

# **ECONOMY, ENERGY AND TOURISM COMMITTEE**

Wednesday 3 October 2007

Session 3

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2007.

Applications for reproduction should be made in writing to the Licensing Division,  
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ  
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate  
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR  
Donnelley.

---

# CONTENTS

Wednesday 3 October 2007

Col.

<b>INTERESTS</b> .....	117
<b>DECISION ON TAKING BUSINESS IN PRIVATE</b> .....	117
<b>WORK PROGRAMME</b> .....	118
<b>PETITIONS</b> .....	163
Small-scale Energy Generation (PE837 and PE969) .....	163

---

## **ECONOMY, ENERGY AND TOURISM COMMITTEE**

### **5<sup>th</sup> Meeting 2007, Session 3**

#### **CONVENER**

\*Tavish Scott (Shetland) (LD)

#### **DEPUTY CONVENER**

\*Brian Adam (Aberdeen North) (SNP)

#### **COMMITTEE MEMBERS**

\*Gavin Brown (Lothians) (Con)

\*Christopher Harvie (Mid Scotland and Fife) (SNP)

\*Marilyn Livingstone (Kirkcaldy) (Lab)

\*Lewis Macdonald (Aberdeen Central) (Lab)

\*Dave Thompson (Highlands and Islands) (SNP)

\*David Whittom (Strathkelvin and Bearsden) (Lab)

#### **SUBSTITUTE MEMBERS**

Nigel Don (North East Scotland) (SNP)

George Foulkes (Lothians) (Lab)

Alex Johnstone (North East Scotland) (Con)

Liam McArthur (Orkney) (LD)

\*attended

#### **THE FOLLOWING GAVE EVIDENCE:**

Stephen Boyd (Scottish Trades Union Congress)

Liz Cameron (Scottish Chambers of Commerce)

Iain Duff (Scottish Council for Development and Industry)

Steve Dunlop (British Waterways Scotland)

Jim Lee (Co-operation & Mutuality Scotland Ltd)

Dr Janet Lowe (Scottish Further and Higher Education Funding Council)

Dr Howard Marriage (University of Edinburgh)

Iain McMillan (CBI Scotland)

Antonia Swinson (Scottish Social Enterprise Coalition)

Andrew Watson (Federation of Small Businesses Scotland)

#### **CLERK TO THE COMMITTEE**

Stephen Imrie

#### **SENIOR ASSISTANT CLERK**

Katy Orr

#### **ASSISTANT CLERK**

Gail Grant

#### **LOCATION**

Committee Room 4



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 3 October 2007*

[THE CONVENER *opened the meeting at 09:32*]

#### Interests

**The Convener (Tavish Scott):** Welcome to the fifth meeting of the Economy, Energy and Tourism Committee in this session of Parliament. I offer a big welcome to our guests—I will come to them in a minute.

I invite Lewis Macdonald, the new member of the committee, who replaces Iain Gray, to declare relevant interests.

**Lewis Macdonald (Aberdeen Central) (Lab):** I have no relevant interests to declare.

#### Decision on Taking Business in Private

09:33

**The Convener:** Are members comfortable with taking item 6, on advisers to the committee, in private? No one is dissenting.

## Work Programme

09:33

**The Convener:** We have been developing our work programme by hearing presentations from individuals from the economy, energy and tourism sectors—we started doing that during the summer. The purpose was to invite thought-provoking evidence on the difficult issues that face Scotland in the three areas on which the committee might consider undertaking formal work. In the past few weeks we have considered energy and tourism—our discussions are publicly available in the *Official Report*. Today we tackle the economy.

I am pleased to welcome our panel of witnesses. We have tried to make our evidence sessions as informal as possible. We genuinely want our invited guests to pitch in on any area on which they want to comment. The aim is to pull together themes that you think are essential for the committee to consider as part of a future inquiry on the Scottish economy.

For information, after the October recess—which starts when the schools go out in some parts of Scotland on Friday—the committee will hear from the Cabinet Secretary for Finance and Sustainable Growth and the Minister for Schools and Skills. We hope to hear from the chair of the new council of economic advisers in November.

