing our time, effort and money.

The Convener: I will try to be entrepreneurial and bring in some others. We will start with Emil Stickland.

Emil Stickland: On e-commerce start-ups, it comes down to the level of awareness. If a country or even an area of industry is heavily aware of the opportunities that exist, people will be more likely to look into and look at those opportunities. Scotland is indexed at around 30 for a search term whereas other areas of the United Kingdom—particularly places that perhaps are not traditionally thought of as great traders—are much higher than that. If we consider Scotland's trade history compared with that of Wales, for example, we would hope that Scotland would be performing much better in the latest trends in international trade. Having awareness of the opportunities will encourage people to get involved much more.

It is not difficult. There are loads of case studies from all over the UK. A company called Victorian Plumbing is a great case study. It was started by a guy around 15 years ago. He was stacking shelves in Tesco and wanted to start a business. His goal was to buy a Ferrari—that was what he really wanted to do—so he started to import mobile phone cases from China and sold them on eBay. He grew the business to the point at which he could afford a Ferrari. He then sold that business. Unfortunately, he then had to sell his Ferrari to finance a warehouse so that he could import plumbing equipment and sinks and basins, for example. In 15 years, Victorian Plumbing has a turnover of north of £100 million from selling mobile phone parts on eBay.

There will be a natural progression if a business start-up can spot a niche, but people need to be aware of those niches. Education and support are needed.

We recently ran a workshop with Scottish EDGE, which has some amazing small pre-turnover start-ups. They are all really interested in learning how to do things, but they do not have access to that knowledge. I know that stuff is available through Scottish Enterprise and the business gateway, but it is not provided by people who have done it. I do not want to hate the business gateway or Scottish Enterprise, because they provide an amazing service. However, I will give an example.

I am particularly interested in international e-commerce and how we can increase exports. I am looking at statistics from Boston Consulting Group. It said that, for every £1 spent online to import goods, £2.80 is exported. That is in e-commerce. The opposite is true of the offline economy, which exports 90p for every £1 imported. The UK is therefore exporting three times as much online as it is importing. That is really important.

On the Scottish Enterprise international example, two areas that held a lot of focus were letters of credit, which are not used in e-commerce terribly much—I have certainly never used one—and translation. If a person is not a practitioner, the obvious thing to do if they want to trade overseas is to translate their website and their packaging, for example. They will say, “That’s obvious. It will increase sales 100 per cent.” However, any practitioner knows that the inverse is often true. There are a number of reasons why people purchase overseas. People trust UK goods, for example. If we look at all the statistics of trade, particularly with language, we see that translating a website leads to an increase in sales of around 2 per cent on average. Unless the company is turning over huge amounts of money, the cost of the translations will never be brought back to it. What does it have to turn over—£10 million or £20 million? That hurts start-ups; it does not help them.

10:45

That is just one example of the importance of knowing the right steps. A small company should immediately get its stuff on Amazon or eBay, because it can then show that there is a market for its product. It is about having that knowledge and someone saying, “Look, it’s all right. Just get your product on eBay. It isn’t full of fake Rolexes any more. Just put it on there. This is how you do it.” That gives people confidence.

If I was thinking of starting up a company, the main thing would be making and knowing about the product, but how would I sell it? I would not want to give up my job and have no money in order to try to sell the product. People should get the product online and see whether there is a market for it.

The Convener: I am afraid that time is against us. I do not want to dampen anyone’s enthusiasm—it is good to see enthusiasm among our guests—but can we hear fairly briefly from Louise Smith, Joshua Ryan-Saha and Graeme Jones before we move on to questions from Andy Wightman?

Louise Smith: Sure. I will make a couple of brief points.

On financial services and fintech, we are seeing more accelerators, whether they are entrepreneur accelerators or fintech accelerators. Just in the past three years, we have supported 3,000 entrepreneurs whom the Royal Bank of Scotland has raised around £250 million-worth of capital to support. There are now lots of places in the industry in which people can get coaching and mentoring and access to infrastructure and capabilities.

To answer Colin Beattie’s specific question about the top two barriers, I agree with Chris van der Kuyl that one of them is to do with how we help people to understand the support, routes and paths beyond start-up into high scale-up and growth areas and how we can continue that support through one of the trickier periods.

I turn to the second barrier. I know that we are starting to get our shoulder behind this, to use Chris van der Kuyl’s phrase, but we need to make it easier for organisations, particularly in FS, to be able to partner, work with and collaborate with the industry. I know that there is a lot of commitment. We are working on a process in which we can help people through supplier and procurement processes that have traditionally been a problem for people. However, we need to do that quicker and faster.

Those are the two areas that are within our gift to start to address.

Joshua Ryan-Saha: I will be very brief.

To back up what Chris van der Kuyl said earlier on, at the moment scale-up is perhaps even more important than start-ups for Scottish economic performance. I think that a National Endowment for Science, Technology and the Arts report considered job growth. A small country can achieve job growth in two ways: through medium or small companies that can grow quite rapidly—members have seen that with Skyscanner and various other companies—or through attracting new companies to base themselves there. Both potentially rely on having a good skills base in technology and creativity.

Graeme Jones: I agree with all of that. Perhaps an early run-on-the-board quick win would be made through really communicating what is out there. It is very difficult for a start-up to figure out where to go and where to get help, because we all have our own networks and connections. I have written down who I meet. There are the Scotland can do people, Entrepreneurial Spark, entrepreneurial Scotland, Social Investment Scotland, which is just about to stand up a £50 million fund, and Scottish EDGE. All of that support is fantastic, as Chris van der Kuyl said. Compared with what there was when I came out of school, what is available is transformational. However, we just need to get things out there in a simple format so that our youngsters—whether they are in school or are coming out of school, or are second careerists—know what support and help are available.

Andy Wightman (Lothian) (Green): I have a couple of brief questions.

First, Graeme Jones mentioned at the outset the Scottish national investment bank proposals. In the inquiry, we have heard from people that getting hold of debt finance is not so much a problem, but getting hold of patient capital and equity is. Do you have any views on what you might be looking for for the Scottish national investment bank to grow and support the sectors that you work in?

Secondly, what ideas do you have from other small countries such as Denmark or other sub-state regions such as the Länder in Germany for how we can support growth in the sectors in which you work? What do other countries do well that we could learn from?

Graeme Jones: What Andy Wightman said about patient capital is absolutely spot on. On the SNIB and the potential that we have identified, we submitted a consultation paper to it late last year. A point will come—if I may, I will bring in Chris van der Kuyl and Louise Smith on the back of what I say—when people start up a fintech. Those that are successful just need an investor that will stay with them for a period of time—maybe two years—so that they can refine their product, get it organised and get it to market. That is when some patient capital is needed before traditional forms of finance kick in and pick the business up. From a banking and financial services standpoint, that is the particular sector of the market in which we see the SNIB being very helpful. However, I will defer to Chris van der Kuyl and Louise Smith on that.

Dr Mowforth: One practical step that could be taken would be to do e-commerce feasibility testing for anybody who wants it. You do not have to guess about whether an e-commerce business will be successful. A huge amount can be done by using analytical approaches, and looking at search volumes and market trends. All the parameters that define whether a company will be successful in e-commerce are open to measurement using big data, artificial intelligence techniques, machine learning and so on. If that were offered as a service through something like an investment bank, it could produce a really valuable thing to reduce the risk and to know that you will be backing winners. That is a very simple thing, which could be done here and now.

Chris van der Kuyl: My one comment on the investment bank—I know that this has been a source of much confusion to many people—is that the current Scottish Investment Bank, which is within Scottish Enterprise, has been hugely successful in partnering with patient capital. It is a great model, which we should not lose; I know that that is not the intention. The team at the SIB has partnered, for example, with many of the Scottish private investors on TVSquared, which I believe will be a fabulous outcome for everyone. The model is quite simply that when someone else leaves, patient capital comes in as a long-term, trusted partner that then gives a lot of stability to the investment. That has been a great model and we should continue it.

Based on the consultation that has just been done, if the Scottish national investment bank model focuses and makes big material plays into sectoral change it will be successful. If it ends up—I hate to say this in this room—trying to keep everyone in the Parliament happy on every personal agenda and local challenge, it will not be successful. It will need to focus on certain things, and I think that those things will be obvious.

