

FINANCE COMMITTEE

Tuesday 30 November 2004

Session 2

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FINANCE COMMITTEE

31st Meeting 2004, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Alasdair Morgan (South of Scotland) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)

*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

*Jim Mather (Highlands and Islands) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*John Swinburne (Central Scotland) (SSCUP)

COMMITTEE SUBSTITUTES

Gordon Jackson (Glasgow Govan) (Lab)

David Mundell (South of Scotland) (Con)

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

Peter Wood (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Sandy Brady (Highlands and Islands Enterprise)

Martin Briggs (East Midlands Development Agency)

Robert Brown MSP (Scottish Parliamentary Corporate Body)

Sandy Cumming (Highlands and Islands Enterprise)

Paul Curran (Holyrood Project Team)

Rosemarie Davies (Welsh Development Agency)

Angiolina Foster (Communities Scotland)

Paul Grice (Scottish Parliament Clerk and Chief Executive)

Ian Mitchell (Communities Scotland)

Kevin O'Leary (Welsh Development Agency)

Jack Perry (Scottish Enterprise)

Charlie Woods (Scottish Enterprise)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Tuesday 30 November 2004

[THE CONVENER *opened the meeting at 09:33*]

Scottish Parliament Building

The Convener (Des McNulty): I welcome colleagues, the press and the public to the 31st meeting of the Finance Committee in 2004 and I remind members to switch off all mobile phones and pagers. We have received no apologies. I intend to conclude item 1 by 10.15 at the latest; we have witnesses arriving from throughout the country so we need to stick to that timing.

The first item on our agenda is consideration of the Holyrood report for November, which gives the latest information on the project's cost and programme. With us are Paul Grice, the clerk and chief executive of the Parliament; Paul Curran, the project head of the Holyrood progress team; and Dave Ferguson, the Holyrood project adviser. Dave Ferguson's presence is the only change on the new agenda, of which members have copies. I welcome back Fergus Ewing, who is with us today for this item. Members have copies of the Presiding Officer's report and a letter from Margo MacDonald, who cannot be here today.

Robert Brown was to have been with us, but unfortunately he has been delayed, so I ask Paul Grice whether he wants to make a statement to start us off. We will then proceed to questions.

Paul Grice (Scottish Parliament Clerk and Chief Executive): Thank you, convener. Robert Brown has been unavoidably delayed on his journey from Glasgow, but I hope that he will be able to join us soon. I will therefore keep my opening remarks brief. Members will have in front of them the letter dated 25 November from the Presiding Officer to the convener, and I will mention the key points. First, we remain on target to come in within the overall cost that has been reported, which is £430.5 million. Obviously, we have moved into the building since our previous meeting and work continues apace on snagging and defects resolution. The key focus for Paul Curran's team, beyond the pursuit of snagging and completion of the landscaping, is work to conclude resolution of packages—that is the key work that lies ahead.

I will leave it at that, convener, especially in view of the deadline that you set for the completion of this agenda item. We are happy to answer any questions.

The Convener: Thank you. I invite questions from members.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): My question relates to the letter from Margo MacDonald. I share some of her reservations about the composition of the post-completion advisory group, which is a bit like the prison guards becoming officers in the escape committee. The same people who were involved in overseeing the catastrophic increases in the price of the building are apparently to be in charge of making sure that the post-completion phase is tidied up. Is that appropriate?

Paul Grice: I start by completely rejecting the analogy. I do not think that there is any comparison to be made with escape committees. It may help the committee if I explain the process that we went through. There is an executive line of command up to the Scottish Parliamentary Corporate Body, which is the legal client. Ultimately, only the corporate body can take decisions on the settlement of packages and it has had to examine how it informs itself in relation to those decisions. That is an important first point to make. There is an executive line of advice, with Paul Curran as our senior professional. He has a lot of experience on the project and to support him in his work we brought in a claims specialist project manager, who is new to the project. In addition, Paul Curran has the benefit of independent expert legal advice from Shepherd and Wedderburn Ltd. We have strong advice and a blend of experience on the project, which is essential. There is no way that the detailed work that is necessary to resolve packages can be done without an intimate knowledge of the project. We recognise the need to bring in new people and new expertise, and that is what we have done at that level.

At the more strategic level, the corporate body has agreed to the recommendation that I made to it some time ago that we should set up an advisory group. It is important to be clear that the group's function is advisory and that it does not make the decisions. Its role is to advise the corporate body, to advise me and to provide a challenge function as necessary. Again, we need a balance and a detailed knowledge of the project, ranging from people who were involved from the outset to people who joined on the way, including most recently Brian Eggleston, who has had no previous contact with the project but is the most senior person in his profession, which is that of arbitrator. He is based in England, but he has worked in Scotland.

We have a blend of people who have been on the project for some time and people who are bringing a fresh eye to it. We have a range of skills on the team, which includes architects, cost

consultants, auditors and arbitrators. It is a strong team with the right balance between experience of the project, a fresh eye and a range of skills. I have absolute confidence, above all else, in the integrity of Paul Curran and his team and the people on the advisory group. I apologise for that long answer but, if I may say so, I do not think that the comparison with escape committees and prison guards does justice to any of the work that I mentioned. That work will put the Scottish Parliamentary Corporate Body, which is the ultimate decision maker, in a strong position to take value-for-money decisions on the 80 or so packages that we have to resolve during the next six to 12 months.

Mr Brocklebank: Do you think that you have enough independence on your committee to make judgments on matters such as whether particular contractors took too long to do particular parts of the work or whether they charged too much? Are you not perhaps erring on the side of having too many people who are too close to the project?

Paul Grice: That is a fair question, and I have given careful thought to the matter. We should bear it in mind that for the most part the process of dealing with package contractors is detailed. Bovis Lend Lease Ltd and Davis Langdon & Everest, the cost consultants, have a contractual role to play in advising us on it. You have identified exactly the sort of questions that we ask. We need to ask whether claims are fair, whether a contractor needed to spend so much time on a package and whether any delays that a contractor may have caused had an impact on other contractors. The experience of people who have been involved with the project is matched by the presence of fresh eyes. The person who will give our key advice, a chap called John Boulton, is new to the project. We have independent expert legal advice from Shepherd and Wedderburn, which has not been close to the project. Such people bring a fresh eye to this issue.

However, it is necessary also to have on the group people who understand the detail. In the great majority of cases, we are dealing not with big issues of principle but with points of detail. We will be arguing about many of the points of detail to which you refer. If at any point in the process either the corporate body or I believe that we need to shift the balance and to bring in new expertise, we will not hesitate to do so, but I believe that at the moment we have the right blend. Obviously, we will keep that under review, but I believe that we have struck the right balance between people who can take a fresh look at the project and those who have experience of it.

The Convener: I welcome Robert Brown to the meeting.

Robert Brown MSP (Scottish Parliamentary Corporate Body): I apologise for coming in late and missing the first bit of questioning. I was delayed by half an hour, as a train was cancelled at the other end of the line.

Dr Elaine Murray (Dumfries) (Lab): I have a question on a completely different matter—the fact that we have people climbing around on the roof of the building. What is our position if someone who has access to the roof of the building either has an accident or causes an accident to a member of the public? I am aware of cases in which owners of buildings have been sued because children have climbed on the roof and fallen through. Are we protected if there is an accident in the event of the sort of thing that is happening this morning?

Paul Grice: Paul Curran may want to comment on this issue. Clearly, during design and construction and before occupation of the building we had to pass stringent health and safety tests. Those tests considered issues such as how safe the building is and whether a member of the public could inadvertently fall off anything. When someone deliberately puts themselves in a position of danger—as is the case this morning—effectively the matter is handed over to the police, who talk to the people involved. That is what has happened today. We rely on the police to advise us on the best way in which to deal with such people, not to endanger life unnecessarily but to ensure that we can go about our normal business. In the design of exits and entrances and of the landscaping, we were very mindful of health and safety issues.

Paul Curran (Holyrood Project Team): It is necessary to incorporate in the design mechanisms to prevent people from injuring themselves. Such issues are covered by building regulations and the Construction (Design and Management) Regulation 1994. If during the operation of the building people are allowed on to the roof to carry out maintenance, for example, and fall off, it is necessary to examine whether those people were properly trained and the usual issues with which the Health and Safety Executive is involved. We must consider the causes of the accident and whether we have taken reasonable steps to prevent it. That is a difficult judgment to make when we are not dealing with a specific incident.

Dr Murray: It is a little worrying if members of the public can get on to the roof and into a position where they may be in danger. Today we are dealing with a pressure group. However, children may seek to copy the group, having seen what it has done. How easy would it be for youngsters to emulate this sort of activity, to get on to the roof and possibly to put themselves in a position of danger?

Paul Grice: After this incident is resolved—it is in the hands of the police—I will ask our security team to produce a report on it, in case there are lessons that we need to learn. The point is to strike a balance. This is an open, accessible building and we have had thousands of visitors. We want to make it easy for people to visit the building. However, we would be concerned if it transpired that access is too easy and children are able inadvertently to put themselves in a position of danger—you make a good point. I will ask our security team to produce a report on how the incident happened and whether there are lessons that we can learn. If we can do something that does not compromise the openness of the building, I will move quickly to take action on that front. When an adult deliberately puts themselves in danger, as is the case here, it is not possible to prevent that. The group involved has managed to climb buildings that are much harder to access than the Parliament, including bridges. However, the member makes a fair point and I will follow it through.

09:45

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): It is good to be back, albeit temporarily.

Rightly or wrongly, the public sees the process that led to the completion of this building as a fiasco. I am concerned that the process of recovering for the public taxpayers' money that should not have been spent may also be seen as a fiasco. I want to pursue a line of questioning that I have mentioned briefly to the convener and have put fully in writing to Mr Grice, Mr Ferguson and Mr Curran. It is the same line that Margo MacDonald and Ted Brocklebank have pursued. However, I want to focus specifically not on what the three of us may consider to be the case but on the Auditor General for Scotland's findings in the report "Management of the Holyrood building". I have explained everything to Mr Grice, who is intimately familiar with the matter.

In paragraph 5.48 of the report, the Auditor General says:

"I am also concerned that although project management raised some significant questions about some aspects of some of its consultants' work, it has not systematically assessed their performance. This is important because if project management was able to show significant underperformance by any of its consultants it should also consider what options (if any) it may have for recovering some of its additional costs. There is a risk that any inaction by project management so far could limit any recourse the Corporate Body may otherwise have had."

In finding 24, the Auditor General states:

"Although project management raised some significant questions about some aspects of some of its consultants' work, it should have systematically assessed their performance. An assessment was needed to safeguard public funds".

Do the witnesses accept or reject the Auditor General's criticisms?

The Convener: Before the witnesses respond, I make clear that the Auditor General's report is a matter for the Audit Committee. I understand that the issue is still live. It is not for the Finance Committee to encroach on terrain that is properly within the remit of the Audit Committee. However, it is appropriate for the witnesses to be asked to respond in relation to the post-completion issues that we are discussing today.

Paul Grice: Thank you for that clarification, convener. As you say, the Auditor General's report has been considered by the Audit Committee, which has signalled that we should move on.

Fergus Ewing makes a fair point—we need to have good records. I must choose my words carefully, because all the advice that I have received indicates that these are deeply sensitive commercial issues. We are at the beginning of a difficult process that will involve the consultants. The corporate body has received a briefing and has agreed a clear strategy to safeguard value for money. That consideration will drive everything that we do. I do not want to say anything on the public record that would in any sense undermine the work of Paul Curran or the post-completion advisory group or that would compromise the corporate body.

I have been assured that we have the necessary information on the performance of all those concerned with the project. We are working very hard and I will ensure that the resources are in place to permit proper analysis of that information, which will lead to recommendations being made to me and, in due course, to the corporate body on all the major issues. Those recommendations will put the corporate body in a position to decide on value-for-money grounds what to do in relation to everyone connected with the project.

I hope that the committee will understand if I do not go too far. It would be very unfortunate if I prejudiced in any sense this delicate and highly commercial situation. As members are aware, the project is not yet finished. There are on-going snagging works and accounts must be settled for 60-plus packages. I do not want to disturb that process. However, I assure the committee that only a week or so ago the corporate body received a full report from the post-completion advisory group, supported by independent expert legal advice, on which it has based a careful strategy for completion and resolution of all packages. We will follow that over the coming months.

Fergus Ewing: The principal reason for raising the matter and for quoting from the Auditor General's report is to establish whether you accept that the criticism is valid in general. You have

replied that you do not accept that, which seems to me to put into stark relief the argument that those who are responsible for giving advice about whether claims should be pursued cannot be those who deny criticism from the Auditor General. It has been pointed out that Mr Grice, Mr Ferguson and Mr Curran have been involved throughout the whole, or most, of the project. If they have been involved in taking decisions in the past on matters about which the Auditor General has said that there were significant failings and an issue arises that relates to their failures during their work in determining whether a claim should be made or pursued, each will have an unavoidable conflict of interest.

The Convener: You are sailing very close to the wind, Mr Ewing. I will be blunt. There is an Audit Committee process that deals with evidence from the Auditor General and that matter is under review by the Audit Committee. Further work is to be done. It is not for you to interpret or infer how that work will be concluded, and it is certainly not reasonable for you to talk about failure on the part of witnesses in such an ill-considered way. I ask you to moderate your language.

Fergus Ewing: It is just like old times, convener. I referred not to my opinion but to the Auditor General's criticism. I am not going to go into details—

The Convener: I ask you to concentrate on the issue that is before the committee, which is the post-completion advisory group. You asked to come to the meeting to ask questions about that.

Fergus Ewing: Indeed, it is precisely—

The Convener: In that case, please stop talking about the Auditor General's report, which is a matter for the Audit Committee, and direct your questions to specific issues relating to the post-completion advisory group.

Fergus Ewing: I think that Mr Grice mentioned that the Audit Committee has decided to move on. If we cannot ask about the matter here—

The Convener: You are invalidating your presence here. If you want to question the Audit Committee's handling of a matter that is under its jurisdiction, you should go to the Audit Committee to do so. You should not come to the Finance Committee to do that.

Fergus Ewing: I may do so, but if—

The Convener: I will give you one more opportunity to ask about the post-completion advisory group.

Fergus Ewing: It is precisely because this work has a direct relevance to the post-completion—

The Convener: I do not want an explanation. I want a question on the post-completion advisory group, please, Mr Ewing.

Fergus Ewing: The question is, should people who are members of the post-completion advisory group and who have specific responsibility for deciding whether to recommend that claims should be pursued be people who have not played a part in the project and have not been criticised in the past by no less a figure than the Auditor General? Would that not be an insurance policy against the fiasco that has happened in the past being matched by a fiasco in the future? Mr Eggleston and Mr Boulton are two members of the group, but would it not be better for a new team to come in to work on the recommendations on which claims should be pursued rather than for the committee to receive information from people who were involved?