We are interested in the witnesses' thoughts and ideas on the enterprise networks, the skills strategy and the wider economic forum that the Government has established. I invite members and panellists to give their initial thoughts on issues that the committee should consider in relation to the future of our economy. It would be good to hear first from CBI Scotland, so I invite Iain McMillan to start the discussion.

**Iain McMillan (CBI Scotland):** Thank you. If the committee were to undertake one inquiry, I would want it to consider the economy overall, in the context of the wide range of devolved powers that Parliament has.

What building blocks are needed to achieve economic growth and success? The Scottish Government has set a target to match United Kingdom growth by the end of this session of Parliament. Some commentators have said on the record that if Scottish Enterprise does its job, that will happen, but CBI Scotland profoundly disagrees. Scottish Enterprise, how it delivers and the success of its agenda are among a large number of building blocks that need to be put in place successfully to achieve the outcome that is sought. For example, if the Planning etc (Scotland) Act 2006 is not properly distilled into a good, slick planning regime, the economy will suffer. If our

education and skills are not right, the economy will suffer. Education must be right, from the three-to-18 curriculum, to further and higher education, to the issues that were identified in the skills strategy. Also, if we do not get transport right, the economy will not grow to the extent that it could and should do. Are the building blocks of transport in place? Given the committee's remit, those issues might not all fall within its bailiwick. It depends how wide members want the inquiry to be.

The convener mentioned energy. It is vital that we achieve competitive energy pricing in the marketplace and that we achieve our carbon dioxide targets and security of supply. We must establish what is the ideal generation mix in our energy portfolio, in order to achieve those objectives.

I have mentioned some issues, but there are others, such as Scottish Enterprise. CBI Scotland supports the announcement on it that was made in the past week or two, but much detailed work remains to be done, because there is little detail about where the responsibilities of some entities in Scottish public life begin and end.

I would like that whole panoply to be considered in the context of the elements' contributions to achieving the growth objective.

**The Convener:** Does Antonia Swinson want to comment next? It will make for a nice juxtaposition if we hear from the Scottish social enterprise coalition after hearing from CBI Scotland.

**Antonia Swinson (Scottish Social Enterprise Coalition):** It is a pleasure to be here. We would like to be part of an inquiry into the economy. Last year, the Enterprise and Culture Committee in the previous session of Parliament undertook an inquiry into business growth and concluded that social enterprise is a key driver for delivery of jobs, skills, training and economic growth. Social enterprise is a dynamic and fast-growing small business sector—perhaps it is a coalition of sectors, in that it covers housing associations, credit unions, development trusts and social firms.

A key theme of the Scottish Government is that everyone should have ownership of economic growth. We have an on-going strategy. The key area that I would like the committee to consider in its inquiry is the contribution of social enterprise to skills and training and to jobs for people in marginal groups.

The committee could also consider inquiries on energy and tourism, which are big areas for social enterprise. I have just spent a week up on the Western Isles, where community energy companies are moving forward quickly. Social enterprise, in all forms, makes a huge contribution to rural tourism in Scotland, so we would be keen to see that included in any inquiry into tourism. On

the economy, skills, training and job creation are the most important.

**The Convener:** That might chime with Stephen Boyd's thoughts.

**Stephen Boyd (Scottish Trades Union Congress):** Absolutely. This is a very interesting time. We have just seen the publication of the skills strategy and we await publication of the new economic strategy. Changes have been made to the institutional infrastructure, a council of economic advisers has been established and we are looking forward to the forthcoming establishment of a national economic forum. It is important that the committee's programme reflect that changing landscape. Its approach of having hearings with the relevant ministers is entirely sensible.

On inquiries, I have a list of possibilities as long as your arm, but I will try to focus on a few.

**The Convener:** Try a couple for now.

**Stephen Boyd:** Of the papers that have been circulated for this meeting, the Royal Society of Edinburgh's paper on energy is outstanding—the Scottish Trades Union Congress would support an inquiry conducted along the lines that it suggests.