There will be a number of strategies. The consultation report talks about that, but then one can interpret it as being so wide and broad that it will have no impact. To me, there is a huge opportunity in terms of patient capital. It is a brilliant idea, but it will deliver only if those who are behind and responsible for directing the Scottish national investment bank make some pretty tough choices and go for whatever the core growth sectors are, rather than trying to plug gaps when everyone jumps on a hobby-horse.

Andy Wightman: What can we learn from other countries?

Chris van der Kuyl: I am sorry to dominate the conversation, but I can give you an example. In the late 1990s, Scotland received a learning visit from the Israeli equivalent of Scottish Enterprise; I remember it as clear as day. I remember listening to the chief executive talk about its strategy. At that time, Scottish Enterprise had a slightly larger budget than it has today. As a country with a very similar population to Scotland, Israel spent exactly the same budget as Scottish Enterprise did, but spent it only on support for high-growth, principally technology-based businesses. Scottish Enterprise at that time, under Robert Crawford, had to balance its spending between infrastructure and training, and—this is the point that I made in answer to the previous question—was diversified out of existence. If it had focused in the way that the Israelis had done, we might well have the second-largest source of Nasdaq-listed companies in the world, bar North America, as Israel does.

Louise Smith: I reinforce Chris van der Kuyl's point. It is absolutely critical. If you look at even the European players—I was going to use Israel, too—the focus in India, and the Asia Pacific, we are seeing targeted areas of focus in growth strategies. They are not going for everything. Tough decision making is needed to do that, and once those decisions have been made it is a matter of how we stick to them. I do not think that it is any more complex than picking those areas and then having a strong and clearly delivered strategy to continue to push for them. You can pick all those areas and start to see the one or two that emerge as areas that they are focused on. Israel is fairly obvious. In India, we are seeing huge amounts of disruption and growth in wallet, but also in credit-risk decisioning. The issue is how we continue to stick behind those decisions.

Emil Stickland: My point relates more to cultural learning than to an actual strategy. If you look at the Californian model, you can see that there is much more encouragement for creative destruction. You are funded and, if you are not successful, you die; however, you have an opportunity to try again, then you can die and try again. That kind of Schumpeterian model has proved to be very successful. I do not think that that is mirrored in Scotland. It is not true in all cases, but in Scotland it is more of a one shot: if you fail, you cannot raise finance in the same way again.

Chris van der Kuyl: And this from the country that brought you Robert the Bruce.

The Convener: Very good—our time is probably up, so we will finish on that comment. I thank all our guests very much for coming in today.

10:58

Meeting suspended.

11:05

On resuming—

The Convener: Good morning and welcome to our second round-table session this morning. Most of our witnesses were here during the first session, so they have seen how things operate. There is no need to press the buttons on the desk in front of you; the sound desk operator will operate the microphone system. If you want to contribute, simply raise your hand and I will try to bring you in when I can. Members will try to keep their questions brief to allow our witnesses to speak a bit more.

I invite our guests to tell us which organisation they are from and to give us a brief introduction to what they do.

Stephen Good (Construction Scotland): Good afternoon. I am the chief executive of the construction (Scotland) innovation centre. We are one of Scotland's eight innovation centres, and we help to drive growth and economic and social impact across the construction industry in Scotland.

Mark Baxter (Galliford Try Investments): I am the managing director of Galliford Try Investments, which more recently has served as a management business. We do a lot of infrastructure work across Scotland and the United Kingdom.

Alastair Wylie (CCG (Scotland)): Good morning. I am the chairman and chief executive of a company called CCG in construction; we work predominantly in Scotland. I am glad to be here to contribute.

Dr Donald Macaskill (Scottish Care): I am the chief executive of Scottish Care, which is the representative body of social care providers in the independent sector—non-statutory, charitable and for profit providers—working mainly in older people's care and support.

Annie Gunner Logan (Coalition of Care and Support Providers in Scotland): I am the director of the Coalition of Care and Support Providers in Scotland, which does a very similar job to Donald Macaskill's organisation. The difference is that our membership is made up of only non-profit, voluntary and third sector providers. Our range of activity goes across the spectrum of social care; we cover children and families, community care, adults, older people, homelessness, criminal justice—you name it.

The Convener: Thank you very much. I will open with a fairly general question that you may wish to adapt or consider in the context of your own sector. I invite your comments on how the Scottish economy has performed over the past 10 years, and how you see it moving forward generally and in relation to your particular sector.

Annie Gunner Logan: Over the past 20 years, the voluntary sector's market share, if you like, of social care has grown exponentially; it is unrecognisable from where it was. In the past 10 years, that has not happened so much.

Our membership has a combined annual income in Scotland of about £1.1 billion. Around three quarters of that comes from the public purse and the rest comes from other charitable income, funding raising, legacies, the Big Lottery fund, grant-making trusts and so on. That has not changed enormously in the past 10 years, in which growth has been quite modest. That is the combined effect of restraint in public service expenditure linked with austerity. It is also an effect of public procurement reform, in Scotland in particular, which has focused very much on driving down unit costs and getting better value for money. Our membership, and the voluntary sector more generally, has pulled off the feat that is often talked about but seldom seen: doing more for less. That is where we have got to and, at the moment, we are at bit of a crossroads. What lies before us is increasing public service and public expenditure restraint; that is the narrative that we hear.

The circumstances for the voluntary sector in social care are a bit different from those of some of your other witnesses, because what we are dealing with is what we could call a monopsony purchaser market. There is one purchaser, which is the public sector, usually through the local authorities' health and social care partnerships. In the voluntary sector, there are not a great many of what I would call private funders; I think that that is slightly different in Donald Macaskill's world. We are at bit of a crossroads, because social care is all about people. In our sector, up to 85 per cent of the cost of any non-residential service will be direct or indirect workforce costs. We have now driven down the unit cost of care to the point at which the Scottish Government had to come riding to the rescue a couple of years ago with a commitment to pay the living wage in care, because we were descending very much towards being a minimum-wage industry. I know that that is of interest to the committee, because fair work is also within your remit.

I will stop there, because I know that the discussion will develop. I am just setting out a broad picture for you.

Dr Macaskill: I agree completely with everything that Annie Gunner Logan has just said. One of the reasons why both Annie Gunner Logan and I welcomed the opportunity to come to the committee is that too often social care is seen as a detriment or a drain. The language that we use around social care is not about innovation and entrepreneurship. The reality is, particularly in small organisations, that there is an astonishing degree of creativity and innovation happening up and down the country. We recognise that the contribution of social care to the wider Scottish economy is something in the region of several billion pounds, and our submission highlights research that is being done on that at the moment.

All too often, however, that is not the narrative that we hear. We hear talk about how we might reduce costs and how we might limit the amount of resource that the state spends on social care, which is predominately public financed. However, the sector contributes hugely: one in 13 Scots works in social care. We contribute through enabling individuals to go out to work when their family member is supported. We also have systems in Scotland that enable individuals to live independently and to maximise their potential.

We would like to see in the next 10 years a restating of what we mean by "Scotland's economy". It is not just the fiscal and technological economy: it is also the social economy that enables Scotland to be a different place to live in and to work in. Although there may be a reduction in fiscal expenditure, there is an opportunity to expand our social care economy.

Mark Baxter: First, I apologise. This will probably come across pretty negatively, but you will be reading some of the press about the construction industry, at the moment. The industry is not in a very good place. I would like to adapt the question slightly in terms of where we find ourselves at the moment.

UK-wide, the construction and infrastructure industry turned over about £80 billion last year and lost £1 billion, collectively. That is not sustainable. The last three large Scottish infrastructure contracts have been unmitigated disasters for the contractors that were involved, and we need to move forward from that.

There are a number of threats looming for our industry, Brexit being the biggest. One thing that we can probably be sure of is that there will be labour migration away from our industry. That is a big threat for Scotland, because contractors will use the resource that they have and they will pull in, and the extremities—we work in some pretty remote locations; for example, we have just built a fairly sizable school in Shetland—will suffer.

I see a number of threats. There is a job for Scotland to do in marketing itself as a place to do business and a place to do such works. I see more threats than opportunities for us, as an economy, at the moment. Big international contractors will not come if Scotland is not attractive enough. That is the reality in which I am living at the moment.

The Convener: I am wondering about the "unmitigated disasters" to which you referred. What do you mean by that?