Paul Grice: I have given a full explanation to Mr Brocklebank which, I hope, covers the points that have been made.

I would like to make two points—one re-emphasises a point and the other is a new point. The advisory group is simply that—an advisory group. The corporate body is the legal client and must take the ultimate decisions either itself or through me. I will not respond to the challenge to the integrity of the people concerned, which I think is at the heart of some points that Mr Ewing has made. I have confidence in those people.

Secondly, all the decisions will be fully auditable. There will be a clear audit trail of all the decisions that are made, which will be open to the auditors and, in turn, to the Audit Committee in due course. The corporate body and I will certainly ensure that there will be a full and documentable audit trail. If anybody has any doubts as to whether individuals have not properly played their part, that trail will be open to scrutiny in due course.

Alasdair Morgan (South of Scotland) (SNP): Obviously, I come to the matter after a bit of a gap, so I am not quite as familiar with everything that has gone on as others are. I am not sure whether I am paraphrasing what Fergus Ewing has asked, but I think that he is saying that if claims that we are making stem from problems that the people whom we are claiming against say were due at least partly to our failures, our claims will be weakened. Am I right in thinking that that would apply regardless of who is on which committee, as the corporate body is the client?

Paul Grice: From my dealings with Paul Curran and others who have had a lot of experience, I know that that is exactly what happens. A process of negotiation is involved. Of course contractors will seek to challenge claims that we make. It is normal and to be expected that they will say that the client wanted a change and that things were not their fault. I understand that that happens with every project and this project will be no different. You are right. That is a fair and normal process. I

do not think that who settles the claims matters because, as you say, it is a client-contractor issue. That is exactly the process that we will have to go through.

Having contractual relationships with so many contractors makes matters much more complex for us than it would be for an organisation dealing with one main contractor. However, that is the reality that we face. I agree with you. I have been assured by those who have more expertise than I have that that is an entirely normal and expected part of resolving and settling final claims.

The Convener: I would like to pursue the issue slightly. You say that the mechanism that you put in place will be fully auditable. However, audits tend to take place well after the event, as we have seen. I suppose that the degree of transparency of the criteria against which decisions will be made and the role of individuals in reaching those decisions are an issue for the Finance Committee. Much hinges on Mr Eggleston's role. It would be helpful if you would spell out what that role is and clarify whether it is as an individual who has greater independence than others have rather than simply as one member of a committee. As I have suggested, perhaps the criteria against which decisions are to be made in dealing with and identifying claims could be spelled out a bit more.

Paul Grice: I would be happy to write to the committee with more details about how the group will work. On your other point, that material exists, and, in effect, it describes our negotiating position. Therefore, it would not be appropriate to put anything on that front in the public domain at this juncture simply because that would give away our negotiating position. How the committee wishes to have such information is a matter for it to decide.

I assure members that the corporate body looked long and hard at the matter and had very detailed advice, principally from our expert legal advisers, but also with input from people such as Mr Eggleston. We should not forget the significant contribution of people such as David Manson, who is a cost consultant, and Dave Ferguson, who is an auditor. There was a blend of experience. The corporate body has looked hard at the matter and given me—and, by extension, Paul Curran—a clear set of parameters. I would be happy to share information, but it would be unwise to put it in the public domain. I would certainly be happy to explain in more detail the role of the post-completion advisory group, which is of course a matter for public knowledge. Mr Eggleston is one member of the group, but its members do not have particular, assigned roles. However, as I have said, they bring expertise. We have brought in Mr Eggleston to have a fresh look and for his extra expertise with arbitration. I would be happy to flesh

that out a bit, if the committee would find my doing so helpful.

The Convener: That would be helpful and would to some extent provide a safeguard in respect of how the process works.

Alasdair Morgan: I have one more supplementary question. I suppose that there is another concern. Where a claim is disputed, the people who are claiming—that is, members of the corporate body—might think that there was a slight failure on their part as well as a failure on the part of others, and therefore might fear pursuing a claim that would expose their own failings. I suspect that we need reassurance that all claims will be pursued regardless of whether doing so might expose people to unfortunate comments.

10:00

Paul Grice: That is a fair point. I assure the committee that we will pursue value for money. We have been given clear advice and I repeat that we are bringing in to guide us a claims specialist who has no connection with the project. We also have independent legal advice.

Tough questions will be asked. You are right that on a project that has lasted as long as this one has, we are bound to look back and think that we should have done some things differently. We have to be absolutely honest with ourselves before we start because, whether we are dealing with a small issue of a few hundred pounds or a more major issue, we have to be clear about the strength of our case. I expect all my staff to be completely open, as I am. If we are not honest with ourselves about our position, there is a danger that we will take wrong decisions and not achieve best value for money. I assure the committee that there will be no question of people trying to sweep anything inconvenient under the carpet.

I agree with Fergus Ewing that we have an opportunity to build on the success of the building, which we will do through the professional and thorough resolution of claims. I give members an assurance that we will do that honestly. We will assess exactly how strong we think our case is, and that will include the factors that you describe, as well as other external factors.

I accept that this is a judgment—although it is one that the corporate body and the likes of Mr Eggleston have endorsed—but I think that we have the right blend of people with detailed experience of the project, which is essential, and people who have no previous connection with the project or who are external to the organisation. There are enough safeguards in place, which is a matter to which I have paid particular attention. The results will be fully auditable.

To answer the convener's point, I hope that we can assure the committee as we go along that we are getting it right. In my regular reporting to the Finance Committee and as we begin to settle claims, we will be able to say rather more to you about how we have got on and you will be able to question us. I hope that that process will help to provide further reassurance that we always follow best value for money.

Jim Mather (Highlands and Islands) (SNP): Has the claims specialist been set targets and objectives, and will he be remunerated by results?

Paul Curran: Initially, the claims specialist will analyse the overall position. At the moment, we are looking at specific areas and packages and setting the targets. Many of the packages are straightforward and can be settled relatively quickly, but others—those that have contributed to the delay of the project and which relate to the design—are more interesting. Those are the targets that the claims specialist will be set.

The claims specialist's remuneration is not connected to any target. He is a member of the team who provides advice to me as and when required and he challenges some of the ideas that we have about the way to go. He provides that challenge function internally in the project team, based on his expertise elsewhere. He will also set out a longer-term strategy and try to untangle the relationships between all the packages, because that is where the difficulty lies; his specialism is required in trying to disconnect all the various bits of programming and interrelated design issues.

Jim Mather: I have previous experience of bringing in external specialists to press down on debt that got out of control in companies, and it strikes me that there might be an opportunity to set a specific target and unleash someone to claw back a certain sum and get a commercial advantage from it. In other words, that would make the individual somewhat hungrier than he would otherwise be.

Paul Curran: We have to remember the contractual responsibilities. The initial responsibility is for Bovis and DLE to agree the final accounts that incorporate an element of claim. Once DLE has made a recommendation to us to settle, we will carry out the final analysis and that is when the claims consultant would come on board.

Jim Mather: I will leave that as a residual thought.

I have a couple of minor points about this month's financial schedule. I might have lost the plot, but why is there a different level of contingency for the low end range and the high end range? I would have thought that the contingency would be a fixed reserve, but the

figures are £6.9 million for the low end range contingency and £9.2 million for the high end range.

Paul Curran: That relates back to the initial allocation of the risk register, when there was an allocation against design and time reserve. One was a best-case scenario and the other was a worst-case scenario, so that is where the element changed. There is a difference in the figures because it was not a straight percentage contingency.

Jim Mather: So the £9 million exists in extremis if we need it?

Paul Curran: Yes, it is part of the £430.5 million.

Jim Mather: In that case, I have a final, minor point. In making the adjustments that are shown on the right-hand side of the financial schedule from the contingency reserve and factoring them into the summary on the left-hand side of the schedule, I notice that the £405,000 for VAT, which is risk drawn down from landscaping reserve, does not appear in the summary schedule, whereas the £0.17 million does.

Paul Curran: That is the balance between the return to contingency, which is the £1.1 million, and the movement from contingency to the reserve, which is £1.75 million, so the balance is the £75,000 because the contingency figure includes VAT.

Jim Mather: I hear the words, but they do not make sense to me.

Paul Grice: That information is hard to take in—would it be helpful if we dropped the committee a note to explain it?

The Convener: Let us clear that one up offline. I am dreading next week when we go through efficiencies and Jim Mather sorts out the spreadsheets for everybody.

John Swinburne (Central Scotland) (SSCUP): I take great pleasure in welcoming back the usual suspects—I mean that in the nicest possible way—and I congratulate them on the outcome of their project. We have a magnificent building and I have been highly impressed by the lack of snagging problems that we seem to have run into—although you might have been covering those up unbeknown to the general public.

I would like the witnesses to either verify or stand on and put away something that I have heard from a few sources: the fact that you have a get-out-of-jail card of between £11 million and £20 million of a saving on the overall project, which you intend to play at the very end of play. Will you confirm or completely deny that? Remember that it will come back to haunt you if you deny it.

Paul Grice: First of all, thank you for your kind remarks. People can tell that I have been coming

to the committee for too long. It would not be wise for me to speculate, however appealing a get-out-of-jail card appears to be.

A minute ago, Mr Mather touched on areas of contingency. Members will see from the report and financial summary that we submitted that there is a degree of unused contingency. I promise members that we will use that only very grudgingly and that anything that is left over will be a saving. However, it would be unwise to speculate on what that might be. We will certainly guard every pound as carefully as we can. If we can save some of that contingency, I look forward to the day when I come before the Finance Committee and report that fact. However, to be realistic, we are some way off and I would not be wise to speculate about any number.

John Swinburne: As long as we all remember that we heard it here first.

Has the general trend in the snagging and settling of any packages turned out to be less costly than you anticipated?

Paul Grice: It is quite early to comment on that. Perhaps by the time that we are next in front of the committee, when we will have settled five or 10 packages, we will start to see a trend emerging. I take a strong, personal interest in that and I ask Paul Curran about it every time I see him. So far, there is no alarming trend. As Paul Curran said, it is likely that we will settle the more straightforward packages first; perhaps, when we have settled a quarter of the packages, we will start to see a trend and I will be able to give a firmer answer to your question.

John Swinburne: There seems to be a tremendous amount of interest in the building from the general public. What attendance figures do you have to date?

Paul Grice: Last week we went through the 120,000 visitor mark, which is already twice as many as we had in a year up the road on the Mound. What is very encouraging is the high positive response rate from those people, not only to the building but to the process—to what they see in the chamber and in committees. As we go along, we must learn fast about seat allocation and how to give visitors the best engagement with the Parliament, whether they just want a quick look at the building or they are a committee witness.

The situation is hugely encouraging and we want to build on it. The organisation has a steep learning curve to climb on how to handle what will probably turn out to be close to our estimate of 750,000 visitors in our first year.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Are any legal proceedings under way?

Paul Curran: No.

Jeremy Purvis: How many cases have taken place?

Paul Curran: No formal legal proceedings—other than an adjudication—have taken place.

Jeremy Purvis: So no cases have taken place.

Paul Curran: No.

Jeremy Purvis: Therefore, the mediation process is being followed for many packages.

Paul Grice: I do not want to go too far, but we received a telling piece of advice from John Boulwood, who is the claims specialist, about the value-for-money issues of how claims are settled. In broad terms, to move from the left-hand axis towards the right is to go closer to legal action, and moving further to the right is extremely expensive. That does not mean that we never go there—we always reserve that right—but those are value-for-money terms, which even include processes such as mediation and adjudication.

The value-for-money indications are considered as one looks for a settlement where it can be achieved. The situation is gradually escalated, with stops at each stage to consider the costs and benefits of doing that. Across the package, we are in the normal process of negotiation and no more than that. Before we moved on to other matters, we would in each case take the best advice. We would not hesitate to go all the way if we thought that that was justified, but we must consider that carefully on each occasion.

Jeremy Purvis: I understand absolutely the desire for value for money, which is right, but the question is whether you receive advice that the cost of pursuing legal action is greater than the cost whose recovery is sought.

Paul Grice: That is the fundamental advice that is received at each stage.

Jeremy Purvis: How will that process be audited? Are you saying that any contractor to the corporate body can do a very bad job as long as it thinks that the value of its contract will be below the threshold of the potential cost of the legal process?

Robert Brown: That undoubtedly does not describe the process that we are following. The corporate body relies on advice—legal and otherwise—on the matter, but we have made it extremely clear that we will recover public money stringently. We will settle what is validly and legitimately due, because that is right and correct for contractors who have undertaken work for us. However, by the same token, every pound beyond that will be a prisoner. I do not disguise the fact that judgments have to be made but, as Paul Grice said, it would be unhelpful to go too far in the direction that the question pursues.

Jeremy Purvis: With respect, your emphasis is different from Paul Grice's. He just agreed that the balance involves setting the advice that you receive about the cost of the legal process against the amount whose recovery is sought. Before, he said that that process would be externally audited, but it cannot be if it rests on the judgment of corporate body members.

Paul Grice: No—I am sorry; perhaps I was not clear enough. At every stage in each case, one must examine the costs, the risk and the likelihood of outcomes. That is why one has expert advice. There will be a proper audit trail, so that the auditors and the Audit Committee can ask afterwards whether the corporate body, the chief executive and the team did their job properly and followed due process. In each case, we will consider what is in the Parliament's best interests, which will include examining performance against a contract.

I reassure the member that if we think that work is not up to scratch, we do not pay for it—full stop. The architect needs to certify every piece of work as finished. If somebody does shoddy work—thankfully, relatively little of that has occurred—and a contract has not been completed properly to the right standard, we hold back payment until we are happy. The difficult issues that Paul Curran recognised will come into play more in relation to timeousness and other issues that relate to contract performance.

To avoid doubt, I say that I agree absolutely with Robert Brown. He described exactly the direction that the corporate body gave us, which is exactly the steer that we will take in resolving any settlement.

10:15

The Convener: We are reaching the end of our allotted time.

Jeremy Purvis: May I ask another question?

The Convener: Very quickly.

Jeremy Purvis: I appreciate that.

The Convener: This is your fifth question.

Jeremy Purvis: Will you help me with a couple of lines in the accounts that have been settled to date? I was struck by the figures for roads—I assume that those are the roads outside the public foyer—which are nearly 20 per cent out between the cost plan and the final settlement. The reason for that is given as unforeseen ground conditions, yet there was a road beforehand and there is a road now.

Paul Curran: The reference is to roads in the Holyrood park area, where Queen's Drive was realigned and new roundabouts were installed at

the end of the landscape tails next to Salisbury crags. Those roads were completed about three years ago.

The unforeseen ground conditions were many peat bogs out in the park. When excavation started in some areas, peat bogs were discovered. That meant that digging had to be deeper, which caused delay. Other bits and pieces of unforeseen ground conditions also arose as work went along. The figures are nothing to do with roads in front of the building or any other roads that surround it. They concern purely roads in the park, the realignment of Queen's Drive and the roundabouts.