The committee's list of possible inquiries includes tackling the productivity gap. That is interesting to us, as it is helpful to frame economic debate as a productivity challenge rather than a competitiveness challenge. I would like to see an inquiry constituted along those lines, perhaps examining some of the issues that are often overlooked in the economic debate in Scotland: quality of work; how we manage change; work organisation; and job design.

I had the good fortune to meet the committee a couple of weeks ago in Glasgow, and we spoke about some issues at length. The STUC's concern is that Scotland is not deriving maximum efficiency gains from skills investment and so on. We do not believe that the quality of our workplaces is appropriate to making the best use of those investments. That is a crude generalisation, but it is an important one. An inquiry could examine those issues and ask questions such as how Scotland can use the devolved levers to create high-performance workplaces and to drive gains in productivity. That would be helpful.

In doing that, an inquiry could examine interventions in other countries that are focused on the same issues. I was in Ireland last week, discussing the roots and extent of its economic success and the role of social partnership within that model. I met the National Centre for Partnership and Performance, which is a public organisation whose remit is to promote and advocate good practice in the workplace. The Irish

have seen a productivity dividend as a result of that work.

There could also be an inquiry into Scottish manufacturing. I know that people will immediately suspect that the STUC is saying that Scottish manufacturing is in crisis and that we must have an inquiry to examine how to save it, but that is not where I am coming from. Jobs are still being lost, but manufacturing has pretty much stabilised. There are a number of good-news stories and a lot of good practice in Scottish manufacturing. I would hope that an inquiry could examine that good practice and consider public support for manufacturing and how it could perhaps be extended to disseminate and broaden the good practice that exists.

Manufacturing still provides more than 200,000 jobs and 7 per cent of exports. It is a fundamental part of the Scottish economy, and the STUC is concerned that some people are becoming a wee bit too relaxed about manufacturing jobs going, particularly what are complacently referred to as low-value-added jobs. We are concerned that, when some of those jobs have gone, there have not been interventions that would have ensured that workplaces are as productive as they can be in the Scottish context. We are also concerned that some of the supposedly low-value-added sectors have not derived the premium from their Scottishness that they could have—I am thinking particularly in terms of textiles, food and drink. A lot more work could be done on that. I suggest an inquiry constituted on positive grounds to examine the good practice that exists and how that can be built on to sustain and, I hope, to grow manufacturing employment in Scotland.

09:45

I will stop soon, but I want quickly to mention a final possible inquiry on ownership. Ownership of industry is a fraught issue, and we clearly have limited levers in terms of what we can do. However, our members are concerned about it, so it is incumbent on me to reflect it. Perhaps we are becoming a bit too relaxed about ownership of industry leaving Scottish shores. Again, we should recognise the levers that are available to us and the need to create a level playing field in the European Community to ensure that other countries do not benefit from breaks that are not available to Scottish-owned companies. We also need to look at alternative ownership models. I am sure that Jim Lee will address that subject from the co-operative perspective.

**The Convener:** Thank you. You raised an interesting issue about the consistency of the European Commission. We may want to deal with that wider point.

**Stephen Boyd:** The council of economic advisers and the national economic forum have been mentioned. If there is an opportunity later, I would like to come back in on that.

**The Convener:** Okay. Would you like to throw in the Federation of Small Businesses Scotland's perspective, Andrew?

**Andrew Watson (Federation of Small Businesses Scotland):** Thank you, convener. I want to be as helpful as I can. I will therefore not take too much time in explaining our initial start point. A whole range of issues have been identified thus far this morning and in previous meetings. From some of the available research, it seems that Scottish gross domestic product continues to lag behind that of the rest of the United Kingdom, yet our employment rate is higher than that of the UK. That suggests that there is a problem with the productivity of workers in the workplace. That follows on from what Stephen Boyd said. I would like to see a committee investigation into skills and employability, not only as the drivers for economic growth—which they are—but as the means of tackling the productivity gap and thereby closing Scotland's GDP gap with the rest of the UK.