Mark Baxter: Financially and commercially, the M8, the Aberdeen bypass and the new Forth bridge projects have not been successes for the contractors involved. Carillion has gone to the wall, not solely on the back of the bypass project, and Lagan Construction is also struggling. The contract types that we have been signing have moved the risk too much to one side, on which the risks are possibly not understood or known. We need to move towards more of a partnership contract basis—for example NEC3 contracts, and target costs being reimbursable. The idea of there being a fixed-price lump sum, with the uncertainties in large infrastructure projects, has not worked. The public sector has got a bargain, which is great, but that is not sustainable.

The Convener: You mentioned Brexit. In terms of procurement, that will make it possible to approach such projects differently in the future.

Mark Baxter: There are already options open for us. We have tended in the past to procure 70 per cent based on price and 30 per cent based on quality. We can, under the regimes that we have at the moment, still look at 100 per cent based on quality and 0 per cent based on price, at the extreme. There are other forms of contract. There are options; more options might open up under Brexit, but that remains to be seen.

11:15

Alastair Wylie: We have a slightly different take to Mark Baxter's. CCG is an indigenous Scottish business. Some of the frameworks that we have been successful in gaining entry to have given us a direct route. There is still some improvement needed in terms of how those frameworks develop. In terms of open tendering, we are in a very small market. We are a £130 million business, so we are not grandiose—we are not in the £1 billion arena—and we have found that being in Scotland and having engagement directly with frameworks has assisted us.

I know that we will talk later about skills and training. I can give very good statistics about what we have done as an indigenous business. We know there are, not necessarily surprises in, but aspects of Brexit to consider. However, we believe that in terms of social housing, investment by the Scottish Government has certainly helped us as a business to sustain and, in fact, to grow—we now have 700 employees on our books. That growth has all been as a result of performance. We know that there have been difficulties with some of the big projects that Mark Baxter has just described, but the environment that we are in is less troublesome and business is done in a more compassionate manner, in my experience over the past three or four years.

Stephen Good: I would echo Alastair Wylie's comments. My approach is not quite as "glass half empty" as Mark Baxter's. Our innovation centre was born in 2014, so we have been here a relatively short period of time. In that time, engagement, particularly with the construction SMEs and microbusinesses that make up the vast majority of the industry—more than 95 per cent—has shown that business have a huge appetite for innovation, for doing things differently and for change. They tap into a network now, including the innovation centre network in its widest sense, which did not exist in 2007.

As Annie Gunner Logan suggested, if we go back 10 years before that, there is an interesting comparison to be made—which we have just heard a lot of people talk about—with the digital side of things and technology. Google was formed in 1998; the construction industry had a report called "Rethinking Construction" by Sir John Egan in 1998. If we look at the how those two industries have developed over the past 20 years, we can see that the best years of the construction industry in Scotland are most definitely ahead of it. We are in a really interesting place now in terms of opportunities that might exist in the future.

Annie Gunner Logan: Mark Baxter said something that resonated with me about the sustainability of public contracts. That is a very significant issue in social care. Every year we do what we call a business resilience survey. We used to call it the provider optimism survey, but we had to stop calling it that. It is conducted along the same lines as the Confederation of British Industry's tracking of trends.

In 2016-17, 20 per cent of our members withdrew from contracts. Last year, that figure went up to 33 per cent. A third of our providers are now saying that they cannot continue because the contracts are not sustainable. The same survey told us that 60 per cent of our members had declined to tender when an opportunity to do so arrived because the numbers did not add up. That resonates in terms of the future sustainability of public contracts in particular; we are not talking about private purchasing here.

Gordon MacDonald: We have discussed productivity at previous meetings. We know that productivity has improved in Scotland from 94 per cent of the UK rate in 2004 to 99 per cent in 2016. However, we heard from the previous panel that the pace of change is increasing all the time. How do you see technological change and automation impacting on your sectors?

Dr Macaskill: One of the challenges for social care is that technology comes with a cost: it involves implementation, design, training and equipping the workforce. Annie Gunner Logan has already alluded to the reality, which is that many of her coalition's members and our Scottish Care members in a sustainability survey just a couple of months ago expressed worry about being able to continue to deliver services. Are we going to have enough workers to engage in social care at a very basic level?

The space for innovation is very cramped and very limited—not least if public contracts are ripping out between 12 and 15 per cent of allocated costs for training, learning and development. Most providers, whether they are in the charitable, voluntary or private sector, are just about managing to train people to do the job, and some are not managing to do that. However, many people see real potential in technical innovation and in technology that enables us to map an individual in their own home to see whether or not she or he is becoming frailer, through how they use the kettle, how they move and the frequency with which they put their lights on, for example.

There are many instances of technology-enabled care that has been developed in Scotland being exported elsewhere. The problem is that we need to use it in an appropriate balance: technology cannot be used as a cheap mechanism to remove human presence. For me, from a palliative care background, ultimately the most crucial relationship is towards the end of a person's life. I value and can see the place for technology in enabling pain management, but at that point, as in so many points of social care, we are about human beings, human touch and human presence. Technology can certainly enable presence, but it cannot replace it.

Alastair Wylie: CCG invested about £10 million about eight years ago in a production line for off-site manufacture. About 80 per cent of the houses that are built in Scotland are timber-frame construction: we went beyond that and invested in technology—it was imported from Germany, I admit—for closed-panel construction, which has enhanced our ability to increase efficiencies and has enabled us to be much more competitive.

In fact, we now will be putting in a second shift. We currently employ about 50 people in our off-site manufacturing site, which is in Cambuslang. I am meeting our managing director tomorrow. We have put together a proposal for shift working. We are going to keep 50 people on our first shift and duplicate that by key operators being introduced on a short-term basis for the second shift. That second shift will be in place by September.

The technology that we have grasped has enabled us to perform better. I know that one of my colleagues is involved in off-site solutions with an amalgamation of timber-kit constructors in Scotland. That group is lobbying Parliament for more support. We went beyond that. We have a state-of-the-art production facility because we knew that off-site manufacture will promote us and that it is the right place to be now and in the future.

We now have the research and development and we have to look at that. We know that people will catch up with us, so we must not rest on our laurels and must look to the future and how we can develop what we have. The company from which we bought the stuff is called Weinmann. We had its production guy in our factory two weeks ago looking at how we can improve our output with the equipment that we have, and with additions that are currently in the market that we can interface with our current production line.

Gordon MacDonald: A few years ago I was very fortunate to visit CCG's premises at Cambuslang. I was very impressed by what you guys are doing. I believe that you built the athletes village for the Commonwealth games.

Construction in recent years has had low growth and low exports. The UK Government announced in the autumn that it is going to prioritise the use of off-site manufacturing. It highlighted to the Department for Transport, the Department of Health and Social Care, the Department for Education, the Ministry of Justice and the Ministry of Defence that there should be a presumption in favour of off-site construction by 2019 for capital programmes. Is the Scottish construction industry set up to exploit that opportunity, in order to give us a bit of growth and to give us more employment opportunities? How could the innovation centre help with that?

Alastair Wylie: Forgive me; I may be a wee bit insular and parochial in my outlook. We believe there is a market in Scotland for CCG. The new business that I just referred to turned over a modest £10 million. We foresee that increasing next year to £13.5 million and we see that being for work in Scotland. We need to embed our second shift. We need to ensure that the capacity, and the efficiency of the capacity, can service the market. We had some penetration down south about four years ago and we were given a bit of a nose bleed, which was not good.

I have read the statistics, and I know that there is potential down south. However, the way I work our business is that we make it right and make sure that the foundations are solid. Once we have it right, once we improve efficiencies and once we have a second shift and everybody is reading from the same hymn sheet, we can decide whether or not to get involved, but it is good to know there is such investment down south. That market is in our vision, but we are not currently in it. We want to make sure that we embed what we see as being the good things in construction, and to move forward from there.

Stephen Good: There are companies like CCG that have invested significantly in the future—in technology, training, skills and using digital solutions to deliver construction output. CCG is not alone, but it is one of the leaders by a significant margin. The job of Offsite Solutions Scotland, which we facilitate on behalf of the 10 companies that are in it, is to give those companies a platform from which to explore the bigger opportunities that exist.