Dr Murray: As we have said, most people who see the building are extremely impressed, but the occasional gloomy soul says that the bamboo outside will go black and that the concrete blocks will react with one another and fall to pieces. We hope that that is unfounded, but I am a little concerned about the length of the post-completion period. What financial contingencies have been made to deal with longer-term issues that may arise from the design? I am not implying that the concrete blocks will fall apart, but one or two people say that that will happen.

Paul Curran: The contractual specification is of one year after practical completion in which to remedy defects. During that period, we hold a 3 per cent retention against all the trade package contractors and the design team, to cover the cost of making good any defects. At the end of that period, the architect will undertake an analysis that signs off the building and says that contractors have made good all defects that were apparent at that time. By then, the building should be in a good state. Should any defects appear after that period, the Parliament is covered under common law and can still pursue the architects on design issues and the contractors on poor workmanship, because emergent defects are covered under the law on latent defects.

Fergus Ewing: I requested and received from Jim Fairclough this morning a breakdown, for which I am grateful, of the additional moneys in the Presiding Officer's report that total £3.5 million. In that £3.5 million is an additional £1.75 million for Bovis Lend Lease staff costs. What is that for? Why was it not foreseen?

No delay has occurred for a long time. If extra staff costs are to be incurred, why are we just learning about them now? The figure is more than the whole fee that Bovis was originally to receive and is for just one year—2005. Can we have a detailed breakdown of how Bovis is entitled to the huge extra sum of £1.75 million? Why was that not envisaged before?

Paul Curran: The costs were covered as part of the design and time reserve contingency. The

sums are for staff into 2005, who will deal not with construction, but with settling claims and closing out packages. The whole amount relates directly to cost and people on site—it is not a fee.

Fergus Ewing: Why was the sum not foreseeable? We have known for a long time about everything that you just described.

Paul Curran: We must be clear that the numbers are provisional. They are the allocations and the transfer from contingency to the risk reserve. The numbers are the starting point for negotiation downwards.

The number that was reported as a cost against Bovis in the overall summary table was £4.396 million, but from our discussions with DLE it was apparent that some of those numbers had already been allocated, so the next report to the Finance Committee and the DLE report will show a transfer back to the contingency. The numbers are provisional and are worked on and interrogated constantly.

To return to your question, the figure for Bovis costs covers Bovis staff who are on site working directly on final accounts.

Fergus Ewing: I am grateful for your response, but it did not really answer my question about why the matter was not foreseen. It seems that Christmas comes early for Bovis Lend Lease.

The Convener: Alasdair Morgan will ask a supplementary question on the matter.

Alasdair Morgan: Paul Curran talked about time that is spent on dealing with claims. Bovis is the managing contractor. Are we paying Bovis staff to stay on to deal with claims that we are making against the company or the people whom it should have been supervising?

Paul Curran: Perhaps “claims” is the wrong word; we are talking about the settlement of final accounts. The final cost of every trade package must be settled. Some packages will involve claims for extensions of time, prolongation and disruption, which is part of the normal contractual procedure that must be followed when there have been delays such as we have experienced. We employ Bovis to do that on our behalf, so as part of its contract Bovis must consider each claim that trade package contractors submit and ascertain whether the claim is properly substantiated. Bovis negotiates on our behalf—we are not talking about Bovis claims.

The Convener: The convener’s briefing that I was given says that in the unlikely event that no questions are asked about the independence of the post-completion advisory group, I should ask such questions myself to cover Margo MacDonald’s point. I think that we have dealt with all the issues, so I thank the witnesses for

attending. I suspend the meeting for a couple of minutes to allow for the changeover of witnesses.

10:22

Meeting suspended.

10:25

On resuming—

Cross-cutting Expenditure Review on Economic Development

The Convener: Agenda item 2 is the committee's second oral evidence-taking session on its cross-cutting review on economic development.

An extensive array of witnesses from throughout the United Kingdom is here and I thank everyone for coming along. I welcome representatives from Scotland's two economic development agencies: Jack Perry, chief executive and Charlie Woods, senior director of knowledge management, from Scottish Enterprise; and Sandy Cumming, chief executive, and Sandy Brady, director of strategy, from Highlands and Islands Enterprise.

From Communities Scotland, the regeneration agency, I welcome Angiolina Foster, chief executive, and Ian Mitchell, acting director of regeneration. I should point out that the officials from Communities Scotland will confine themselves to offering factual answers about the programmes that they operate to implement ministers' policies and will not comment directly on policy. We will of course ask their lords and masters about such matters in due course.

For benchmarking purposes, the committee has invited Martin Briggs, chief executive of East Midlands Development Agency, to tell us about economic development in that part of the UK. I also welcome witnesses from the Welsh Development Agency: Rosemarie Davies, business support partnership director, and Kevin O'Leary, head of support services, who will tell us about economic development issues in Wales.

We have asked the witnesses to keep their opening submissions very brief. Before we hear them, I will make a couple of quick housekeeping points. I remind members, first, that they may ask questions of any of the witnesses and, secondly, that at its meeting this afternoon the Enterprise and Culture Committee will discuss research that it commissioned on business growth. Out of consideration to the Enterprise and Culture Committee I ask members to avoid questioning the witnesses on that research, which falls within the remit of the committee that commissioned it.

We will start at the right hand side of the table, so I ask Jack Perry to make his opening statement.

Jack Perry (Scottish Enterprise): It is a pleasure to be here and we welcome the committee's inquiry. Scottish Enterprise has a new leadership, with Sir John Ward as chairman, me

as chief executive and a substantially new board. The work that the committee is doing complements the work that we have been doing since taking office.

We are principally trying to ensure that the focus of Scottish Enterprise is right, by which I mean that we can make a sustainable and measurable impact on the Scottish economy. We are about trying to improve Scotland's rate of economic growth. We work with our customers to help them improve their productivity by sharing the risk of their investment, whether that investment be in the skills of their workforce, in capital for early-stage businesses, in technology, intellectual property or research and development, or in the business infrastructure that makes Scotland a more attractive place to do business.

We are increasing our focus on working with our customers through better account management. It is clear to us that our focal customers—we have other customers—are businesses that have the potential to make a disproportionate impact on the Scottish economy, so we are working on improving our account management so that our customers get the best out of us. We are also putting increased emphasis on improving the performance of our city regions, on trying to work to develop more businesses of scale, on working with the priority industries that we think can make a disproportionate impact on the Scottish economy, and on increasing resources to attract high value-added foreign direct investment. In addition to that, we continually re-examine the effectiveness of what we do and the efficiency of how we deliver it, to ensure that we deliver good value for money for the taxpayer. That concludes my opening remarks and I welcome questions from the committee.

Sandy Cumming (Highlands and Islands Enterprise): I thank the committee for the opportunity to join colleagues in giving evidence. I will keep my remarks brief. In our written submission we explain how we seek to achieve the aims of the smart, successful Scotland strategy in the Highlands and Islands. Since we made our submission, the refreshed version of the strategy has been published. We are content that the broad thrust of the original strategy document has been retained alongside a number of important new emphases. We are embarking on a review process with stakeholders in the HIE network to reflect the refreshment of the national strategy in our approach. We have a new chairman—Willie Roe—and he and the HIE board are keen that the process should be consultative. We wish especially to seek views on the area's recent economic progress and the implications of that for the future.

The challenges that we face today in the Highlands and Islands are quite different from

those of even 10 years ago, and we are adapting our efforts accordingly. In particular, unemployment is at a historical low and labour shortages have become a widespread feature. Income levels remain below the national average, but the quality of life is regarded as high. Although some areas in the Highlands and Islands continue to lose numbers, our overall population is growing. Most important of all, the number of good-quality development projects that are seeking our support is higher than ever before and we have to make tough choices on how we allocate our resources. That is a challenge that our predecessors would have loved to have. Although I would happily say more this morning about it, I will confine myself to those comments.

The Convener: We move to Martin Briggs.

Martin Briggs (East Midlands Development Agency): Good morning and thank you very much for the invitation to join you. I have been chief executive of the East Midlands Development Agency since it was created in 1999. It is one of nine English regional development agencies, all of which have business-led, non-executive boards of about 15 people. The EMDA is one of the smaller English regional development agencies and has a budget of £150 million for the next financial year.

One of most important things that the individual development agencies have brought to the English scene is the role that they play in bringing together economic strategies for each English region. I stress that those are not strategies of the development agencies themselves, because the agencies' aim is to work with business, education, public authorities and others to create economic strategies for each region. In the east midlands, our economic strategy aims for the region to become a top-20 region in Europe by 2010, which is measured directly in income terms, employment and unemployment levels, the disparity between the richest and the poorest areas and environmental measures.

The nine English regional development agencies work closely together. Their chairs meet on a six-weekly cycle, as do their chief executives. Whenever the chairs meet, they spend half a day with UK ministers discussing various themes that are relevant to the regional economic strategies. Overall, the budget for the English regional development agencies amounts to about £2 billion per annum, rising to £2.3 billion over the next couple of years.

Along with my chairman, I have twice chaired the collective of English regional development agencies, and I will be happy to answer questions not only about the east midlands but about the more general scene as it affects English regional development agencies.

The Convener: I am not sure whether Kevin O'Leary or Rosemarie Davies is going to speak for the Welsh Development Agency.

Rosemarie Davies (Welsh Development Agency): I will do my best.

Thank you very much for the opportunity to come here. I represent the WDA, a regional development agency that was established in 1976. The agency has three key areas of responsibility: support for potential, new and existing businesses, including the social economy; attracting and retaining inward investment; and provision and support for infrastructure development, including property, regeneration and land reclamation. We do not have responsibility for the skills agenda or for export support for businesses. Within the agency, we have a subsidiary known as Finance Wales plc, which is an independent bank that was established to provide loan and equity finance.

Within Wales, we have long had a tradition of what we call the team Wales approach, which includes all the Assembly-sponsored public bodies, as well as local authorities and academia. As a natural extension of that, earlier this year, the Welsh Assembly Government announced its plans to bring three of the Assembly-sponsored bodies—the WDA, the Wales Tourist Board and Education and Learning Wales, which is responsible for skills—into the Assembly Government as part of a merger. The merger is about providing a clear and consistent approach to the delivery of public services and is scheduled to take place in April 2006.

I will give the committee a brief overview of Wales. We have objective 1 status for a large proportion of the country and objective 2 and transitional status for the rest. Although we have reasonable levels of employment at the moment, we also have high degrees of economic inactivity. Currently, there are 75,000 VAT-registered businesses in Wales, so a lot of the support that we provide is about growing and developing the business community.

In recent years, the services that the WDA provides to businesses have undergone quite a lot of rationalisation. As a broad-brush approach, we tend to consider them as support for industry networking, impartial and independent signposting and information, general advice, some specialist support—either subject or sector-specific support with a particular emphasis on innovation, R and D and information and communication technology—brokering support and access to finance. We also do an awful lot of work on culture change, particularly in changing attitudes towards entrepreneurship.

Our spend for last year across all our areas was £312 million. We use quite a lot of local delivery—

we have four regional offices—and we use a lot of private sector contractors. Going forward, we are focusing on clarity and simplicity for our business community, the effective use of the private sector, driving up quality and maximising the return on public sector investment.

The Convener: Last, but certainly not least, we have Angiolina Foster.

Angiolina Foster (Communities Scotland): I should perhaps start by clarifying that Communities Scotland is not an economic development agency. Our focus is on community regeneration and housing, but it is clear from material that is already before the committee that work in those two fields—particularly when it is focused on Scotland's disadvantaged communities—has a crucial contribution to make to the country's economy.

Three main areas of the agency's work are relevant to the theme that the committee is exploring. The first is housing investment: we shall be investing £1.2 billion over the next three years to increase the supply of affordable housing throughout Scotland by some 21,500 homes. Also relevant to our housing investment work is the activity to transfer an additional 70,000 houses from council ownership into community ownership. The second area concerns investment of £104 million a year in a targeted community regeneration fund, to which we bring an outcome-focused approach. The fund is very much targeted on the country's 15 per cent most deprived communities and is an important part of the strategy to ensure that economic development opportunities benefit Scotland's communities of need. The third area of our work that is relevant is the fact that we have recently been given responsibility within the social economy in Scotland and asked to run the futurebuilders fund, which is aimed at extending and strengthening the role of the social economy in the delivery of good-quality public services while encouraging the sector's future financial sustainability.

We welcome the opportunity to speak to the committee today. We have recently welcomed the refreshed "A Smart Successful Scotland"—which Sandy Cumming mentioned—because of the link it makes to the connections that have to be made between economic development and closing the opportunity gap. We are now working with Scottish Enterprise and HIE to translate the principles in the document into reality through clarifying our respective roles and aligning our purposes.

The Convener: I thank the witnesses for those opening statements. I will make two points before we start the questioning. First, this is a cross-cutting review, so it is not our responsibility to bury narrowly into the silo; we are interested in the links between the silos and in getting rid of the silo

mentality. The other point is to ask committee members to target their questions at a specific agency or individual. I do not want members to ask the same question of five different groups, as that would become unmanageable.

I will put Jack Perry on the spot in the first instance. How do you feel Scottish Enterprise affects key infrastructure decisions? For example, have you been asked to name the top five or six transport priorities that would really move the economy forward? Do you have a dialogue about the things that affect economic growth that are outwith the Scottish Enterprise remit? Is the process satisfactory?

Jack Perry: It is a good question. I cannot speak for what sort of dialogue took place before I arrived at Scottish Enterprise. We have good relationships with the key transport authorities. In our five-year investment plan, we have identified the things that we think are important. Certainly, for each of those packages, our relationship with the transport authorities is key. A good example of an area in which we have an open dialogue on transport issues is the Clyde waterfront.

You asked whether the dialogue is good enough and extensive enough. I suspect that it could be improved. To my knowledge, Scottish Enterprise has not identified the key transport projects that are absolutely essential to the delivery of our plans. My colleague, Charlie Woods, might want to expand on that.

Charlie Woods (Scottish Enterprise): That is right. From time to time, however, in various studies and reviews, we give advice on our priorities. We made an input into the national planning framework, for example, and into the discussion and debate on that area.

The Convener: The last time you appeared before the Finance Committee, Jack, it was in your role with CBI Scotland. At that time, I put more or less the same question that I have just put to you today. As I recollect, your reply was that, because CBI Scotland was, in a sense, a lobbying agency, all projects were important and that it was therefore difficult to say which projects were the most important. In the context of Scottish Enterprise, however, you will need to say which priorities are the most important and which projects need to be achieved urgently in order to unlock Scotland's growth potential.