Iain McMillan mentioned the role of the planning system. I will be happy to talk about that in more detail as we proceed. Sir George Mathewson's comments, following the first meeting of the council of economic advisers, were spot on—he said that Scotland's planning system performs more poorly than the system elsewhere in the UK. The committee may want to consider that.

**Jim Lee (Co-operation & Mutuality Scotland Ltd):** Like Iain McMillan, we in the co-op movement want to examine economic growth and success. Scotland now has a co-operative development agency—Co-operative Development Scotland—which is a subsidiary of Scottish Enterprise. I was among those who argued for it. The basis of the argument was that the co-operative movement and the co-operative business model can contribute to economic growth. It would be useful to consider the whole question of growth and how to engage people at different levels in our economy and society.

We need to look at how employee ownership works and we need to examine examples of success in that area; indeed, we need to look at the whole issue of ownership. I agree with Stephen Boyd on the need to ask the important question of who owns Scotland. Some people in our economy would like to contribute more, but they find the existing structures a bit elitist. We need to consider how those people can be better engaged. Let us look at business models and productivity—there is strong evidence that employee ownership improves productivity. If you

own the business, then you work hard, the business makes profits, and you share the profits. The same can also be argued for competitiveness.

At the moment, CDS is highlighting international comparisons. In the top three Organisation for Economic Co-operation and Development countries, the percentage of GDP that is co-op is 16 per cent in Switzerland; 21 per cent in Finland—which is the second-top country—and 13 per cent in Sweden. Scotland is fairly proud of the fact that 4 per cent of GDP is co-op, but we think that the figure could be much higher. It is no coincidence that the European countries that have the highest levels of co-op involvement in GDP are also high up the ranks in terms of economic success.

**Dr Janet Lowe (Scottish Further and Higher Education Funding Council):** Thank you for the invitation. I am aware that the committee has discussed whether skills should be a key part of its agenda. I am delighted that you have taken the view that the skills perspective should be included in the discussion.

I share some of the views that have been expressed thus far. The widely held view is that a knowledge economy should be based on a skilled workforce, research, knowledge transfer and innovation. I think and hope that it is accepted that Scotland has an excellent system of colleges and universities. However, we may have a less clear grasp of their specific role in the economy. Colleges and universities have many things to deliver, such as education, lifelong learning and social inclusion, but they also have a clear role to play in the economy. Like Andrew Watson, I think that the committee may want to understand the specific role and impact of skills, learning, research, and knowledge transfer on the economy.

The recently published skills strategy is clear on the role of colleges, but is less forthcoming on the role of universities in delivering skills as opposed to general high-quality learning. The committee might want to consider that. The committee might also want to consider the impact on the economy of knowledge transfer, and the role of colleges in knowledge transfer, specifically in relation to the small business sector. That issue is often overlooked.

Iain McMillan spoke about how the building blocks fit together. We have to ask how skills, research, innovation and knowledge transfer contribute to the economy, and we have to ask what colleges and universities could do, in addition to what they already do, to have a clearer impact on the economy.

We should not continue to focus entirely on the supply of skills and learning; their impact, their

effect and their relationship with other parts of the economic cycle are also important.

**Iain Duff (Scottish Council for Development and Industry):** I agree with much that has been said. Our productivity levels are poor; if we want our economy to be more successful we will have to concentrate on improving them. People have spoken about the building blocks. We have to consider our skills and our transport infrastructure, which links to the planning system, which will have to be efficient in providing the transport infrastructure and utilities such as water. Innovation and research and development are also important.

We have to ask how ambitious our business sector is. The SCDI gave evidence in the business growth inquiry. Research that we did many years ago—which still stands up—showed that firms that want to grow tend to do so, if the appropriate management and leadership exist. However, there are perhaps too many firms in Scotland that are happy just to stay where they are. We therefore have to consider the demand side, which leads to consideration of how we can utilise skills—the funding council's conference on Monday touched on that. We also have to consider leadership within our companies and how it can be linked to productivity, and we have to consider how skills can be utilised and mixed with capital in order to increase productivity.