Alastair Wylie is right: there is a huge amount to be said for the approach. The athletes village is a case in point. In that project, local companies delivered a hugely successful solution in terms of housing. The consortium was in some respects a forerunner to Offsite Solutions Scotland, in which there are now 10 companies—leading off-site manufacturers—that are at different points in their development. Some produce no more than 10 or 15 houses a year, using highly off-site building solutions, and some—CCG and the Robertson Group, for example—produce thousands of houses a year across the UK.

There is a huge opportunity in picking up on things like the industrial strategy, the challenge fund and the sector deal for construction. They have done one or two things—I hope by smart design. One is that they have put a significant amount of money on the table to pump prime innovation in the construction industry, but that—this picks up on a point that Mark Baxter made about procurement—will not in itself fundamentally change the construction industry. In Scotland 60 per cent of construction activity is public-sector-client led, so public sector clients have a huge opportunity to drive innovation in the industry. A smart client is ultimately the best thing for the industry to respond to.

If UK Government departments are feeling confident enough—the evidence appears to support what they are trying to do—to put their weight behind a presumption in favour of off-site manufacturing and all the digital construction activity that supports that, that is a good sign for the Scottish Government. That would satisfy the point that Alastair Wylie made about our indigenous world-leading timber engineering Scottish companies. Everybody thinks that the world leaders are Germany, Scandinavia and Austria. The world leaders are here—CCG and others. There is a huge opportunity to align policy decisions and procurement to stimulate an industry that often operates on particularly low margins, and to consider how it can invest in innovation, R and D and skills.

Mark Baxter: Stephen Good touched on a couple of points that I was going to make. One of the challenges that the construction industry has is the margins that we operate on. To say that I will invest £10 million in a technology that may or may not pay off means that I need £1 billion turnover in order to be able to make that investment, based on the margins that we work on, at the bottom line.

We have seen some advances. Building information modelling is good, with intelligent clients promoting BIM so that we know exactly what we are building. That improves buildability and improves health and safety. If you walked around a site this year and compare that with a walk around a similar site 20 years ago, apart from the difference of people having hard hats and safety glasses on, it is still people on the ends of shovels building the buildings. We have not moved on as an industry. That is a big frustration for me.

Where is the big leap in our industry going to come from to make us sustainable? If we are building the same thing over and over and again, there is definitely opportunity in modular construction. If bespoke assets are being built, it is more difficult. The Government could press for modular construction of schools, for example. We have tried that with limited success. Councils see that as having a single product forced down their throats. I see it as being more efficient and giving the public sector more assets for the same amount of bucks. If we could press that sort of agenda for more consistency, we would see more sustainability, better products and fewer defects. There are a number of benefits to be had from that.

11:30

Gordon MacDonald: You are saying that the industry has not moved on in recent years. Is there anything that the client can change in procurement to encourage innovation? I am talking about not just the construction sector but the care sector. Could anything be changed in procurement?

Alastair Wylie: Yes—direct appointment. I do not want to go against what Mark Baxter is saying. We have built the highest cross-laminated timber construction in Scotland—it is seven storeys high. It is in Yoker. We have just finished it; it will be handed over next Tuesday. We are not frightened to take the leap. If I had thought that I was not going to make money out of the £10 million, I would not have put it in, but I had a belief that we could do it. We had the idea. We were supported by Edinburgh Napier University to do a project for CLT—the commercialisation of home-grown timber in Scotland. We had to back off because Legal & General Homes was going to invest £55 million. We bought premises of 130,000 square feet out at Eurocentral. We have since let them to Lidl, but those premises were bought out of a desire to promote CLT on top of the closed panel. We are not lacking in innovation; you know all that you need to know in that respect.

As I said earlier, we will not go down to England unless we know that that is a fertile place to be. Once we have confirmed that that is the case, we will put the posse out and see what is down there.

Annie Gunner Logan: I think that there is huge potential for tech in our sector, but our concern is that commissioning authorities will see tech as a replacement for people rather than as an enhancement of the service. If we could get that right, we would be able to get on a bit further. Everything that Donald Macaskill said about replacing the human contact of social care is true. It is the human contact element that makes it effective, so just giving someone a button to push instead of a support worker to talk to would take us further back rather than further forward.

When it comes to streamlining organisational processes, the potential for tech is massive. Given what I said about the sustainability of public contracts, we have organisations that are returning very modest or no operating surpluses. They do not have the R and D investment capacity to streamline organisational processes, so they are borrowing or are looking for grants to do that. The potential for the efficiencies and productivity gains that you are talking about is there, but it is a question of where we find the investment.

To go back to what Donald Macaskill said at the beginning, social care is so often seen as a cost rather than as an investment. Part of the great delight, if I may say so, of speaking to an economy committee is to try to turn that round. Normally, for Donald and me, our home is the Health and Sport Committee and, to a lesser extent, the Local Government and Communities Committee. It is good to bust out of those confines, given that it is in an economic context that we are seen as a cost to the public purse rather than as a contributor to the economy of Scotland. Today's discussion is really helpful in that regard.

Dr Macaskill: We must recognise that technology is not neutral. Unfortunately, a lot of the technology in social care has been used as a contract-monitoring mechanism, which has had and is having a very detrimental effect. There is a particular piece of software—which I will not name—that is utilised to track whether a worker is where he or she should be. If that worker is not there for a particular period of time, that worker and the organisation are not paid. There are significant fair work issues around the use of technology in the social care workplace that I think the committee should be aware of.

As far as the question about procurement is concerned, Annie Gunner Logan's organisation and our own have long campaigned for us to change the way in which we buy and commission care. We need to embed what we have in Scotland, which is a very solid piece of statutory guidance on procurement that is based around the person, human rights and orientation, and emphasising the voice of the individual in the purchase of care. We are not abiding by that in most of our contracting mechanisms, which tend to—with austerity, this is happening to an increasing extent—seek the lowest cost rather than the highest quality.

Kezia Dugdale: I want to move on to look in detail at the provision of skills in your respective industries. There are two parts to my question. First, how would you rate the quality of support that you get from the enterprise and skills agencies? Donald, you mentioned earlier that much of the cost of training is borne by your members rather than by the state. Secondly, looking forward, how big a deal is the end of the free movement of labour, and how hard will it be for your respective sectors?

Alastair Wylie: As a business, we have 32 trainee managers and 71 apprentices. The whole idea was that we would get support. We are well supported through all the colleges, as well as Edinburgh Napier University and Glasgow Caledonian University. If the desire exists to create a DNA and a culture in an organisation, that should not necessarily stop at what is available in terms of finance. We do not get covered for all the apprentices we employ, but we need to replenish the industry. As a young man, I was very fortunate to enter an industry that was sustainable, and I am very aware of that. My duty now is to make sure that it is perpetuated. Therefore, we do not look at the issue solely from the point of view of what we get through support.

Yesterday, I asked my human resources people who the good performers were, and they could not rate them. They could not distinguish between the performance of about 10 colleges that we work with or between the performance of Caledonian and Napier universities. From that point of view, we believe that, although the financial support does not square up, there are greater benefits to us as an organisation going forward.

Years ago, we went to the market and tried to entice people of quality to our business. We found out pretty readily that we had to grow our own, and that is what we have been doing for the past 10 years. Last year, we took on 25 apprentices. Fairly recently, we took on about seven trainee managers. That will support us to do what we want to do as a business. That is how we see the hierarchy. As a business, we must engage with that group to ensure that they see a flow moving forward, that it is not a dead end and that it is not a case of, "What do I do beyond that?"

Fairly recently, we took on some very small projects through East Ayrshire Council, on a framework basis. When my managing director told me that some of them were very small projects that involved around 20 units, I said that they would be ideal stepping stones for our management trainees, and it has worked out that way. From that point of view, we have no criticism about the support that we get.

Stephen Good: We are in the fortunate position of working across 13 universities to support that pipeline. Fairly soon, we will be working across almost every college in Scotland to do that, but we also need to go a bit further upstream into schools, including primary schools, to dispel the myth that construction is an industry of last resort rather than an industry of choice. That covers off all the different aspects of how attractive the industry is to women coming into work, as well as how attractive it is to kids, which relates to the point about technology and digital developments. What are the opportunities that the construction industry can offer from the point of view of skills?

It feels to us as though construction is on the cusp of a digital revolution. That is a good thing if we want to attract the talent to work in the industry that we will need to support the investment that businesses are making in apprenticeships and graduates across the whole piece to grow the talent base.