You mentioned the Clydeside corridor. As far as I know, no transport strategy has been established for that area, which is a big deficiency. Is Scottish Enterprise, which puts money into the Clyde corridor, talking sufficiently to the local authorities and the Scottish Executive Enterprise, Transport and Lifelong Learning Department? Are those involved unblocking the process quickly enough,

or are they stuck in some kind of process in which everybody is reluctant to commit or prioritise and we are not getting the drive forward that we should be getting? The situation with regard to the Clyde corridor is probably replicated in other parts of Scotland. Those questions are the focus of the issues about which the Finance Committee is most concerned.

Jack Perry: The committee is right to be concerned on the issue. I suspect that the dialogue is not as open as it should be. The proof is in the pudding, however. The convener asked whether economic development is accelerating as quickly as we would like, and the answer is probably no.

The strategic partnership board that was created for the Clyde waterfront is meant to address the issues by bringing together the parties who contribute to the area in order to advance that objective. The board is at an early stage, however, as it has met only twice so far. The convener is right; I am not aware of an overarching transport strategy that governs the Clyde waterfront project.

The Convener: Are things different in your neck of the woods, Martin? In your opening statement, you focused on the idea of bringing partners together to develop a regional strategy. I assume that you were talking about a conurbation-based strategy in which you would be looking at the conurbations in your area and at transport links in that context. Are things done differently in your locality?

Martin Briggs: It is fair to say that the situation is evolving—we might be able to return to the sustainable communities plan and the conurbation issue in more depth a bit later on. The regional economic strategies in England have triggered a lively debate on the levers of influence, including the major lever of the elements of public expenditure that affect economic performance.

At the moment, it is fair to say that there are rather more arenas in which to talk about things than to manage or direct them to happen. That said, each English region has a transport board, for example, which is chaired by the government office and on which the local development agency sits. Individual regional development agencies lead at a national level on individual themes: for example, my sister agency in the west midlands, Advantage West Midlands, takes the national lead for the RDAs on transport issues. We have made real progress, including getting the Department for Transport to adopt the study that we did last year on how to measure the strategic investments of national economic importance. That was a big advance for us, as economic considerations are now explicitly included in the assessment process.

10:45

Although there is much further to go, we are optimistic that we will make further progress, not least because of the Chancellor of the Exchequer's announcement in the July spending review of the requirement for regional investment plans to be put in place in each English region. The chancellor has set the pretty testing target that the first of those plans should be in place for the financial year 2005-06. The RDAs intend to use the plans as a further lever to ensure that economic priorities are properly connected into our overall priorities.

Mr Brocklebank: My question is initially to Jack Perry. First, let me say how glad I was to be at your reception last Thursday. The hospitality was rather more lavish than that which you have had this morning.

Jeremy Purvis: Is that a declaration of interest?

Mr Brocklebank: I want to ask about the litany of despair that you and your co-presenter seemed to give in the part of your presentation that addressed the Scottish economy. You said that, in terms of world competitiveness, we are 30th out of 60 countries in a listing in which the United Kingdom is 19th. You said that our businesses perform on average 20 to 30 per cent less well than do our main competitors and that Scotland lags 30 per cent behind the UK in terms of research and development.

To some extent, you seem to lay the blame for that on the fact that investment in enterprise has lagged behind the spend in the rest of the UK. I think that our Welsh colleague, Rosemarie Davies, said that the WDA gets approximately £300 million. Scottish Enterprise gets £500 million, which, in terms of population, seems roughly similar. Is it only money that we lack, or is something else missing?

Jack Perry: A number of interesting points are raised in that question. First, let me deal with the economic situation. Our role in this respect is a difficult balancing act. In some respects, my role and that of Scottish Enterprise is that of chief cheerleader for the Scottish economy. A lot of good things are happening in Scotland. I am sorry if we gave the impression last Thursday that the picture is one wholly of despondency and gloom, as that is not the case.

That said, Scotland is not performing as well as Scottish Enterprise believes it should be. If we want change, we have to demonstrate the problem that we are trying to solve. Although we could point to a range of economic indicators that show that Scotland is doing quite well, it is also important that an economic development agency highlights the areas that it feels we have to tackle and improve upon—the areas where we are

seriously underperforming. Unless we have a good understanding of those areas and can get some buy-in to what we are trying to do, it is hard for Scottish Enterprise to determine what Scotland's priorities and responses should be. We make the points that we made last week in order to illustrate the nature of the problem and what we want to focus on in order to fix it.

Spend is important, but only to the extent that we have compelling projects on which to spend—the sort of projects that address the problems that we have highlighted. It is incumbent on Scottish Enterprise to come to ministers with the compelling case for those projects.

Mr Brocklebank made a comparison between spending in Wales and in Scotland. We have to remember that the WDA does not have the learning and skills budget that Scottish Enterprise has, which amounts to about £140 million. Nor does the WDA deal with the export assistance work that is a fundamental part of Scottish Enterprise's international remit. A comparison between the per capita spend of the WDA and Scottish Enterprise is not to compare like with like. Indeed, if one was trying to compare the two agencies on a like-for-like basis, we would see that Scottish Enterprise spends less on primary economic development through the enterprise network than does the rest of the UK.

Mr Brocklebank: One of the other topics that we touched on last week was the element of public expenditure in Scotland compared with private sector expenditure. Do you accept that an economic model in which public expenditure is growing far faster than the rate of growth in the economy is unsustainable in the long term?

Jack Perry: It is unhealthy. It means that in order to get the levels of economic growth that we need, our private sector has to grow disproportionately quickly. If the curve were to continue indefinitely—I do not know when it would cross over—I suspect that it would be unsustainable.

Mr Brocklebank: Particularly as, at the moment, 51 per cent of the Scottish economy is driven by the public sector. What were the figures that you gave us last week?

Jack Perry: The comparable figure for England is 41 per cent.

Mr Brocklebank: And the European Union?

Jack Perry: I do not know.

The Convener: I want to factor in our Welsh colleagues on Ted Brocklebank's first question. They made it clear that they do not deal with skills, so in a sense it is hard to make comparisons with Scottish Enterprise. One of the things I was particularly interested in, in the breakdown of your

spend, was the balance between business support and land and property. You spend more on land and property in Wales than you do on business support, which is in fairly sharp contrast to what Scottish Enterprise does. Will you tell us about your land and property role?

Rosemarie Davies: Yes. It includes investment in strategic builds. We have in place an all-Wales property strategy, which identifies priorities for business premises that we seek to develop. Within that we have significant resources for what we call area development, which includes expenditure on land reclamation and urban and rural regeneration. We look for private sector investment and partnerships for our land and property for business premises.

We are balancing as we move forward. Historically the agency has prioritised property development over business support, but as we move forward we are seeing much more emphasis on development of support services for businesses on the softer side of development.

The Convener: What is the business community's response to that? Are businesses content with the emphasis being on land and property and with the co-ordination that you are bringing to that? Are you under pressure from them to change your budget or do you think that, broadly speaking, what you are doing is correct from the business community's point of view?

Rosemarie Davies: In recent years we have seen a much stronger swing towards business support in the investment that we make. There is still a shortage of quality business premises, so there is still a need to address that sort of activity. In some of the valleys, where there are areas of industrial decline and there has been closure of steel works, land reclamation has a huge impact on economic regeneration activity. Generally, there is satisfaction with the balance of our expenditure.

We are trying to ensure that support for businesses is much clearer and more customer focused. Certainly in the past few years an awful lot of work has been done on rationalisation. We have introduced a service called business eye, which provides a free, impartial, independent information signposting service, which makes everything simpler. A criticism that we had from the business community was that people were not sure where to go for what support. It is about trying to make the process simple, relevant and targeted for businesses.

Mr Frank McAveety (Glasgow Shettleston) (Lab): I want to focus my questions on colleagues from Wales and the east midlands. I mean no disrespect to anybody else—there will always be opportunities to raise issues with other colleagues

present. What do you do about areas that are structurally disadvantaged because of their economic past, such as south Wales and some of the cities in Wales and the east midlands, which have been affected by economic change in the past 20 or 30 years? What do you do about the intractable problem of long-term unemployment, particularly in the post-40 age group, which was the issue that came up last week when we were chatting at the breakfast seminar with Scottish Enterprise? Are you deploying particular strategies on that? Who leads such strategies? How do you get the key agencies to leave their armour at the door before they come in to discuss strategy?

You mentioned regional strategies. Our experience in parts of Scotland is that there has been too much concern about process and structure, rather than about how we make a real difference. I am interested to hear the views from either Wales or the east midlands. I will reserve the opportunity to come back on that, depending on the answers.

Martin Briggs: I am happy to kick off on that. I will first pick up on Jack Perry's point vis-à-vis Wales. The one continuing frustration that the English RDAs feel is that skills expenditure remains outside their direct budgetary control. There is a big issue about adult skills and lifelong learning, which will continue to rattle around. That is highly relevant to the question that you asked. The major challenge that we have faced in the east midlands in the past dozen years has been less in our conurbations than in the north Derbyshire and north Nottinghamshire coalfields and the major transition that occurred there in the early and mid-1990s.

There has been real tension between a considerable ability to invest in regeneration and reclamation projects, which we have undertaken, and attracting new business. The market town of Shirebrook in Derbyshire, where the pit closed 10 years ago, provides a good example. We have secured new inward investment there, which means that, in the next 12 months, twice as many jobs as there ever were around the pit will be available. The issue in north Nottinghamshire and north Derbyshire is that a coal industry was overlaid on a series of rural market towns rather than on a major conurbation.

The difficulty is in matching the jobs and the skills that are required to the needs of the existing population—in other words, the economic exclusion issue. I have expressed our frustration but, to be fair, over the past couple of years a great deal of effort has been made in each English region to create regional skills and productivity partnerships. I am sorry about the long names, but the acronyms are even worse. The partnerships bring together the development agencies and the

regional arms of the learning and skills councils and Jobcentre Plus to try to ensure that we align all the investment that is going into reskilling and creating new opportunities with the needs of economically excluded communities.

One of the abiding themes of the work that we do, a lot of which is done through sub-regional partnerships, is the top-down nature of most of the programmes and the need to restore confidence and aspiration in communities rather than just create programmes that encourage people to reskill. In practice it is as much about sparking people's ambition about what is possible as about providing the mechanics for getting there. We are talking about work in progress. The English RDAs collectively would say that we do not really think that the instruments are well enough aligned to move as fast as we believe we need to move.

Rosemarie Davies: I echo a lot of what my colleague has just said. As I said earlier, long-term unemployment is not such a major issue for us as economic activity in its truest sense, which in some respects is even more difficult to deal with.

We have a two-pronged attack in terms of the capital regeneration activity, which tends to spark activity but will not be sufficient of itself. What tends to happen when we are undertaking regeneration activity is that there is a team approach involving local authorities, us, various community groups and our colleagues in Education and Learning Wales. As you said, the skills agenda is huge. It is about addressing basic skills issues and ensuring that there is appropriate education and training right the way through. In that sort of activity it is very much about working together as a team.

A lot of the other activity with which the agency has been involved involves culture change programmes relating to the use of information and communication technology and raising awareness of its importance and the opportunities and facilities for accessing it. Significant resource has been put into changing people's attitudes to starting their own business. That has included everything from major marketing campaigns to role models going into schools and using what we call Pod, which travels around various areas. That can often be the spark for attitudinal change that can make the difference in regeneration, but it requires back-up support such as support for social enterprise as well as mainstream business support, right the way through to the capital infrastructure that is required. It tends to be that whoever is appropriate will lead, but we take a team approach.

11:00

The Convener: Will you amplify your submission's statement about the Welsh

Assembly Government's decision to bring together the WDA, Education and Learning Wales and the Wales Tourist Board? Has the decision been well received in Wales? Is it seen as the way to bring about greater co-ordination and focus?

Rosemarie Davies: The three organisations are not being brought together but are being merged into the various portfolios of the Welsh Assembly Government. Education and Learning Wales will come under a different portfolio from the Wales Tourist Board and the Welsh Development Agency, which will come under the economic development and transport portfolio.

Generally, the decision has been well received, as the view is that it will provide more co-ordinated public sector support. Obviously, we are still at an early stage and concerns have been raised by various parts of the business community and other parts of the economic development community. An awful lot of consultation is taking place on how the move should be taken forward, so that we can ensure that we end up not just with business as usual but with a better, more integrated public service.

Alasdair Morgan: To what extent will there be integration and joint working between the development agency and the tourist board once the new arrangements are in place?

Rosemarie Davies: The project is at a very early stage, although teams are working on it. Given that the WDA alone has 1,100 staff, integration will be a massive project. We are not sure how the decision will pan out in the longer term as it will not come into play until April 2006. At the moment, it is a case of "Watch this space."

Alasdair Morgan: Is it intended that there will be a substantial amount of integration?

Rosemarie Davies: That is the intention at the moment.

Alasdair Morgan: I have a supplementary question for the witnesses from HIE and SE. Given the tourism industry's importance to the economy of the HIE area and the wider Scottish economy, would such an approach be a sensible idea in Scotland?

Sandy Cumming: Let me give an illustration of what I think is at the heart of economic development. I would not say that our approach to economic development is always the right one, but we have a different philosophy. We are a community-led organisation; communities are at the heart of how we achieve economic progress in the Highlands and Islands. That has been our hallmark for the past 30 to 40 years.

Let me use the example of the Western Isles. The Western Isles is still a difficult community. All the economic statistics indicate that the area is in

decline, that it has an aging population and so forth. However, after working together with the key local bodies, we have come up with an equivalent document to "A Smart, Successful Scotland" for the Western Isles. The document considers how we can make progress in the Western Isles economy.

To answer your question, we see tourism as a key driver for revitalising the economy of the Western Isles. The challenge for my organisation is to work with other public bodies on the ground to grow tourism within the Western Isles. We need to work with VisitScotland and the local authority, so effective partnerships are at the heart of that.

If I may just answer the convener's original question on transport, my take on that issue is that the Highlands and Islands have a cohesive approach to major strategic issues because of our history of European funding and our experience of the objective 1 European partnership and the current transitional programme. One of our tasks—in which my colleague Sandy Brady is very much involved—is to identify the key strategic transport infrastructure projects. That works extremely well. As the economic development agency, our role in that process is to work alongside the main transport bodies to say which are the five key areas in which we should invest the limited European funding to make things really change over the next five to six years.

We also make an effective contribution to the Highlands and Islands strategic transport partnership, which brings together the key players in regional transport provision to understand the economic development role that transport can play. Transport cuts into tourism and everything else. It affects not just the individuals and businesses that are based in the area but the wider economy.

Working together on tourism is vital. Per capita, tourism in the Highlands and Islands is worth four times what it is worth in the rest of Scotland. I like the model that we are about to embark on; it is a good model. It is about the enterprise agencies working together in an effective partnership with VisitScotland and working together for team tourism in Scotland. That is important.