We have the skills. People coming out of our colleges and universities are, by and large, good. They meet aspirations, but we have to ask whether we are utilising them well enough.

People have talked about the ownership of economic growth. I would like the framework for economic development in Scotland to be much more central, because much analysis was done many years ago that many people, certainly in the private sector, bought into. The framework set out fairly clearly the issues for Scotland, but I do not think that that analysis has been used in subsequent consideration of where we are going with the economy. I would like that analysis to be dusted down and perhaps built on. We have to ask whether we have learned the lessons from that analysis and applied them to the economy.

Another question to consider is how we can move up the value chain. Again, that comes back to ambition. In our manufacturing sector and throughout our economy, are we able to compete in the global economy? Are we moving sufficiently high up the value chain to keep a proper level of employment? Are the jobs quality jobs? Are there opportunities for people to stay in Scotland? Once people leave the education system, can their ambitions be met here in Scotland?



We also have to focus on the resources that are available in Scotland. We must focus on economic development—in debates in the past, the main priority has been growing the economy, but subsequent spending has not really pushed economic development and growth. We need to consider how resources are focused and what resources are available to support that priority. *[Interruption.]*

**The Convener:** Does someone want to kill that mobile phone? Sorry—I should have said before we started that mobile phones should be switched off.

**Liz Cameron (Scottish Chambers of Commerce):** I apologise sincerely to the committee and to Iain Duff—I could not find my phone to switch it off.

Much has already been said and the themes that have been identified are on the right track, but I would separate my thinking into what I call the four Cs: connectivity, competition, creativity and culture. For me, whatever the committee decides to look at, we should be able to identify those four key themes in our discussion and debate.

On connectivity, some discussion has taken place in the Government about joining up agendas. The Economy, Energy and Tourism Committee is probably one of the most important committees for ensuring that the agendas for skills, growth, competition and transport are joined up at the centre. Quite frankly, those are the main economic drivers that will drive growth in the economy. The committee has a major role in ensuring that those agendas are joined up and that we do not return to having silos—those who are already in silos need to come out of them—which is, historically, what has often restricted us.

On energy, the need for security of supply has already been mentioned. We need to accept that, in the short to medium term, an energy mix is required. Having read the paper on energy that was produced for the committee, I acknowledge that nuclear power is still very much in that scenario.

Security in terms of safety is also an issue. In considering Scotland as a global player attempting to attract inward investors, we need to remember that security and safety are key issues around the globe. We have a lot that we can play with on that issue, so we should try to bring that into the pot.

Transport and utilities have been mentioned, but I want to talk about international connectivity. That should be considered not just in terms of our air links but in our approach to internationalisation, for example through promotion and marketing. Joining up agendas is a key role for the committee. Other places do that a little bit better than Scotland without any additionality. Culturally,

we need to change our thinking and approach, so I would like that to be a major part of the committee's work.

On competition, with any policy that is promoted by Parliament, we should stop and ensure that the first indicator is whether the policy will make Scotland competitive. If we cannot identify a competitive element in something, we need to ask why we are doing it. That is a key policy area.

I am pleased with what has been said on productivity and manufacturing. Like Stephen Boyd, I have just returned from Ireland, where manufacturing is a key focus. We have managed to get manufacturing up the agenda in the past three years through the Scottish manufacturing advisory service, which is already producing good results. We would like that to be extended and, if possible, given increased resources.

Competition should also be considered in terms of both inward investment and outward investment. I notice that the committee paper mentions

“Export promotion and inward investment ... efforts to encourage more firms to export overseas and/or establish operations in other countries”.

In addition, we should ask how we can encourage more small and medium-sized enterprises to consider acquisitions. That is an important issue. I do not like always citing Ireland but—this is fresh in my mind from yesterday—a net total of more than 50,000 jobs were created in Ireland last year alone through Irish companies acquiring companies in the USA. That has not been on our agenda, but we should consider it. For many SMEs, exporting is a big step to consider—which more of them need to take—but it is an easier step to consider acquiring companies in overseas markets. Such acquisitions will not necessarily mean that all those jobs will be based in Scotland, but the knowledge and the headquarters will be retained here. That is a growth market that we need to enter quite quickly.