Alastair Wylie touched on the issue of culture, which is obviously important for an innovation centre that supports businesses with regard to innovation in products and processes, but a big part of business innovation is to do with the culture. How do we develop businesses that people want to go and work for because they are passionate about what that brand is trying to achieve, and because they want to develop and grow with that business? That is hugely important.

As an innovation centre, it is not unusual for us to be a bit further ahead as regards the technology that we are aware of and the opportunities that the industry has on its horizon, but the training that is available at the moment is certainly more focused on the traditional skills. However, a huge shift is taking place. We are working with many of the colleges and universities on the area of augmented reality, virtual reality, off-site manufacturing and robotics. There is a huge awareness of the opportunity that exists in those areas for the industry to capitalise on what such technology can do to support growth in the industry. I am not talking about replacing skills simply for the sake of replacing skills; I am talking about the creation of higher-value jobs and more attractive environments.

If the perception that people have of the construction industry is one that involves pushing a wheelbarrow around a muddy building site, that will turn a lot of people off the industry. If we can showcase the industry as vibrant, dynamic, technical and digital, the people who come through, from primary school all the way up, will recognise it as one that has a vast array of opportunities, whether on the professional or the operational side. That can only be a good thing, and I think that there is a realisation among many of the colleges and universities, partly as a result of working with programmes such as developing the young workforce, that construction offers such a variety of opportunities. It just takes a number of different things that are already in play to be joined up.

Dr Macaskill: One of the phrases that I keep hearing and really resent is the phrase, “It’s just caring; it’s not very skilful.” To care is an immensely skilful activity. If that stereotypical view might have been valid 30 or 40 years ago, it is certainly not valid now. The average care worker is engaging in highly skilled, professional activity. Let us take the example of palliative and end-of-life care. The majority of the 56,000 people who will die in Scotland this year will be supported by a social care worker towards the end of their life, yet enabling those individuals to be properly skilled, for example, is not a distinctive priority in commissioning contracts. In social care, we need to challenge the presumption that we are not talking about a highly skilled, professional walk of life.

I would love Scottish Enterprise to have a dedicated team that considered the contribution of social care in Scotland. If social care is to contribute, as we think that it already does, we need to see it as something that is worthy of investment, and of growth and opportunity, and we do not have that.

On Brexit, Scottish Care has already presented evidence to this committee and to the Health and Sport Committee on our significant concerns about the potential impact of greater inflexibility in inward migration and, more worryingly, the continued drain of individuals who are leaving social care and, in particular, social care nursing in Scotland. We potentially face a highly significant challenge. On the one hand, we do not sufficiently reward individuals, even with the Scottish living wage, for a highly skilled job; on the other hand, people who choose to work in the sector are being uninvited because of what is happening elsewhere.

11:45

Mark Baxter: I will take on something that Stephen Good said and meld it with a comment that I made earlier, which relates to the second part of Kezia Dugdale’s question.

As an industry, we have to work tremendously hard to look outwardly attractive in a world in which it is possible for people to join the tech sector and do clever things on their PCs and so on. We have to work tremendously hard. As an industry, I do not think that we are particularly tied up on that. We look at our own requirements for a particular year and visit the colleges and universities that are local to our different offices. We could be more tied up on that. As I said earlier, with Brexit coming, that will become more of a challenge. Given where we sit in the whole piece, the situation is acute for Scotland.

Annie Gunner Logan: To echo what Donald Macaskill said, I think that social care has a bit of a public image problem, because it is seen as a very low-skill and low-grade area of activity, but nothing could be further from the truth. The skills that are required in the workforce in our membership are about supporting and challenging people to control their own lives and make their own decisions. It is not just about coming in and doing things that people cannot do for themselves. The skill set has changed out of all recognition.

In the context of Kezia Dugdale’s question, the point that I want to raise is not so much about the skills at the front line; it is about leadership skills, which are a huge issue in our sector now. As I said, we are not at a boom time in which the necessary skills are about seeing opportunities for growth and going for it. The leadership skills that we need are about change and transformation.

Certainly in the voluntary sector, there is sometimes a bit of a cultural attitude that the real skills are somewhere else and not in our sector. However, given the journey that some of our organisations have been on and the real reserve of leadership skills, actually, the public and private sectors have quite a lot to learn from us.

On the question of skills, I want to make sure that I put on the agenda the impact of the apprenticeship levy in our sector. You will know that the levy is, in effect, a 3 per cent jobs tax on any organisation that has a payroll of over £3 million. Unlike the situation for our colleagues south of the border, there is no direct line of sight between the money that an organisation puts into the apprenticeship levy and how it can then extract that in terms of skills development and apprenticeships and so on. That is an issue, and we are going to see Jamie Hepburn about it soon, because it is a significant problem. It is just another cost to an organisation. As Kezia Dugdale said, the training budgets in our sector are already under significant pressure, and the levy is yet another cost on top of that.

Brexit is obviously a workforce issue, although less so in adult care and support in some ways. Up to 4 per cent of the workforce among our membership are EU nationals whose status is now questionable. I think that the figure is much bigger in Donald Macaskill's sector. The national health service is where the real Brexit issues are.

Kezia Dugdale: I guess that, if you have a reduced working-age population, the pressures on your sector will increase indirectly anyway.

My follow-up question is for the care professionals, so I apologise to my construction colleagues, but I think the points about that sector have been well made. Who pays for the innovation and the change that you seek to drive in your respective industries? Three or four years ago, change funds were de rigueur. A private sector entity could go to Scottish Enterprise for funding to try something new or there would be some sort of angel funding to experiment with a new way of doing things. How does that work in your sectors? Does it exist? Do you pay for it entirely yourselves? Are the pressures of that even greater because of the wider cost pressures that you face?

Annie Gunner Logan: It is a bit of a mixed bag. Some of our members have had really good support from the business gateway and enterprise agencies and some of them have not. Generally, the attitude seems to be that, if you were setting up a plumbing company in Glasgow and were going to employ 25 people locally, the local authority would roll out the red carpet for you and would refer you to all kinds of support. If you are going to set up a care service and employ 25 people, you are directed to social work and you are therefore regarded as a cost. It is a mixed bag.

The change funds were really interesting in social care, because the voluntary sector took them and ran with them and did some really great innovative stuff. Then those change funds came to an end after three years and all those projects closed down again. There was no sustained attempt to mainstream those approaches. By and large, I would say that most organisations, when it comes to R and D and innovation, mainly have to fall back on their own resources.

Kezia Dugdale: Would the return of the change funds be welcome?

Annie Gunner Logan: It would be welcome, but as long as they were handled differently and not seen as a three-year fund to do something interesting, which may or may not then be taken forward. We do not want that again.

Dr Macaskill: I agree with Annie Gunner Logan. One of the differences in the independent sector is that we are significantly dominated by SMEs. Those small organisations have the potential to be more entrepreneurial and come up with innovative solutions but, when there are real workforce pressures—as at the moment, with nine out of 10 struggling to find front-line workers—that capacity to be innovative and entrepreneurial gets pushed out. It would be welcome to have a particular focus on innovation in social care that was adequately resourced and funded and which was supported. As was said in the previous panel, there needs to be an ability to introduce innovations that do not work. In social care, if we introduce an innovation that does not work, that has a very immediate effect on individuals and on their care and support so, in many senses, we have to approach risk around innovation in a very different way.

My earlier plea was not tongue in cheek. It would be really good if organisations such as Skills Development Scotland, Scottish Enterprise and business gateway began to focus on social care and did not just see us as a cost or as something unworthy of intervention. One of the things that annoys my members is that we know that contracts are being handed back all the time, as Annie Gunner Logan has referred to. When there is a failure because of a contract in social care, we do not get a ministerial task force set up even if five times the number of workers are impacted in a local community, particularly in rural communities, compared to other failures. We need to change the language, alter the dialogue and see social care as being as worthy of intervention and enterprise support as any other walk of life in Scotland.

Kezia Dugdale: Thank you—that is an excellent point.

My final question is for our construction colleagues, to even things up a little. Earlier, Mark Baxter said that the M8, the Aberdeen western peripheral route and the new Forth crossing were all "unmitigated disasters" for the private sector. That could be interpreted as meaning that they were a huge success for the public sector. I just thought that you might want to say something on the record about the consequence of continued unmitigated disasters such as those on the private sector's capacity to do major public infrastructure projects.