Jack Perry: I agree with Sandy Cumming's remarks about the need to have a better partnership. I have had a couple of meetings with the chairman and chief executive of VisitScotland since I took office at Scottish Enterprise.

Personally, I would not recommend a merger, as Scottish Enterprise's portfolio is probably more complex than it ought to be without more responsibilities being added to it. However, I agree that there is a case for better co-ordination of strategies. At present, the biggest role that we play

with VisitScotland is in the support of learning and skills development for the tourism industry. There is much more mileage in our co-ordinating things with VisitScotland, given that it is adopting a model of operating that is not dissimilar to our model, which involves Scottish Enterprise national and local enterprise companies. We have offered to work with VisitScotland on the possible co-location of office facilities and support to try to make both organisations more efficient.

The marketing of Scotland overseas for tourism purposes is an issue, but that is perhaps a discussion for another day.

The Convener: Frank McAveety has a question for the witnesses.

Mr McAveety: I realise that this might sound like an oxymoron, but if you were engaging in an exercise of fantasy Government—

The Convener: Who is Frank McAveety asking the witnesses to fantasise about? [*Laughter.*]

Mr McAveety: Not many choices are available.

If the witnesses were engaging in such an exercise, what three cross-cutting measures would they introduce, involving either resources or a difference of approach, to transform the most disadvantaged communities, both in the most rural parts of the country and in blighted inner cities? I think that Rosemarie Davies has already given some suggestions, but what three things could Government do better or more immediately that would automatically transform communities?

Rosemarie Davies: We have tried to make broadband accessible in Welsh rural communities, where it would never be economically viable and would never happen if it was left purely to the private sector. Significant resources have already been put into making such information and technology facilities available. Those can bring with them huge potential for businesses to be able to work in rural areas. We need to acknowledge that those need not always be large businesses; they can be small businesses and portfolio workers who use ICT as an essential resource to work in the knowledge economy. Taking forward such provision is a key priority.

We also have a strong focus on the knowledge economy. We are putting resources into innovation, research and development and competitiveness with a view to being able to provide the necessary support to develop the business community in Wales.

For me, one of the most important things is that my fantasy Government should not forget about small businesses, which are the backbone of the Welsh economy. It should ensure that we are able to maintain, sustain and develop small businesses, whether they are in the social

economy or are businesses that work independently. If we lose the small businesses, potentially we lose the economy, especially in rural areas and in other areas that are more difficult to support.

The Convener: We have brought Martin Briggs all the way from the east midlands to fantasise.

Martin Briggs: I was going to say that we like nothing better, but that might be misunderstood.

Mr McAveety: You are in romantic Scotland.

Martin Briggs: Yes, I know. I feel the mood coming on.

I mentioned skills, but I include enterprise under that. It is fundamentally important to get better alignment between the two. At the moment, the somewhat menacing phrase “dual key” is used, which was invented by the Department for Education and Skills at Westminster to explain the arrangement whereby both we and national Government set the agenda in the field. We think that that is important.

Two other areas are important for your question about disadvantaged communities and economic inclusion. They are sometimes regarded as being outside the economic agenda but we think that they are important. The first is crime and community safety. A chief inspector from the Derbyshire police force is seconded full time to my agency and that connection has been in place since we were founded in 1999. The cycle of social exclusion in communities is an important nut to be cracked. The question is: how do we turn social exclusion into economic inclusion? The connection is complicated but important.

The second area is the connection with strategic health authorities, on which we have focused increasingly in recent years. We have two strategic health authorities in the east midlands and we have spent more time on our connection with them partly because many people pointed out that health indicators should form an important part of judgments about the progress that we are making on our ambitions for the economic agenda. Also, health is an enormous part of public expenditure in regional economies. In the east midlands, it amounts to some 8 per cent of the gross domestic product of the region. Capital expenditure is having a major impact on our conurbations, with several large private finance initiative capital projects going on. We are trying to work with the strategic health authorities to ensure that those capital projects leave a legacy of economic development and skills rather than our having to import skills from elsewhere and finding that they dissolve afterwards.

Much of the work that we want to do with deprived communities in the economic field can

effectively piggyback on access centres, which involve access to health care as well as to economic opportunities. We are trying to use public expenditure across the lines to reach further into communities than we would be able to do as a regional development agency alone.

The Convener: I have a full house of members who want in. John Swinburne is next.

John Swinburne: My question is again for Martin Briggs. The north-east of England rejected by an overwhelming majority the opportunity to become a devolved region. Was that an indirect indictment of the performance of the English regional development agencies or a reflection of their success, which could perhaps make regional devolution in England superfluous?

The Convener: That was a technical question. Perhaps Martin Briggs can give a technical answer.

Martin Briggs: I could follow your guidance on short answers and say that it must be the latter, but you might not let me get away with that.

The development agencies are business-led organisations—although their boards are drawn from public authorities, the voluntary sector and education—and they have tried to steer clear of the governance debate in the English regions. We have tried to position our work as separate and distinct from the issue of whether regional governance should be devolved.

There is a dilemma for the development agencies in respect of their accountability for their work and for the regional economic strategies. We do not have a collective view on that on the record, but the issue will not go away. It does not necessarily have to be resolved by an elected regional assembly. My chairman, Derek Mapp, who is a businessman and is about to stand down, has been working with the Smith Institute. During the past year, we have published several contributions that suggest an alternative model, with ministers from the region drawn from Westminster. That might be a way to resolve the accountability dilemma. However, the further we get into the interconnections that I described between health policy, crime, community safety and economic development, the more I think that there is a need for clear accountability to regional and local communities for what we do.

Jeremy Purvis: Before I start, I wonder whether Mr Woods can help me. What does a senior director of knowledge management do?

Charlie Woods: At Scottish Enterprise, the senior director of knowledge management is responsible for advising the board on strategy and planning and research and evaluation. We are a diverse organisation whose activities cover 12

local enterprise companies and international operations. Sharing knowledge of the organisation to best effect is an important part of that work. Those are my responsibilities.

11:15

Jeremy Purvis: Thank you.

Am I right in thinking that Mr Perry said that the size of the Scottish budget was unhealthy?

Jack Perry: Which Scottish budget?

Jeremy Purvis: The overall budget for public spending in Scotland. In response to a question from Mr Brocklebank, I think that you said that the size of public spending in Scotland was unhealthy.

Jack Perry: It is unhealthy in the long term. If the size of the private sector, as a percentage of the economy, is ever decreasing, one's tax receipts necessarily decline, which makes it more difficult to fund the public sector. One ends up in a downward spiral from which it is difficult to recover. That is what I meant. As a consequence, we suffer lower levels of economic growth. If one has an ever-growing public sector to finance, one's private sector must grow even faster than must the private sector in one's competitor regions. In the long term, that is not a healthy way to run an economy.

Jeremy Purvis: So there is a direct correlation between the historical and current levels of growth of the Scottish GDP and levels of public expenditure.

Jack Perry: In my mind, that must be a contributing factor.

Jeremy Purvis: I am struck by the fact that, in your written submission, you say, in effect, that Scottish Enterprise should have another £400 million.

Jack Perry: No, I do not think that that is the case. In direct response to the question that was asked, we talked about what had happened to our budget. There is no doubt that it has declined over the period in question and that, as a consequence, we are doing fewer of certain things. I return to the answer that I gave Mr Brocklebank, which is that it is up to us to come up with a compelling case for why we ought to have more funding. I am not complaining about my budget; it is up to us to make the case for further investment in economic development under our aegis.

Jeremy Purvis: I might have misinterpreted your submission. It seemed that you were complaining about the size of primary economic spend and using as a specific example of that the relative decline in the budget of Scottish Enterprise. I was a little bit surprised by that.

Jack Perry: At this point, I will bring in my colleague, because Charlie Woods was instrumental in putting together the numbers in the submission.

Charlie Woods: The point of that part of the submission was to say that, given the size of the challenge that we face, which we have talked about, the investment that is going on elsewhere and the investment in Scottish Enterprise relative to the size of the budget as a whole, one could argue that there is a case for the provision of more funds to stimulate more investment and to generate the wherewithal to finance the public expenditure that is needed.

More important, the submission makes the case for saying that it is a question not just of providing more funds, but of doing things better. Much of the earlier discussion was about better integrating the various different programmes and activities to ensure bigger returns. There is probably more mileage in doing that than there is in simply investing more.

Jeremy Purvis: I have another question.

The Convener: You have already had five. I call Jim Mather.

Jim Mather: I have a generic question for all the enterprise agencies. I am looking forward to getting an answer from each of you.

The Convener: No. I will be hard on you. I do not want around-the-room questions. You must decide whom you want to ask.

Jim Mather: In that case, I will look to our guests for enlightenment.

In Scotland and, I suspect, elsewhere in the UK, Enterprise Ireland is rampaging around the place putting to businesses the proposition of relocating to Ireland. Part of that proposition involves the ability to keep 87.5p of the corporate pound of profit. In addition, Enterprise Ireland is able to point to a history of growth. It can say that Ireland has targets for growth and is committed to growth, unlike Scotland, which does not have such targets and so is not serious about growth. It can say that we are not even very good at growth because, over the past 30 years, our growth has been markedly lower than that in the rest of the UK. How would you counter a similar proposition in your areas? What key points would you make to persuade businesses to stay in your areas rather than move to Ireland in whole or in part?

Martin Briggs: We all deprecate knocking copy, wherever it comes from. There is much to be learned from the southern Irish experience of economic development over the past 20 years. There is an easy caricature of it as being driven largely by huge sums of European regional money at one stage, which is completely misconceived. I return to the role that the knowledge economy has

played, and the focus on skills and education in Ireland in driving things forward.

We have been fairly clear that, as an individual region in the UK, we should steer clear of discussions about the national fiscal and monetary framework, partly because we want to draw a clear distinction between regional and national responsibility, and partly because we know who butters our bread—the relationship with the Treasury is important for the UK regional development agencies. Nevertheless, issues that have surfaced once or twice in discussions here are also significant issues for the east midlands and other English regions.

The role that the level of public expenditure plays in stimulating or inhibiting economic growth is an important issue for discussion. The independent-minded chairs of regional development agencies would say that one of their tasks, alongside stimulating economic development in each English region, is to use their best judgment as businessmen to lobby ministers on the balance that needs to be struck on issues such as the role of public expenditure.

Rosemarie Davies: I echo much of what has been said, particularly on the success of the Irish model.

Wales has been extremely successful at attracting foreign direct investment, but the market is ever growing and competitive, and it is getting more and more difficult. While we continue to try to attract new FDI, we are focusing much of our attention on developing strong corporate relationships with the investors we already have, and on looking to secure them and further investment in Wales.

We also want to ensure that the whole supply chain supports indigenous businesses to grow and makes them want to stay with us. It would be lovely to think that we have lots of Welsh businesses that people are trying to lure away because they are so successful. In trying to keep them, we focus on ensuring that the support that we provide is of an extremely high quality, so that they do not want to leave us. However, like you, we would not be involved in tax breaks.

Jim Mather: I will move on and focus my second question on HIE. I hear the comment about deprecating knocking copy. However, my experience is that unless you face reality and optimise your advantages, you do not move things forward.

I am happy to be positive, particularly about the Highlands and Islands. Given the efficient government announcements over the past 24 hours about consolidating payroll, IT, human resources, finance and other services, there might be a case for HIE to work closely with councils in the short term to propose that we reverse the

polarity and, rather than centralise those services in the central belt, start a process that leads to further civil service relocation. Do you have any views on that?

Sandy Cumming: We have been addressing that area for some time. Three years ago we demonstrated that it was possible through modern technology for us to have our own data-processing centre in the Western Isles, which has been a model for other rural parts of Scotland. The trick for us is to use it not just for HIE, but for public service providers in the community. There is no good reason why we could not use it for local authorities in parts of Scotland other than the Western Isles. There is an opportunity. It is about management capability and about the ability to demonstrate that the technology works and that there is an outstanding labour force in the local community that can do the business. We have an open mind.

To date, I think that nobody has used the phrase “community planning” but I will do so. I am a firm believer in community planning. It is the model for bringing agencies together to understand that we are all here trying to improve public service delivery. Wherever possible, if we can share services, we should do so. The opportunities are very significant, which is why I get very excited about the opportunities for the northern half of Scotland.

Jim Mather: I support your position and the positive spin that you put on HIE, as your previous chairman did. However, my feeling is that when you have access to policymakers and custodians of the public purse, it is time to confront them with the reality of what is happening in your area and the inhibitors that you face, including the huge reduction in the employed population that is forecast in Scotland through to 2043.

If in that period to 2043 we have to move towards the knowledge economy, and that fosters growth in greater Inverness, Edinburgh, Glasgow, Dundee and Aberdeen, what will happen to the periphery of the Highlands and Islands? How do we start loading the dice to tackle the inhibitors and to overcome the potential situation sooner rather than later?

Sandy Cumming: I certainly cannot match my previous chairman’s historical knowledge but I recall him telling me about the position that was facing Skye in the early 1990s when all the demographic forecasts suggested that the island of Skye would be virtually without population. Of course, the population has grown by more than 50 per cent during that period. We try to examine why that has happened. There is no single reason; it is just that there is a quality of life and opportunities that we can now grasp.

I am firmly behind the fresh talent initiative. The Highlands has a serious problem with the shortage of young people. The 18 to 30 age group is far too thin at the moment and we need to expand it. We are tackling that by working with the Executive to establish, at last, a university for the Highlands and Islands. That will be an important contributor to the economic development of the region.

We also need new people to come into the area. I want the Highlands and Islands community to attract and welcome people from throughout the world. There is already evidence that many of our current labour force problems are being solved by people coming from eastern European countries. We have an opportunity—it might be a once-in-a-lifetime opportunity—to tackle some of the inherent weaknesses in the Highlands and Islands economy.

Dr Murray: I suppose my question follows on from what Jim Mather was saying. Highlands and Islands Enterprise has a specific function in trying to reverse economic decline and, seen from the south of Scotland, it would appear that it has been quite successful in achieving that aim in parts of the Highlands and Islands. I assume that that is not a key aim of Scottish Enterprise, the regional development agencies and the Welsh Development Agency. Would the representatives of those organisations welcome that being added to their portfolio? How would the inclusion of a specific social inclusion function change what your organisations are able to do at the moment to influence what happens in areas of decline or social exclusion? Would it be appropriate to include social inclusion in your organisation’s remit?

Jack Perry: Again, that is a good question. We have some social inclusion functions within our remit at the moment and I am on record as saying that I am uncomfortable with that. That is not because I do not think that those activities are valuable, but because they make it difficult for Scottish Enterprise to focus on what it is good at.

For example, one of our local enterprise companies recently sponsored a healthy eating campaign using £0.25 million of its budget. A healthy eating campaign is a sensible thing for Government to be involved in, but I fail to see the connection with our economic development remit. It was explained to me that healthy eating means less absence from work, greater productivity, ergo economic development, but if I went through enough iterations, I could make a case for anything being economic development. Using those criteria, I should be running the schools, but I do not want to run the schools.