Mark Baxter: The public sector got more asset for its money than it paid for.

Kezia Dugdale: Is that not a good deal for us?

Mark Baxter: It is a good deal, but it is not sustainable in the long term.

Kezia Dugdale: Why?

Mark Baxter: Because Carillion went bust, and if we all keep going bust, we will have 43,000 people unemployed. I imagine that the cost of Carillion going bust on UK plc outweighs the benefit that we got from those off-market prices.

Kezia Dugdale: Is that the public sector's fault or is that a question for your industry?

Mark Baxter: There is dual fault there. The private sector should not have taken on the contracts at those prices. My company, as you know, was involved in one of those projects. The contract form is not sustainable going forward, and we will not be doing such projects again. We are already on record as saying that we will not use that contract form again. Going forward, we will not do large infrastructure projects with a fixed-price lump-sum contract, because the risks and the rewards do not tally up. So the private sector was stupid and the public sector has done well on those contracts, but that is not sustainable for the industry.

Gordon MacDonald: I have a quick point on that, convener.

The Convener: I am conscious of time, but all right.

Gordon MacDonald: Mr Baxter, are you saying that, when companies looked at the contracts that were offered, they did not do due diligence and identify whether they would have a profit element before they signed them? Is that what you are saying?

Mark Baxter: Absolutely not. I think that people got it wrong. They were wrong about the risks that they thought they were taking on. It is not sustainable to manage those risks across a time period going forward. You will find that a number of people are saying the same thing about those contract types.

There are contract types that we can operate where there is dual benefit, such as NEC type 3 contracts, target price contracts or gain-share and pain-share contracts, none of which involve pushing all the risk and all the pain to one side. Equally, if you push all the risk and pain and all the money to one side and those risks and pains do not manifest, you do not have a very good deal. The people looking at pricing on the Edinburgh trams, for instance, may look at some of the things that have been going on and say to the public sector, "Here are the prices that you are going to get," so the public sector might not get a good deal.

I just do not think that it is a very good balance. Super profits and super losses do not make a great deal of sense to me. With 20:20 hindsight the public sector should have said, "You've done a good job and we're delighted with what we have, so here's a fair profit." A gain and pain share mechanism would deliver that.

The Convener: We will move on to questions from John Mason.

John Mason: The committee is looking at the business growth and economic growth side of things, which we have concentrated on so far, but we are also looking at inclusive growth, which Ms Gunner Logan mentioned.

The two sectors that we have represented here are construction and the care sector. Traditionally, if we wanted to grow the economy, help businesses and make traffic move faster, we would spend extra money on roads, railways and bridges and those kinds of things. However, that would mainly help men, because the construction industry is full of men whereas, if we had extra money to spend and wanted to help women, it would make more sense to spend it in the care sector, because most of the employees in it are women. Is that a dichotomy? Is that a choice that the public sector has to make or is it not as simple as that?

Stephen Good: In a construction context, inclusive growth is delivered. Our industry operates across the country and provides the opportunity to work at a variety of levels, so I would suggest that it is not exclusive. The industry has a culture problem, but it is doing a lot of work to try to address a lot of the challenges around diversity broadly and gender diversity particularly. At the innovation centre, we are supporting four key projects with subsectors of the industry, industry leadership groups and individual organisations to try to put in place certain mechanisms. A lot of businesses perhaps fall into that trap of thinking that they have always done things a certain way so they will continue doing things that way, so the audience for operations functions on site will be predominantly male.

Businesses have not evolved enough to provide flexibility and the working arrangements that meet the wider diversity issues.

There are a lot of things that the industry is prepared to do and, from the evidence of our involvement with certain organisations, it is actually tackling things now. However, that is not to suggest that it has anywhere near tackled all of the deep-seated historical challenges. On the broader sense of inclusive growth, we as an industry can create opportunities through which society as a whole benefits. The construction industry has a plentiful supply of such opportunities, because it operates as an underpinning industry for most other sectors. Most other opportunities require some element of construction, whether it is building hospitals or care homes.

John Mason: Might innovation, such as in constructing things more inside rather than outside, attract more women into the industry?

Stephen Good: From my perspective as a man, I think that it probably might, but you might be better asking a woman.

Kezia Dugdale: We are just as waterproof, John. What was that about?

Stephen Good: I will give you an example. Ray O'Rourke, who runs Laing O'Rourke, launched our innovation centre. He took a slightly different tack on that. The move towards pre-manufacture and assembly and to offsite manufacturing and working in factory environments to produce building components that are then assembled on site gives great opportunities for anybody to work, not necessarily in a high-vis vest and a hard hat but in a lab coat. It is often about delivering technical solutions, and that creates opportunities for women and men to work in the construction industry.

We work with a lot of women in operational and leadership roles who work in exactly the same environment as all the men on construction sites, up scaffolding in wind and horizontal rain. Kezia Dugdale is exactly right—they are equally waterproof.

12:00

Kezia Dugdale: Thank you for confirming that.

Stephen Good: There is a perception that construction is a male industry and is perhaps not as flexible or accommodating of women, who are often perceived as being the ones who take on a lot of other functions. From my perspective, our organisation is a small team of 14, but we are 65 per cent female in a variety of different leadership and operational roles.

John Mason: Okay, thank you—that is probably enough. Perhaps we can hear from one of the other witnesses.

Annie Gunner Logan: You are right that a large majority of those working in care and support are women, particularly at the front line. However, for me, the question of inclusive growth is not just about a sector's capacity as an employer; it is about the service that it provides and how that enables inclusive growth in a wider sense. Providing care and support to individuals actually frees up family members to enter the labour market, which they otherwise would not do. Interestingly, the childcare expansion has been sold very much on that premise. We are told that expanding childcare at the expense of the state enables women to go back into work. However, we do not seem to apply that same kind of thinking to other areas of care and support whereas, if the voluntary sector evaporated tomorrow, an awful lot of women would opt out of the labour market because they would have to look after their family members.

I have never quite understood why the narrative is different for the expansion of childcare than it is for the expansion of older people's care, for example. A number of the services that our members provide are about trying to get people with challenges in their lives back into the workforce. The people who are supported by our members are not an inert group. They have addiction problems, learning disabilities and mental health issues, which fluctuate, and part of the care and support task is to support them back into work. Inclusive growth is in the nature of the service that we are providing; it is not just about us as employers.

John Mason: It has been suggested that, if it was a better-paid sector, that would attract more men. Is that a stereotype or is that not fair?

Annie Gunner Logan: It would attract more people, full stop. The recruitment problems that we have now are acute.

I will tell you a story that I heard last week from the director of one of our successful mental health support organisations. She secured her first post as a support worker in 1992, and her salary at that time was £14,000. That is 26 years ago, if I am doing my sums right. She is now a director and she has seen the care industry—if you want to call it that—develop. Twenty six years later, support workers who do the same job as she was doing in the same kind of organisation now earn £17,000. That is what has happened in social care. The tiny increase over 26 years, from £14,000 to £17,000 for a front-line support worker, tells its own story about inclusivity and why we are having the recruitment problems that we are having. That particular individual was able to buy a fixed-price flat in Dalmeny Street without going to the bank of mum and dad because, in 1992, £14,000 was a really good salary. That was the kind of value that we placed on employees in our sector at that time, but we do not place so much value on them now.

Dr Macaskill: I do have much to add to what Annie Gunner Logan has said. We have to reinterpret what we mean by inclusive growth and what we mean by an inclusive economy. It is not just a tick-box exercise. We have to challenge. I have appeared before the committee previously talking about gender segregation in the care sector. It is no accident that 86 per cent of the workforce are women who are underpaid and frequently societally undervalued. I bet that, if the workforce was dominated by men, we would not think that we were doing people a favour by paying them the Scottish living wage. It is about the stereotypical, gender-segregated and negative attitudes that we have to care as a contributor to society.

I agree with everything that Annie Gunner Logan said. Inclusion is about enabling people to be full citizens and to contribute if they have disabilities or mental health challenges or, in my context, if they happen to have a number against their age that is over 65. If we are thinking about an inclusive Scotland in the years to come, we have to think about what we are doing to enable older workers as well. Many of those in social care are over 45 and female. They will be working for 20, 30 or maybe even 40 years, contributing to the economy and the wellbeing of society. Do they get recognition? They do not get it now, but I hope that they will in future.

John Mason: If we put more money into care and less into building bridges and roads, the argument would be—I am not saying that it is my argument—that the economy as a whole would suffer. How do you counter that?

Dr Macaskill: We have a growing body of evidence, from this country and elsewhere, that the contributive element—the gross benefit and value provided by social care—far outweighs the pounds that are spent. Annie Gunner Logan has referred to the fact that, if you support somebody to enable them to return to work or if you support an individual so that their child or their mum or dad is being cared for, they can contribute to the wider economy. Social care has tremendous potential to be an asset to Scotland and to reduce our indebtedness, but we have to change the language and our mindset and see social care as something that will contribute rather than drain.

Annie Gunner Logan: A report is coming out next month, I think, that the committee will be interested in. I cannot bring it to you, because it is not my report. It is a piece of work that has been led by the Scottish Social Services Council. It very specifically aims to quantify the economic contribution of social care in Scotland in terms of income, expenditure, employment and so on. I have seen a draft of it and I think that the numbers will surprise you in relation to the relative value of contributions. I am sorry that I cannot give it to you, because it is not published yet.

John Mason: We will wait for it.

The Convener: It would be useful if you were to forward that to us when it comes out.

Annie Gunner Logan: I will do that. I will have a word with the clerks about that.

The Convener: Thank you.

We will move on to questions from Colin Beattie.

Colin Beattie: In a previous evidence session, Jim McColl highlighted that banks had a very important role in providing financial support and advice to Scotland's SMEs before the financial crisis. Post the financial crisis, how supportive is the banking sector nowadays?

Alastair Wylie: I have heard that previously, and I know Jim McColl. The banks are not supportive. We are a relatively medium-sized business. We internally finance and we cash support our businesses.

From anecdotal evidence, I am aware that getting money out of the banks is extremely difficult, especially with regard to the extent of security that they require, particularly for small organisations, which maybe do not have the asset to throw up to the banks. From that point of view, anything that can be stimulated by the Scottish Government to make that move—we heard about the Scottish national investment bank and various other things—would be good. Unfortunately, I am not fully updated with that type of thing, because we internally finance our projects. However, for the growth of Scotland's economy, I would support any way that liquidity could be eased for some of the smaller start-up businesses.

Mark Baxter: It is less of a challenge for us as a public limited company, but we will see from the banks a real challenge for the SMEs with regard to the issues we have talked about. In the construction sector, specifically, some SMEs are getting letters-of-credit and bonding requirements. There is something that the Government can do there. When it is putting projects out to tender, it should not necessarily say, "We need a bond for this project," or, "I need a letter of credit," or, "I need this level of support," because the SMEs will struggle to get some of that.

Colin Beattie: Is there any direct evidence of that?

Mark Baxter: We have seen anecdotal evidence, particularly in the insurance sector. The banks, the insurance sector and the bond providers have all taken a bit of step back to see what the fall-out of Carillion is and the knock-on effects on SMEs. There is less effect up here, I think, than there is in England, because Carillion did less up here, but we are certainly seeing the big insurers taking a bit of a breath with reference to the sector in general. I believe that that will have a trickle-down effect.

Dr Macaskill: Social care could not be delivered in Scotland, certainly in the independent sector, if it were not for constructive and positive relationships with the banking sector. They have been maintained and they have developed over the period of austerity, but we must recognise that it is extremely challenging and difficult for a small SME, particularly in home care, to raise sufficient revenue to set up and develop, because of the insufficiency of continuous funding, the lack of contracts that offer sustainability and a mechanism that makes contract compliance almost impossible. We could do a lot more than we do now, in terms of the way in which we commission and contract social care, to enable what is generally an open and positive desire from the banks—particularly those based in Scotland—to invest in social care.

Stephen Good: We have done some work fairly recently with Bank of Scotland's team that supports SMEs across Scotland. They are actively keen to explore what other assets they can highlight to the businesses that they engage with that are potentially looking for support and finance. I agree with the previous points. It is a different world now from pre-2007, absolutely, but support does not always have to come in the form of bank finance. Support could come through expertise and guidance.

Our innovation centre has delivered a facility—it was launched in September—where people in the industry can come and take the risks in a safe environment. In that facility they can fail regularly and make sure that they are refining, optimising and developing things. That is hugely valuable. As a result of public sector investment, the facility has nearly £2.5 million worth of equipment that people in the industry can come and use either for projects or through a very low pay-as-you-go sort of model. It gives them access to things that previously they were prohibited from accessing. An SME could not invest in the sort of equipment that CCG have invested in, which Alastair Wylie described, without having certainty that there was a supply chain that would want it. Industry now has some access to equipment.

The Scottish national investment bank has a huge opportunity to step into those areas. Talking again from an innovation perspective, the decisions on funding might be perceived as being slightly riskier in the traditional banking sector. The building Scotland fund that was committed to in the budget before Christmas—which was a forerunner of the national investment bank—is a great example. It is very focused on housing, infrastructure delivery and buildings. That fund can be put to great use with companies that are keen to invest, innovate or develop their digital skills, but cannot get the finance to do those things through traditional means. There is an opportunity there, if tackled properly and critically with an element of flexibility and dynamism to the model. I think that you have had previous evidence that the flexibility and dynamism that is required across all the support mechanisms does not seem to be there.

Andy Wightman: I have few questions that have arisen from the discussion so far. Donald Macaskill has answered this in part, but perhaps he might want to add to something. How can the care sector be seen as an investment rather than a cost? What are the key arguments?

12:15

Dr Macaskill: We have touched on some of them. We need to alter the contracting and commissioning model to enable a degree of continuity, which enhances sustainability, the desire to invest externally and the desire to innovate, grow and change.

We recognise that demand is only going to go in one direction. Two years ago, Audit Scotland said that at the current rate we would need to increase expenditure on social care in Scotland by between 18 and 24 per cent, unless we altered the way in which we do things. We are doing so. We are innovating and reforming social care. However, that will not reduce the requirement to increase expenditure by our estimate of around 12 to 14 per cent, which is why before Christmas I called elsewhere for an investment over three years of £1 billion in social care. That degree of continuity and affirmation in the sector would go a long way to addressing our primary challenge at the moment, which is workforce. It is still possible to be better remunerated in sectors such as retail or hospitality than it is in the highly skilled, demanding and regulated environment of social care. Our key requirements are continuity and a sustainable workforce, which can only be achieved by a reformation of the way in which we commission care. If we get those two things right—Annie Gunner Logan might want to add some more—we will significantly address the fact that social care is still seen as a drain and not as a contributor. It requires those two key elements.

Annie Gunner Logan: There are 200,000 people in Scotland employed in social care. That is not a negligible number. If you link the raw numbers to the fair work agenda and consider what those individuals would be able to contribute to the economy if they were earning less than the bare minimum, you have one argument, but I would go back to what I said about the nature of the service that we are offering. We need to think about not just the people who are supported directly by our organisations and support workers, but the people who would otherwise have to care for them if those services did not exist and who would have to leave the workforce. I am sure you could get some very interesting evidence from carers organisations about the value placed on unpaid care, never mind the value placed on paid care, and how those things link up.

However, the biggest question for me is: when was the last time we were faced with such an increase in demand and perceived it as a disaster? The numbers of people and the demographics will tell you that demand for care is going one way and investment is going the other way. How does that make economic sense? You tell me. I just cannot see it.

Andy Wightman: This question relates to the care and construction sectors. What role can social enterprise, and particularly co-operatives, play? I was speaking to someone running a co-operative care organisation in London, which was very successful. It had a lot of engagement and was the result of a completely different procurement model. In construction, for example, we see much higher levels of self-procurement. Across Europe, in Germany, for example, we have technologies like Passivhaus, which are driven by clients—or customers—being in control of the process of procuring housing. That is very different from the speculative model that we have here. Are there ways that we can do business that put the customer or the client—whatever you want to call them—more at the centre of the business and therefore drive up services investment and innovation?

Annie Gunner Logan: Yes, and this Parliament legislated for that in 2013. It was called the Social Care (Self-directed Support) (Scotland) Act 2013, and it was precisely about putting the power in the hands of individuals who rely on the care and support that they receive. It was not necessarily about having direct payments, where people receiving care take the money and become the employer. People found that quite challenging, so there are a number of different options that they can have, but the clue is in the title: it is self-directed support.