We need to be clear about our remit as an economic development agency. In my opening remarks, I tried to make it clear that our remit is

about growth through improved productivity and sharing the risk of investment with our customers. Personally, I think that we should be relieved of the social or economic inclusion activities, which are not a huge element of our budget. I also believe that we should not abandon any client group that we currently serve, but that we must ensure that there is adequate provision. I am not precious about the budget, and I am happy to transfer it to others, because I would like these things to be done well, and I am not certain that we are the right agency to deliver them well.

11:30

Dr Murray: What is the regional development agencies' view about their functions and their social inclusion role?

Rosemarie Davies: We would not identify social inclusion as being part of our portfolio for working in partnership. One of the strongest areas is the work that is necessary across organisations and agencies to ensure a coherent approach. In terms of economic development, no one thing will work by itself.

We undertake some activities that tie in with social inclusion. Depopulation was mentioned earlier; in some rural parts of Wales we have witnessed high levels of depopulation, especially among young people. We have undertaken some initiatives, one of which is called Ilwybro-routes, which is about attracting young people back to rural communities. We are trying to encourage people who have left Wales to come back to start their own businesses or to reinvest there.

We also engage in community development. Although it remains the remit of local authorities formally to undertake community development, we work in partnership with them. We have community toolkits and regeneration toolkits with which we work. We are engaged with the wider social inclusion agenda, but we are—in truth—on its periphery.

Ms Wendy Alexander (Paisley North) (Lab): You will note, convener, that I have said nothing all morning in the hope that I will be allowed to ask three specific questions—one each to three individuals. I imagine that this is a slightly frustrating session for the witnesses, as it is quite free flowing. My three questions will try to focus on the long-term lessons that we have learned.

My first and most provocative question is for Sandy Cumming. The record of success as outlined in HIE's submission is hugely impressive. What impresses is the consistency that is apparent and the fact that HIE has been at it for 40 years—neither of the other Scottish organisations that are represented here has been at it for so long. That success is potentially the result of

strategy, and you have talked about the role of community leadership. The third possibility—bearing in mind the fact that this is the Finance Committee—is that resources have contributed to the success.

An interesting piece of analysis that the committee has had done shows that 60 per cent of spend on economic development is in rural areas. If common agricultural policy expenditure is taken out of that, the figure is 47 per cent, which relates to about 27 per cent of the Scottish population. I know that those figures are familiar to you. Should we consider rebalancing that 60 per cent of expenditure more quickly away from the primary industries—agriculture, fishing and forestry—which receive a decreasing proportion of expenditure and have not been the essential drivers of success? Forty per cent of the money is spent on those primary industries, but in order to accelerate what has been huge success there is perhaps an argument in favour of moving resources from primary industries to services and to other areas that are greater contributors to that success story. Has the HIE board discussed that, and does it feel able to make a contribution to that debate in the future?

Sandy Cumming: I will try to be brief.

The Convener: Please try to make your answer briefer than the question. [*Laughter.*]

Ms Alexander: Yes, it was a messy question.

Sandy Cumming: As someone with a degree in agricultural economics and who was brought up in a farming community I am in danger of forgetting my origins. It is important that we have a mature debate about how the cake that we have available for rural development in Scotland is divided. I am sure that there can be greater efficiency. I do not suggest for one moment that we need more in the budget; rather, we need to spend it more wisely. One of the really important issues for us as we go forward is the opportunity that presents itself through common agricultural policy reform. As the policy moves from being subsidy-driven in respect of livestock to providing opportunity for rural development, the question is how to deliver such development. In Orkney, which has traditionally been a successful farming community, the question is how to generate economic development if the amount of money is to be the same and what will be the best way to invest. The HIE board will consider that in entering this period of significant strategy review and in addressing the smart, successful Scotland strategy. I am conscious that Sandy Brady has been silent all morning, so I will allow him to add to that point if he wishes.

Sandy Brady (Highlands and Islands Enterprise): Rebalancing of expenditure would be

welcome. The key is absorbency, but the speed with which resources can be rebalanced is important. We have had a lot of resources in the Highlands and Islands and our success is partly because those resources have come to the area steadily over 40 years. The rebuilding of the A9 was the key project in the 70s and 80s. The impact of North sea oil in the 70s and 80s was also felt over a long time and helped to boost the economy. In the European structural funds programmes over the past 10 to 12 years, the challenge has been to find the flow of money to match the flow of good quality projects. We are just about in balance, but the question of absorption is important. In economic development projects, the area can spend only at a reasonable rate.

Ms Alexander: The committee would welcome further evidence from HIE on how we should consider that issue as we go forward, which is one of the things that we will pick up in our report.

I have a brief question for Scottish Enterprise. One of its priorities in the past 10 or 15 years, which has been consistent under different Administrations, is a commitment to encouraging entrepreneurialism and enterprise. What have we learned over the past 15 years about how we support entrepreneurship in Scotland and how does that shape the board's priorities?

Jack Perry: I will bring in Charlie Woods after I have expressed my thoughts. It is pretty good to keep things simple. We have in the past overcomplicated the process and have had too many providers. Businesses found us hard to navigate and hard to use. We have learned that we need to rationalise the product that we offer and that we need to make it simpler. Our business gateway has been a good project in that respect. We also need better account management so that we get closer to what our customers really need. As a consequence of that, we would get better at tailoring our services to our customers. Those are the critical lessons that we have learned.

In the areas where we are weakest, we could often have been accused of overregging the supply push. We push out programmes on the basis of perceived need, rather than try to stimulate greater demand from our customers. For example, our businesses underspend on research and development and they do not employ graduates in the workplace to the extent that our competitors do. Are we really working to try to stimulate a greater demand or are we simply pushing out programmes? That is the area in which we need to work much harder.

Charlie Woods: I have a couple of points to add, if I may. We have learned that we have to do a combination of things well and that we must ensure that they support each other. The bedrock

is the cultural stuff in schools, universities and in the population more generally. It is also about tailoring an advice service that makes sense to people and which is easily accessible; the business gateway is a good example. Alongside advice, we need a good system of finance for stepping in to fill the gaps, of which the business growth fund and the co-investment fund are important dimensions. Finally the public sector has a hugely important role to play as a broker in helping small businesses to learn from each other.

A number of small businesses have said that our biggest single achievement has been that we have helped them to talk to and learn from each other and from bigger businesses. It is simply a matter of bringing together that combination of culture, advice, finance and brokerage in a coherent package.

Mr Brocklebank: Angiolina Foster has been very patient, so I hope that my question will bring her into the discussion.

On affordable housing, you said that £1.2 billion of your budget would be spent on transferring houses from council to community ownership. How will that system work? This is one of the most intractable problems that MSPs have to deal with.

Angiolina Foster: When you ask about how the system works, are you referring to the transfer of houses from council to community ownership?

Mr Brocklebank: Let me expand slightly. Indicators suggest that Kirkcaldy and Levenmouth are among the most socially disadvantaged areas in the United Kingdom. However, although council houses are lying empty in those communities, there is massive demand for housing only a few miles away in the east neuk of Fife. How do we get the people to take up the excess housing in Levenmouth and begin to solve the problem of providing affordable houses in socially advantaged places such as St Andrews?

Angiolina Foster: This subject is huge and pretty complex, but I will try to give members a flavour of how the policy drivers are working just now.

The unused or unwanted supply of council houses has arisen because of a combination of poor physical condition and, occasionally, poor management of the local estate. Earlier this year, the minister set a new basic physical standard—in other words, a decent homes standard—to address the poor physical condition of such houses in Scotland and gave all local authorities 10 years to meet that standard. As a result, a strategy has been introduced to tackle the physical condition of houses; my organisation's role is to ensure that all authorities meet the standard within the timescale. Arguably, that is one of the more straightforward elements of solving the problem.

The management of the estate has various aspects, but addressing management will mean ensuring that social landlords meet the performance standards that they have been set. That takes us into the territory of social inclusion and disadvantage in communities. Interestingly, the agendas of the enterprise networks and Communities Scotland must be well aligned on this matter, because it is where the geography of opportunity and the geography of need do not yet properly converge. Indeed, much of our work on achieving that convergence relates to the community regeneration fund, which we are routing through community planning partnerships. At this point, I echo Sandy Cumming's support for the role that community planning should play in this matter. We are trying to increase employability in those disadvantaged communities. In fact, to return to your original question, I believe that improving such elements is partly how a community becomes more desirable.

As for supply in the private sector owner-occupied market, the issue is affordability for first-time buyers. In an effort to rebalance some of the terms of your question, I should point out that we are coming up with some new financial means to help first-time buyers to get that toehold in owner-occupation in some of the housing hotspots that you mentioned.

Mr Brocklebank: It could be argued that young people in Inverness, the Highlands, St Andrews and the area that I represent are incredibly socially deprived because they cannot break into the housing market or get any kind of housing.

The problem is that the first thing that people appear to want to do if they get into any type of housing that is funded to an extent by the state or that is funded through a housing association is to sell on their house, and that means that the houses concerned are no longer part of the local housing provision.

11:45

Angiolina Foster: That is the case. One of the financial products that we are currently developing is designed to assist first-time buyers. It is a shared equity scheme. One of its elements is designed to avoid the problem of those assets being lost from the public sector. We are trying to design a product that will be retained within the social housing environment and which will not be dissipated over time for that reason.

The Convener: I would like to put the same question to Scottish Enterprise and to Angiolina Foster. One of the Highlands' advantages is that there are relatively few players there. There is also a clear sense of direction. One of the problems in lowland Scotland is that there are almost too many

players to put together efficient or effective partnerships, particularly when they are moving to projects that cross local authority boundaries.

We have mentioned the Clyde gateway and the Clydeside regeneration project. Decisions on those projects and the things that are required for them could and should have been made or done earlier. There could have been more market linkages so as to make the most of the available opportunities. It would be better if we had shorter lines of communication and did not need so many people to assemble to produce strategic plans. As I said last week, it is a matter of having the will to transfer planning frameworks into strategic action. Do you share my frustration with the amount of time that it takes to assemble everything, to get decisions made and to get the necessary infrastructure and processes for delivering things?

Jack Perry: I can only agree. It can be a long, time-consuming and frustrating process. The process works better in some places than in others; for example, the regeneration around the Exchange in Edinburgh was an example of things working pretty well and reasonably quickly. It seems to have been easier to put together the partnership for the Edinburgh waterfront than that for the Clyde waterfront, which has been a difficult example because of the complexities of ownership of properties, of assembling properties and of the involvement of three different councils, Scottish Enterprise and Communities Scotland. It has been a difficult partnership to put together. Complexity has been increased by planning difficulties, which have contributed to the delay. One objection to the Clyde waterfront proposals held up the construction of the Finnieston bridge for one full year. Other factors have contributed to the delay; complexity does not lie only in putting partnerships together.

It is important that we focus on what we are good at. We could examine the whole structure of local government and the agencies that are involved and there might be some political decisions that must be taken in that respect. As for what we are doing by way of project initiation, pulling projects together and bringing the partners together, I think that we have done a good job with the material that has been available for us to work with.

Angiolina Foster: The short answer to the question whether I share the convener's frustration is yes. That said, I will highlight two pieces of work that are now under way, which might be of interest to the committee. Both are being worked on by the enterprise networks and Communities Scotland. The first concerns identification of absolutely top-priority shared spatial priority, which will be a useful exercise. In order to cut through the complexity of having different players, clarity of

shared purpose is generally the best tool to wield, so identifying the top spatial priorities will be helpful. Incidentally, that will also be useful with regard to the convener's earlier question about influencing transportation expenditure. If there is a strong shared spatial priority, that might not influence the overall magnitude of infrastructure investment, but it could, arguably, be used powerfully to affect the chronology of investment in different geographies.

The second piece of work that we are undertaking is a model that the enterprise networks have begun to develop—my colleagues may wish to expand on the point—which is about linking opportunity and need. The model is designed to get down to pragmatic and practical ways of working together on the ground and to have early planning to pull together opportunity and need. It takes us down to grounded activities, which will help overall.

The Convener: Maybe there could be discussions among Communities Scotland, Scottish Enterprise and Highlands and Islands Enterprise on functionality and who does what.

Jack Perry: To supplement that, with the launch of the refreshed smart, successful Scotland strategy we have been charged with entering into a memorandum of understanding with Communities Scotland. We welcome that opportunity to more clearly define our respective roles, which should be constructive and helpful.

Ms Alexander: On the Clyde corridor, we heard from officials last week that the new national planning framework identifies west Edinburgh and the Clyde corridor as areas where the scale and complexity of the issues to be addressed require co-ordinated action in the national interest. We touched on the fact that those two areas were identified in February 2002, when I was the responsible minister.

We now have a national planning policy guideline for west Edinburgh. I believe from evidence last week that there is no intention to have one for the Clyde corridor. Although I understand the temerity of the organisations involved in pushing for an urban development corporation, which would see them take over all the complex planning functions, it is surprising that the commitment to an NPPG in the Clyde corridor appears three years on to have slipped off the agenda. I leave that issue on the table, because that is what the convener was hinting at.

Jeremy Purvis: On health, Mr Briggs made interesting comments about having close relationships with local strategic health authorities. Productivity is one of the key issues in the Scottish Enterprise submission and in the "Framework for Economic Development in Scotland". There are

startling differences in productivity compared with our main competitors, such as differences in absenteeism and skills, but also in health, which is a major factor. Last week, I asked the chief economic adviser to the First Minister whether he had met the head of the Health Department to discuss that subject, but he has not. Has Mr Perry met the Minister for Health and Community Care or anyone in the Health Department on health, absenteeism through ill health, and the impact on the Scottish economy?

Jack Perry: I have not had such a meeting. We welcome the refreshed smart, successful Scotland initiative because it puts economic growth at the top of the agenda. It is said that smart, successful Scotland is now owned collectively by the Cabinet, and that all departments ought to examine the implications of their work on the growth agenda for Scotland. To my knowledge, we have not had specific discussions with the Health Department. They could be happening elsewhere in the organisation, but I am not aware of them.

Jeremy Purvis: Mr Goudie said last week that it would be useful to have such discussions. Do you agree?

Jack Perry: I have not contemplated such a discussion. It could be useful in terms of the wider productivity debate, but it is important that the health service focus its agenda on improving the health of Scotland's population, which has the knock-on benefit of improving productivity.

Charlie Woods: To reiterate something that Sandy Cumming said, one area in which discussions take place is community planning. Health authorities are key partners in the community planning process and are important in working out what is important to economic development and all the priorities in the community plan.

Sandy Cumming: I have two points. First, on Friday I will be meeting the chief executive of NHS Highland to discuss a project of mutual interest that we are working on in the Highlands and Islands.