For us, self-directed support would bust us out of the really uncomfortable position that we are in, which is that the social care market is a monopsony. We only have one purchaser: the public sector. If it finds someone who can do it more cheaply, it will take that contract, all those people and all your staff, using the Transfer of Undertakings (Protection of Employment) Regulations, and then everything is gone. That is the public authority making the decision on behalf of the supported people about who will support them. The 2013 act is about busting through that and giving some power, choice and control to individuals.

I am not sure whether it has come across your radar, but recently Audit Scotland produced a report on self-directed support that was quite critical about the extent to which local authorities have grasped it and ran with it. Obviously, if local authorities are giving power to someone else, it means that they have to give it up, and that can be quite challenging.

That is precisely the agenda that we are working to. Our members would love it if they were selling to individual customers and those people were in control. A couple of our organisations have pretty much converted their entire client base to individual service funds and direct payments. They are finding that is more sustainable—it is more stable, certainly—and it gives them the kind of relationship with the individual that is absolutely critical in support.

Yes, there is a way to do it. We have already legislated for it and we just need to light a great big bonfire underneath it, in my opinion.

Dr Macaskill: Our written evidence highlights the Social Care (Self-directed Support) (Scotland) Act 2013 and the fact that its implementation has been an unmitigated failure, particularly for older people. The idea of micro-enterprise—creative small producers that are local—is at the heart of the act, and we have largely failed. However, there are some success stories. Two of our members are worker co-operatives. Boleskine Community Care, just outside Inverness, is a great example of a local community identifying a need around social care and being supported by a large provider to innovate and do things differently.

Those things can only be achieved if we properly implement the 2013 act and if it is in the best interests of authorities in Scotland to loosen the power and give people control, rather than keep control in the centre, wherever that centre is. It is not in my home.

Alastair Wylie: On the construction side of things, certainly there has been great innovation in respect of the environment in which householders utilise the product that is produced. Andy Wightman talked about Passivhaus. Aspects of the new value of properties nowadays include their environment and room space. I believe that among our householders—ostensibly we provide social housing—there is a greater degree of home feeling. We know that our designers are paying particular attention to the long-term benefits that housing can provide to the environment of the householder generally.

Mark Baxter: I have a brief point that touches on investability in the construction and care sectors. For some time now we have been working on a project between two budget holders, and how the budgets interact is something that this committee could look at. Let me give you some detail on the project. One of the budget holders is the NHS trust and the other budget holder is the local authority. We can all agree that having someone—forgive me if I get my nomenclature wrong; I am old-fashioned in that way—in a care home is better than having them in an acute bed, but because the two budgets sit in different places, somebody sitting in a care-home bed is taking up local authority money and the local authority might prefer them to be sitting in an acute bed.

To us around this table, that does not make a great deal of sense. It is not the correct investment case. It is not the right care for the person and, in the construction sector, it means that I am not building a project. This committee could look at the interaction between the different budget holders and what represents best value for money for us as an investable case. We have been banging our heads against a wall, because we cannot unlock the two pieces. It is eminently sensible for people to be able to come into the system at one end, receive low-end care, and perhaps progress up the system to acute care, or to come in, after an episode, to acute care and progress down the system on the same site. We think that it is eminently investable and sensible to have everything on one site, with all the right care levels and care packages in place, but we cannot unlock that.

Andy Wightman: I have a final question for you, Mark. We have talked about financing infrastructure and what, from your point of view, has been the unmitigated disaster of the three major contracts. You have also talked about a number of models that we could look at. I believe that you have a background in public-private partnerships. I suggest that one reason why there might have been a backlash and contracts have been awarded that perhaps unfairly benefit the public sector is that the public sector has gone off PPPs, which were very good for the private sector. Have we been through 30 or 40 years of swings and roundabouts on this?

Mark Baxter: That is spot on. People in the PPP sector, in the very early days, took on risks that they did not understand and made a whole heap of money. We are seeing the other side of the same coin. The famous example is the Fazakerley prison, which was built way back in the 90s—I say that, but I am guessing—where the private sector made a massive amount of money refinancing something that was essentially off the Government balance sheet. It was a great example of the private sector winning a whole heap of money.

What has happened is that we have slowly bolted the doors and recognised the risks. We have now got to the point where the see-saw has gone so far the other way that the risks are stacked on the other side. We understand the risks pretty well. It is a pretty mature market now. It is not a very politically acceptable term, but we have got other terms we can use. It is still a mechanism that we can use to put assets on the ground for the public sector, with the right mix of risks and rewards.

Alastair Wylie: I will give you an example of collaborative working. I will not name the projects, but I will give you a description of them. On one side was an open-tender project of a value of about £13 million. It was not a major project, but from our point of view it was a big project. The other project was a collaborative involvement that we had with an organisation that wanted to trust us. It was a direct appointment, and we engaged with that company. The open-tender project was overvalued and the client could not afford it. On the other project, we got it within the organisation’s budget restraints and timeline. I will give you the names of the projects afterwards. Anyway, we went back to the open-tender project. The client engaged with us and it was a similar engagement to the conciliatory or negotiated project, and our team worked in value engineering to get the open-tender project in line with their budget requirements. However, that happened six months later than the agreed date to have the project on site.

I go back to what I said earlier: if there is direct appointment with the right people, you can work within the restraints as long as it is collaborative and we all have a win-win attitude.

Stephen Good: Alastair Wylie’s point picks up on a point that Kezia Dugdale made earlier. It really hits the nail on the head. There are not many other industries that manage to disconnect design, manufacture, assembly and end management as well as construction seems to do, and that is driven very much by the procurement relationship at the beginning.

I am in the architecture profession. We work with a client to design a building and put our best efforts into designing the best building that they want, and by the time we engage with the team that is going to assemble it, we are very close to the point at which the risk will be transferred to them, yet they will have had no real involvement far enough up the stream to have added value. We are ultimately talking about what the future looks like in terms of this industry's productivity and efficiency, and a lot of it links into how we take that process and change it completely so that we have earlier contractor engagement and much more of a manufacturing-type approach to the solution that we end up with. Whether it is a hospital, a school or a house, we can approach it in a completely different way if we have the teams that know how to deliver it engaged in the conversation right at the beginning.

We spoke about what 2007 looked like. It was an environment where there was a huge amount of partnering going on, but then the world fell off a cliff and clients wanted not best value but cheapest cost. That, for me, is the salient point. There is a huge opportunity with all the different moves that are happening. A national manufacturing institute for Scotland is coming that probably does not think that construction is a manufacturing industry, but it is and it will be as it moves forward, embraces digital technologies and tackles things in a completely different way. That opportunity will only be delivered to its best value if we tackle the issue of procurement and Alastair Wylie's point about how different project approaches with the same client can have quite different outcomes, depending on the early level of engagement that is had with the teams that have the expertise to deliver the solutions.

The Convener: I see that our time has almost gone, so we will have our final two contributions from Annie Gunner Logan and Mark Baxter.

Annie Gunner Logan: What Stephen Good was saying resonates very strongly with me in social care. For me, bog-standard competitive tendering in care is bust. It has bust the system. It has got us to where we are now. In care, it is difficult to do it because it is so very hard to identify quality as part of a paper exercise. It is impossible, I would say. Also, the end user is left out. The buyer-supplier relationship is about the public purchaser and the voluntary sector supplier, and where the hell is the end user in any of that? What Stephen Good talked about—collaborative commissioning and partnering—has to be the future. We cannot have a model in which people say, "Here is my pre-specified, 80-page thing that I want. How cheaply can you lot deliver it and will you please fight each other to death for the privilege thereof?" That is a bust model. We cannot do that anymore. I believe that exactly what my colleague was saying about construction also applies to care. If we really want to grow this sector, that is the way to do it.

Mark Baxter: I was also just going to come back on Stephen Good's point. I could not agree more about sensible terms and conditions and early contractor involvement in a partnering model. One of the models that we are using—and that is working very well—is the hub model. That involves the contractor getting together with a client early on to discuss things in detail. You can avoid a tremendous amount of cost and get good value for money through such models.

The Convener: I thank all our guests very much. That concludes this session.

12:31

Meeting continued in private until 12:57.

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