Secondly, as Charlie Woods has said, the NHS is a key partner in community planning. For example, in the Highlands, we have a health improvement plan to which all public bodies are signing up because it is such an important part of economic development. We will be able to demonstrate that the Highlands are not just a great place to be, but a healthy place to be. The business community will win from low absenteeism and people will be attracted to our area. We are trying to join up our approach. There is great room for improvement—we know that we can do better in the future, but I fully believe that we will succeed.

The convention of the Highlands and Islands has recently been enhanced to include the health bodies. At the convention, there has certainly been regular debate on health issues in the context of the wider economy, which I welcome and very much encourage.

Jeremy Purvis: As the convener said, our inquiry is a cross-cutting inquiry that is examining the impact of budget decisions across departments. Do you perceive that you are having an influence on health bodies' budgetary decisions? Mr Briggs may want to answer that, too, on behalf of the East Midlands Development Agency. You might be able to cite specific examples. Mr Perry mentioned health promotion as a bad example of an issue for the enterprise agency to take a lead on. Is there a perception that you have an influence on health bodies' budget decisions and programmes?

Sandy Cumming: I am conscious that we are short of time.

In effective partnerships, our role should not always be to bring out the HIE cheque book. Our role is about understanding the different contributions. Occasionally, we will be the main financial contributor, but on many occasions we will simply agree that something is important to the wider economy.

For example, in the Highlands, there has recently been concern about the future of maternity services in Wick. I accept that that is an economic development issue. To attract inward investment through bodies such as Scottish Development International or to allow existing businesses to grow, I need to be confident that investors are secure in the knowledge that a high-quality health service is delivered locally. We and the health bodies cannot not work together—it is important that we work together for our mutual benefit. That is what we intend to do as community planning partners.

Mr McAveety: I might be wrong in my interpretation of the tone of what Sandy Cumming said, but I think that he suggested that his organisation's role was to be the main driver on economic growth and to complement that with the social objectives. If I am wrong on that, Jack Perry can correct me. The tone suggested that you might not be convinced about that.

It strikes me that the argument is not about a mechanistic analysis of whether Scottish Enterprise has influenced the decision on resource allocation; it is more about how to complement what is being done through the community planning model. We are in an arena in which there is a lot of uncertainty. Let us be blunt—there are many big players who feel powerful and who might want to exercise their strength in community

planning. How do we get people to create the space so that more valuable and positive outcomes can come out of shared discussions? That would stop people being a bit tentative or protective to begin with. I wonder whether I have got right the tone of what has been said.

Jack Perry: On delivery, I think that you have probably picked me up right. Such co-ordination is necessary; I just think that we are the wrong body to deliver a number of the programmes. I repeat that I welcome the opportunity to obtain a closer memorandum of understanding with Communities Scotland.

I can give a good example of where co-operation has worked in practice. Recently, a group of LEC chairmen had a discussion about the operation of local economic forums. Generally speaking, it was thought that they had brought about an improvement in getting closer working among the various partners in communities. We are not in any way averse to trying to co-ordinate the agenda. You might have picked up on my view of our responsibility for delivery of programmes in economic inclusion.

The Convener: I have a question for our guests from south of the border. My perception is that there have been a number of regions—the north-east and the west midlands are examples that come to mind—where it appears from the outside that there has been a strategic attempt to co-ordinate the building of infrastructure and prestige projects, with the aim of producing an economic benefit or an economic upturn in those localities, but it is not clear to me what mechanisms have been used to do that. Do you have examples of successful regional co-ordination of spend that have delivered significant economic advantage? How have they been achieved? Leaving aside your own areas, what do you think are the key ingredients?

12:00

Martin Briggs: The triggers for that are interesting. The issue is partly about the passion of individuals at certain times in the process; it is also about what I would call facing adversity. In the west midlands, for example, the potential sharp decline of Rover, when BMW pulled out, generated a lot of cross-agency working and a sense of the bigger picture of what needed to be done than might have been the case otherwise. In a more limited way, a similar thing happened in the east midlands after 9/11 and the sharp impact that that had on employment at Rolls-Royce.

On the cross-cutting issues that you are picking up, there is a twin track in the English regions. The RDAs have reached a stage of gawky adolescence—the primary economic development function has grown and developed in terms of

specific policy responsibilities. For example, the RDAs took on tourism in April this year and will, in April next year, take on a much bigger role in rural affairs as well as in the business links network—the business support network. That primary arena is developing. It is about direct interventions, but also about improving or straightening out arrangements in the English regions.

The higher ground has been stimulated by the regional economic strategies, which are all encompassing. Every part of the region and every sector—the public and private sectors and the voluntary communities—is meant to have ownership. That forces us to consider how we achieve that wider series of interconnections. I do not want to overstate the degree to which we have achieved that.

There are individual good examples around the English regions, but there is much more to be done. That is partly about how much will there be to be generated, but it is also partly about a subtext that, understandably, we have hardly touched on today—the balance between English regional interests and central decision making. Much of the issue around whether health, community safety and economic development policies can be aligned is about the pre-eminence of either regional or national perspectives on those issues and how they might be reconciled. We see individual examples of progress, especially in relation to transport, but there is much further to go.

The Convener: The issue in Scotland is that we have a Parliament and controls over many of the levers that in England are, you argue, spread over different areas and Government departments. Do we in Scotland need to co-ordinate our activities more effectively than at present, not just to meet the standards that are being set in the regions of England and Wales, but to go beyond them? Do we have the capacity to do that?

Martin Briggs: I guess that the rhetoric in Scotland is similar to that in all the English regions: we have never done enough and we can always do better and move further. I am not a close enough observer of the scene in Scotland to say how successfully and how far along the track you have got. The dilemma in the English regions, to which I alluded earlier, is that the more we work towards the objective, the more pointed the question about governance and accountability becomes. The big issue in the English regions is how far we can go without finding some solution to the governance question.

The Convener: If it is argued that we have found a solution to that, however unsatisfactory it may be to one or two of our colleagues, the question is how we can make use of it to drive us forward in the direction in which we want to go.

Rosemarie Davies: That issue relates to what I said earlier about what we affectionately call the team Wales approach, which is about effective integration and working together. In the past year, I was taken to a valleys community that had serious economic deprivation issues. I was shown how a team approach had helped to rebuild the primary school. A training centre for adults had been added—that valley had an unemployment rate of about 48 per cent—and small business units had been developed. The education arm of Education and Learning Wales was providing adult education in the community as well.

That is a small example within one community of the agency coming in as a partner—it was perhaps not even the biggest partner in the area. However, the issue was about working together as a team and identifying that an individual organisation cannot be completely responsible for economic and community regeneration.

On the specific question about strategic attempts to regenerate through property development, there is a new development in Swansea called SA1 waterfront. We purchased large areas of the dock front and huge amounts of investment have gone in to regenerate the area. What tends to happen is that private sector involvement brings the potential for huge regeneration. We have seen huge amounts of private sector investment being levered in through the use of public sector investment.

Again, on using the private sector, when Corus Group plc was pulling out of the steelworks in the south Wales valleys, it made a significant input through regeneration programmes. A massive amount of work was done in reskilling and redevelopment—there were community-driven ICT projects to try to reskill people who had formerly worked in the steelworks to help them to look forward to new opportunities. Again, we would work in partnership with such activities. In fact, people in the agency are delivering the support that Corus wanted to provide, so it is about the team Wales approach.

Dr Murray: I am interested in what seem to be two models that could be successful. One is the HIE model, whereby a broad umbrella organisation works consistently with a small number of other partners over a period, with a consistent direction for economic investment. The other model is the team Wales approach, in which the WDA regards itself as part of a larger team, albeit with different functions. However, from what you have said, it seems that you work well as team Wales. Who makes team Wales successful? Who is the manager? Where does the drive come from?

Rosemarie Davies: At the head of team Wales is the Welsh Assembly Government and all Assembly-sponsored public bodies are associated

with it. However, team Wales also draws in academia, where appropriate. For example, academia would be involved in inward investment or in research and development. Moreover, the business community works with the sectoral fora. Therefore, there is a large grouping that is headed up by the Welsh Assembly Government. It is important to emphasise that the WDA has its own responsibilities and that it delivers on them. Nonetheless, there is a team approach to the wider economic agenda.

Dr Murray: We have a similar team approach here involving community planning at a local level, with local authorities leading. It would be more difficult to achieve a team approach at a national level because of the large number of players who would be involved.

Rosemarie Davies: Things tend to be done on a project-by-project basis, with the lead taken by whoever is appropriate. However, the ultimate intention is to improve the economy of Wales.

Charlie Woods: Where the team approach works, it tends to do so for behavioural reasons rather than structural ones. Such behaviour is often driven by adversity. Part of the trick is to generate the spirit that comes from adversity, without there being a crisis. The team approach is fundamentally about behaviours and recognising the scale of the challenge that we face. Scotland is a small place in a big world and recognising that is a fundamental part of trying to get things right.

The Convener: I suppose that the question we must ask is whether we need a crisis in order to respond. The real issue for us is to drive forward the simplest and most effective decision-making processes that we can create to ensure that things are taken forward quickly and effectively.

Jeremy Purvis: In its written and oral evidence, Communities Scotland indicated that it will target the 15 areas that were shown in the index of multiple deprivation. Following on from what Mr Woods said on structures, I would be interested to know whether the east midlands and Wales use indices of multiple deprivation, for example, when deciding where to direct resources and where to focus the work of team Wales or that of local areas. In my constituency, local enterprise companies helped to support a development trust in Lauderdale in carrying out feasibility work for a project that Communities Scotland does not want to support, because the project does not qualify as being in one of the areas of deprivation under its indices. We have two agencies that want to assist the local area, but because of structures, rather than the will of the people, that will not happen. Therefore the communities are absolutely hacked off. What levers or structures are used in other areas? The witnesses from Communities Scotland might want to respond.

Martin Briggs: I will come in on that briefly. The provision of data is one of the issues that bedevil economic development. It relates to timeliness as well as to the range of sources from which we can draw. That has been one of our difficulties. We set a 10-year horizon, but often the data that we consider are two, three or four years out of date.

To get over the problem that you describe, we have established a regional observatory, as most English regions have done, which brings together and is endorsed and supported by the main players in the discussions. The non-elected assemblies, the Government offices for the regions and the development agencies all support the regional observatories, whose purpose is to provide a common database and a shared understanding and appreciation of economic issues.

That has helped the process. However, given the complexity of economic development issues, the process is not simply about developing a shared database; it is also about the applicability of particular series in particular circumstances. The regional observatories are an important mechanism for us. However, as with so much else of what we do, we have some way to go before we can be confident that they will achieve the outcome that we seek.

Angiolina Foster: I should explain, for clarification, that the focusing of resources around the index of multiple deprivation applies most strictly to one of our main funds, which is the community regeneration fund. Different analyses underpin the use of many of our other streams of investment, such as affordable housing. We are not talking about 15 areas, but the 15 per cent most deprived of Scotland's communities, which clearly translates into more than 15 areas. However, the purpose of using the index of multiple deprivation is to ensure that the fund is employed to tackle Scotland's most severe disadvantage. We are using that carefully in line with regeneration outcome agreements, which link into community planning partnerships. I will ask my colleague Ian Mitchell to explain the point of that, which will tell you why on occasion some areas do not gain from the fund.

Ian Mitchell (Communities Scotland): I will try to be brief. I apologise to Mr McAveety for concentrating on the process angle to start with. Regeneration outcome agreements are in essence a development relating to the discussion that we had on community planning. It is not just about getting together the various agencies that might be able to contribute to tackling poverty; it is also about getting the agencies collectively to consider what they want to achieve—in closing the gap in employment or health, for example—and then working back and discussing who is best able to

provide input, resources and specialist expertise to achieve the outcomes.

The outcome-based approach is important. In the past, too much has been about shifting and spending money. That goes back to Jeremy Purvis's initial point. In taking the outcome-agreement approach, we consider regeneration and tackling disadvantage on a local authority-wide basis. We consider the fortunes of our most disadvantaged communities in the wider economy. We just discussed linking opportunity and need. By taking that approach, we try to see tackling disadvantage not just in terms of lines on maps. That approach does not necessarily help some projects, which will inevitably not be as focused on tackling disadvantage. We are trying to get away from tackling poverty on a strictly geographical basis.

The Convener: We are nearing the end of our session. I am conscious that Jack Perry and Sandy Cumming—and others, perhaps—have to leave us. Jim Mather and Ted Brocklebank each have a quick question.

12:15

Jim Mather: I am keen to focus my question on HIE and Scottish Enterprise. What steps will the organisations take to improve Scotland's rating in the IMD "World Competitiveness Yearbook"? Surely the fact that the east midlands plan to be in the top 20 creates a bit of additional pressure for Scotland? What are the implications for growth if we stay at our current ranking? What effect will the reduction in the number of economically active people in Scotland have?

The Convener: I am not sure that that was a quick question. I hope that we will get quick answers.

Jack Perry: I will try to give a quick answer. We have to look at the factors that affect competitiveness on which we score very badly against our Organisation for Economic Co-operation and Development competitors. We are focusing on business investment in research and development and on growing our middle sector companies, as we do not have the depth of corporate base that we would like to see.

On the research and development front, the intermediary technology institutes are coming on stream. They have issued their first contract. This is a major programme that we will monitor carefully to see whether it continues to deliver. We are continuing the proof of concept fund and the Scottish core investment fund. The latter fund has put £21 million of new equity into some of our most promising businesses. We will also take advantage of the upturn in foreign direct investment in higher added-value activities. In short, we are tackling the things that we think we

are furthest behind on—the areas in which Scotland offers a competitive advantage.

Sandy Cumming: I entirely support what Jack Perry said. On the debate on the wider economy, I simply add that the areas on which we need to do better and be more effective in the Highlands and Islands as we go forward are the areas of transport service infrastructure and telecommunications. That would enable us to work on a more level playing field and, ergo, to become more competitive. Action in those two areas, combined with the fact that, at long last, we have a university of the Highlands and Islands—the UHI Millennium Institute—can only add to the powerful mix of opportunity.

Mr Brocklebank: I have been an observer and sometime commentator on Highland affairs for a long time—indeed, since early 1970. Nobody is more delighted than I am at the area's economic success over the past 30 years. Do the HIE representatives agree that, despite their marvellous efforts—and those of Jim Hunter, for example—the major reason behind the success of the Highlands and Islands is North sea oil and the geographic proximity of Shetland and Orkney to the biggest oilfield in the North sea? Are not the Highlands and Islands remarkably lucky geographically in having flat land next to deep water in the Cromarty firth? Although everyone has done wonderful things, surely the arrival of North sea oil in 1970 gave the Highlands and Islands a marvellous fillip? Do the HIE representatives further agree that Skye, which they identified as an area that has seen particular development, might have peculiar advantages in as much as it was the first place, in modern terms, to embrace the Gaelic language? I am thinking of the effect of language in Wales, Catalonia, the Faroes and so forth. To what extent has the Gaelic language been part of the regeneration of the area?

The Convener: The witnesses may answer that briefly, if they would like to.

Sandy Cumming: I have two points to make. People often say that the prosperity of the Shetlands is all down to oil. I do not accept that: the Shetland recovery process predates the advent of North sea oil. We are talking about confident communities, and such communities generate economic activity.

There are always new opportunities. I refuse to accept that any part of the Highlands and Islands cannot be regenerated. Thanks to the Scottish Parliament, we now have evidence on how communities such as that on the island of Gigha—an island that was written off—were turned around. I accept that we failed the island by being unable to find ways of creating economic development. It was the Parliament's own hand

that transformed that community and more new business formation is taking place now on that small island than happened over the previous 20 years.

The scene in the Highlands and Islands is an interesting one. As the committee knows, although North sea oil helped, it no longer makes a contribution. Most of the economic indicators are reasonably positive: the challenge for my organisation, in working with the Scottish Parliament, is to focus on the new, modern Highlands.

How much will renewable energy contribute to the Highlands and Islands going forward? Can we become the learning region of Scotland or Europe? We have high ambitions. We may not deliver on all those ambitions, but the opportunities are massive, even now that there has been a reduction in North sea oil's contribution to the area.

Mr Brocklebank: Do you have something to say about the importance of Gaelic?

Sandy Cumming: I agree whole-heartedly that Gaelic is absolutely fundamental. We see Gaelic as an important contributor to the new Highlands and Islands.

The Convener: That is a suitably positive note on which to end the session.

I thank all the witnesses for coming to the meeting and for contributing their expertise to our considerations. As usual, the committee has been a wee bit undisciplined and we have not asked all the questions that we should have asked, so we may write to you with further questions that arise from our investigations, to which we hope that you will respond. Some answers that you have given us will fuel our questions to ministers in a couple of weeks' time. We will save some of the hard questions for them.

I suspend the meeting again for a couple of minutes to allow the witnesses to withdraw.

12:20

Meeting suspended.

12:23

On resuming—

The Convener: I wanted to give Peter Wood an opportunity to give us his instant reflections on what we have heard. Perhaps it would be useful to ask him about issues that we want to raise with him at this point.

Peter Wood (Adviser): I have written six pages of notes, but I will be brutal and try to distil them to reduce what I have written to a number of points.

On the whole, the session was interesting. It threw up interesting contrasts between different organisations' approaches and views. It is important to ask ourselves how what we have heard today links back to what we heard from the Executive witnesses last week—and from Dr Goudie and his colleagues in particular. The Executive witnesses often referred to views about the long-term drivers of the economy and where the priorities lie. I was not convinced that those themes emerged quite so strongly in the Scottish Enterprise evidence. It certainly raises in my mind the question of the link between Scottish Enterprise's strategy and the Executive's view of what is driving the economy forward.

Scottish Enterprise got off to a bad start with a question about transport, which seemed to throw Mr Perry, and I am not sure that he did justice to the organisation. Certainly, we did not get a strong sense of Scottish Enterprise having a view on the top priorities for transport or any other area outwith its own spending. That was slightly disappointing—perhaps we should pursue that point.

There was a contrast with HIE in that regard, which seems to have a more integrated view of what is going on. However, to an extent, the comparison is unfair. HIE deals with an extensive geographical area in which it is the big player in a population that is small. The mood music showed that HIE's role was much more integrated with those of other bodies. There are some interesting issues about the HIE model.

Models were mentioned at one point and it struck me that three particular models emerged from today's discussions. The RDAs had a very articulate spokesperson and so presented themselves very well. As the convener pointed out, they have to work in an environment in which the organs of Government are more diffuse and diverse, and they made a good show of demonstrating what they do to co-ordinate things. In reality, they are working in an environment in which the levers of co-ordination are less well developed.

It is very interesting that, in Wales, it has been decided to integrate into the Welsh Assembly Government the main bodies concerned with economic development. There seems to be an intention to take a more integrated and, one might say, centrally controlled approach to economic development. It is also interesting that the one body that was not mentioned with regard to Wales was the equivalent body to Communities Scotland, Tai Cymru. I am not quite sure where that fits into the picture.

Then we move on to Scotland, which has two models: in Highland, HIE is a big player working with a limited number of other players; in central

Scotland, Scottish Enterprise faces a more complex situation. There are some interesting points to reflect on in relation to co-ordination.

My final point is that I did not feel that a strong sense of cross-cutting priorities emerged in the discussions with Scottish Enterprise, although there was more of a sense of that in HIE's evidence.

The Convener: I remind everyone that we are still on the record. Are there any points that members would like to highlight for Peter Wood in the context of further work? I have one, but Wendy Alexander can go first.

Ms Alexander: We could follow up on HIE's evidence and invite the organisation to speculate on how it might begin to cut the cake differently in light of its success and to range over some of the expenditure—not only within but outwith its budget—in terms of leadership of the Highland economy. The other area about which we might seek Scottish Enterprise's further guidance, and on which I touched, is whether an NPPG on the Clyde corridor, as speculated on in the FEDS document, would be helpful.

Mr McAveety: It is interesting to get a feel for where people might be on the graph. The witnesses from the Welsh Development Agency and then HIE spoke about how they try to engage with the economic levers in their areas by considering the public sector role in local economies. That approach is critical in sparsely populated areas—and that is equally true of the dominant role of the public sector in urban economies.

Today, we did not touch on the other debate that is taking place in the Finance Committee about public sector productivity and how we could utilise all the different agencies more effectively to try and help with some of that work, diffuse as it is. I would be keen to follow up both those areas—and a third: the broadband debate. Broadband could affect everyone across the country positively. I am not an expert on that by any means but there is an opportunity to do something very innovative in that regard.

The Convener: I am anxious that we do not go into other committee's silos. For example, I know that the Enterprise and Lifelong Learning Committee carried out a lot of work on broadband, so perhaps your suggestion might be slightly outside our terms of reference.

12:30

Dr Murray: I was quite struck by the difference in models. For example, in the Welsh approach, people had their distinct roles but understood their place in the jigsaw puzzle and felt that the National

Assembly for Wales was providing clear leadership. The Highlands and Islands approach was different, but it also appeared to be successful. The question is whether it is possible to have a team Scotland approach when there are two different enterprise agencies with very different functions. Although the Welsh experience is interesting, can any of it be translated into our situation? Would we have to radically rejig how enterprise in Scotland is organised if we were to seek to capitalise on one of the two approaches?

Jim Mather: In mitigation, I should point out that Jack Perry is only new in post from the private sector. Sandy Cumming has been part of the HIE network man and boy and, indeed, worked for Ross and Cromarty Enterprise before he worked for HIE.

I am keen not to overgild the lily and simply accept HIE's positive spin. After all, people up there have lower than average incomes; 90 per cent of Highland graduates leave the area; unemployment is largely exported; and there is a much more marked demographic skew, particularly in the Western Isles.

That said, we should highlight some positives. For example, people in the Highlands recognise that the provision of full-function consultant-led hospitals is a key component of the economic imperative and there is a willingness to challenge all stakeholders to make the Highlands more competitive. The area is facing up to adversity.

Jeremy Purvis: Mr Mather's defence of Jack Perry is admirable. However, given Mr Perry's salary, I do not think that his position is that defensible.

I find it odd that one of the witnesses began by saying that the amount of public spending in Scotland is unhealthy when Scottish Enterprise's written submission suggests that it disagrees with the trend that has resulted in its budget being £400 million less than it feels that it should be. Scottish Enterprise's stance is simply not consistent. For example, its submission says:

"We do not think this trend is appropriate given the scale of the challenge faced."

My biggest difficulty is that although Scottish Enterprise this week and Andrew Goudie last week indicated that productivity is one of the biggest deficiencies in the Scottish economy, neither the chief executive of the main enterprise network nor its chief economic adviser has raised the matter with the head of the Health Department. That is despite the fact that the Minister for Enterprise and Lifelong Learning said in Parliament that public health and the disproportionate level of alcohol and drugs misuse, depression and so on are partly behind the productivity gap. In fact, Mr Perry was

dismissive and said that he had no intention of meeting the head of the Health Department in Scotland. I am somewhat incredulous about that.

Alasdair Morgan: I should have asked the witnesses the politically sensitive question why we should continue to have two development agencies. After all, the contrast between them is striking. Scottish Enterprise is quite right to say that its emphasis is on high business growth, but it begs the question for rural areas that are not in the HIE area. In that respect, Peter Wood's slip of the tongue when he referred to central Scotland highlights precisely the problem that some of us face. Leaving the islands to one side, I have to say that there is no difference between Dumfries and Inverness, apart from the fact that Inverness is far more prosperous and has its own development agency that can spend money on whatever. We are constrained by Jack Perry's correct—I think—concentration on high growth for the whole Scottish economy and we need to address that anomaly in rural development.

Mr Brocklebank: It is a bit unfair of Jeremy Purvis to quote Jack Perry out of context. It will be interesting to read the *Official Report*, but I do not believe that he advocated that he should get £400 million more a year. In fact, I think that he discounted that and said that it was up to him to argue the case. Moreover, I do not think that he said that he was not interested in meeting anybody from the Health Department. To suggest that would be pejorative. I do not think that that is what the man said—the record will show that.

I think that it is difficult to talk in comparative terms about HIE and Scottish Enterprise. They are doing entirely different jobs with very different amounts of money. I think that it is true to say that much of the success in the Highlands and Islands was generated by oil. Given the small population and the massive hinterland, nobody received a greater gift of nature than the Highlands and Islands Development Board did in 1970, with the coming of North sea oil.

Sandy Cumming said what a wonderful success Gigha is. Absolutely—it is wonderful. However, that was a case of money being thrown at a very few people. If other parts of Scotland had that amount of money thrown at them, we might get an entirely different result.

The Convener: I did think of Clydebank as he was talking about that. Let me highlight two or three things that we need to consider. First, we need to take up the offer that Andrew Goudie made last week of holding a dialogue between him and Peter Wood in relation to the issues that arose with the data as they were presented. I do not want to be left at the end of this process with an argument about rural spend versus urban spend. If we disagree, we need to be clear about the basis

on which we disagree, rather than having an enduring argument about data and, to an extent, about the interpretation of data. It is important that we take up Andrew Goudie's offer and try to get those issues sorted out over the next couple of weeks.

Secondly, we perhaps did not focus sufficiently on a number of issues during the evidence taking. They include the budgetary choices that are being made, how they are made and against which criteria; whether the distribution of budgets between, for example, skills, transport and infrastructure and business support are correct; whether the budgets can be justified; and whether they are delivering the best for Scotland. Ultimately, the correct people of whom we should ask those questions are ministers. We need to do a bit more preparatory work, but we need to be focused when the ministers are before us. We ought to force them to defend the budgetary decisions that they are taking.

The final point on which I think that we need to focus is the issue of structures and the question whether some of the structures that exist are in fact getting in the way of rapid and effective decision making. This is the question about transport, which I asked and which Peter Wood referred to earlier.

If we are going to decide what the 10 transport priorities in Scotland are and then add to those another half dozen transport priorities, probably only a proportion of which could be built with the money that exists within the timeframe, it seems logical for the main economic development agencies to have some locus in deciding what those priorities are and when they should be met, and for other people to be involved in that decision making. I get the sense that there is not a proper interface for decisions about housing allocations, transport provision and economic development priorities. The planning frameworks are not necessarily in place to serve and support that.

I think that the purpose of our inquiry is to force the pace at which the interlinking, interaction or integration of decision making can be achieved, ensuring that ministers are properly accountable. Ministers should be getting asked not about isolated decisions but about how the pattern of decisions that they are making is the product of an action plan, for which we can hold them to account. If we continue to allow ministers to maintain what they are doing at the level of frameworks, that makes it difficult for us properly to hold them accountable. In a sense, we have to force ministers into prioritisation and making choices and then defending those, rather than allowing decisions to be made in an ad hoc way.

John Swinburne: Over a great number of years I have had reasonably close contact with

enterprise agencies. If Tom McCabe is looking for savings of 3 per cent across the board, one of the first places that he should go to is the inefficiently run economic agencies. There is a tremendous amount of waste of public money in that sector. I say that from personal experience. Members can take it as they like.

The Convener: You had them here to question them. Let us move on. We note the position. We will be taking evidence from witnesses from the private sector and from economic commentators next week.

Budget Process 2005-06

12:40

The Convener: The third item is to consider the Scottish Commission for Public Audit's report on Audit Scotland's spending plans. Members will see that apart from the report itself, we have a note from the clerk, which outlines the roles of the SCPA and the Finance Committee in the process. In fact, I met Margaret Jamieson to establish those properly.

The paper notes that this committee has overall responsibility for scrutinising all expenditure that is paid out of the Scottish consolidated fund but that the SCPA has the primary role in scrutinising Audit Scotland's budget, as laid out by the Public Finance and Accountability (Scotland) Act 2000. Members will see that the scrutiny process is described at paragraphs 4 and 5. We do not directly scrutinise Audit Scotland, but we consider the SCPA's scrutiny and take account of it in our report to Parliament. Members will also note that a revised agreement will be drawn up, which will formalise the custom and practice that have developed.

The report is mainly non-controversial. The SCPA recommends that the spending proposals be approved. The SCPA asks whether Audit Scotland presenting its proposals at a later date than that stated in the present agreement causes problems for the Finance Committee. In practice, it does. Because of the delay, we were not able to consider the report until today, which means that we have only two days to incorporate it into our budget report. I recognise that the circumstances have been unfortunate, but do members agree to note the report?

Members indicated agreement.

Jim Mather: I have a point about VAT, which was a cause célèbre last time we considered the matter, when I asked why VAT was being levied. From a quick glance at the accounts it looks like VAT is £336,000 in 2004-05, and will go to zero in 2005-06. With other income moving up, there is a possibility that there may have been a reclaim of VAT. Paragraph 14 of the report states:

"The Commission would also like to place on the record its satisfaction that the question of Audit Scotland's VAT status has finally been resolved, although this will result in an 8% increase in charges for all audits in November 2004."

I just do not get that, when there is zero VAT. It does not compute.

The Convener: There is a resolution that is positive and proceeds along the lines that we suggested last year. I can ask Audit Scotland to produce a short note to clarify the position.

Jim Mather: That would be helpful.

Item in Private

12:43

The Convener: The final item on the agenda is to consider whether to take a draft report on the 2005-06 budget process in private at our next meeting and any subsequent meetings, and also to take a report on the financial memorandum to the Gaelic Language (Scotland) Bill in private at our next meeting. I propose that we take those items in private. Do members agree?

Members *indicated agreement.*

The Convener: I thank members for their attendance.

Meeting closed at 12:43.

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