Skills, as members will know, is an issue that I have highlighted for many years—although that is probably for another day—but I think that we also need to recognise that domestic demand alone will not achieve the growth in skills that we need. We are competing globally. Although Janet Lowe is right to say that we have excellence in some quarters, we need to look closely at our competition.

10:00

I listened yesterday to the presentation on the skills strategy for economic development in Ireland, but I could have been listening to the same presentation at Atlantic Quay. We have to be more ambitious and we should not just follow

others. We should consider where new markets can be found and we should leap over our competitors—that is the ambition that we are talking about. Not just Parliament but the private sector must have ownership of that agenda and be clear about working in partnership.

Steve Dunlop mentioned the social partnership in Ireland, which was necessary at the time, in the context of wage negotiations with the unions and other activity. Scotland is way ahead on that already and has been for years, but I would like a stronger partnership to be developed between the private and public sectors, who should jointly own the agenda on ambition and growth.

**The Convener:** Thank you, that was helpful. I will bring in Howard Marriage. Will you say a little about what you do? You have the title “entrepreneur in residence”, which is probably the most intriguing title of anyone here.

**Dr Howard Marriage (University of Edinburgh):** Good morning. I do not represent a particular interest group, apart from the University of Edinburgh, which asked me to attend the meeting. The university employs me two days a week as its entrepreneur in residence, located at the medical school. The medical school is one of the premier institutions in Europe. Indeed, it is one of the top five medical schools in the world. The school has 133 research clinicians, which is unusual—there are more research clinicians in Edinburgh than in all the other Scottish universities put together. Part of the university’s approach to building from the consolidation of activity at the Little France site—the BioQuarter—has been to put in place a number of activities, in partnership. A key feature of the Scottish economy is the partnership that can be achieved through public bodies.

I have been in post for a year. The rest of my life revolves around building businesses in life science and biotechnology in Scotland. I have two decades’ worth of experience in United States companies and in Scotland, where I joined Cyclacel as one of three directors.

I pick up on a number of themes. I agree absolutely with what Janet Lowe said about how we capture what our universities are doing. Our universities are excellent and pre-eminent, but they have not necessarily converted their excellence in biology and medicine into a business outcome. There is a clear track record of that happening in chemistry and many other industries, but it has not happened in medicine.

Medicine is difficult, in that it is highly demanding on cash and skills. Skills can be brought in. At Cyclacel I witnessed how David Lane acted as a magnet for people from around the globe. We had people from everywhere and we generated a

highly skilled company. If there was an error from an economic perspective, it was that there was no sustainability or critical mass of other companies for those people to go to. In an economy in which there is such critical mass, people change jobs but move to equivalent companies.

We must achieve that critical mass and sustainability. We have quite a good record of forming small companies, but our companies have not grown to a substantial size. The drivers for growth are the availability of capital, access to venture capitalists and access to skills, including skilled managers who can satisfy the VCs that their money will be well looked after and can capture the value that comes from the universities. People will come in if there are good opportunities, which is the case if there is critical mass and a number of things to be done.

The point about acquisition was well made. I worked with a US company, Genzyme Corporation, for 13 years. We built the company up; trading increased from \$5,000,000 a year to more than \$1 billion a year. We were active around the globe, working in 52 countries and providing valuable medicines as well as making money. During that time, we took over 200 companies. Acquisition is a key part of the picture; we cannot invent everything ourselves. The pharmaceutical industry and biotech have been specialists in that regard, but skilled, keen management is required.

The development of the Edinburgh BioQuarter site has involved a fantastic partnership between the University of Edinburgh, the health board, Scottish Enterprise and City of Edinburgh Council. Together, they have built a huge opportunity for capturing medical innovation from across the city and beyond. Now we must work out how to capture that innovation. The opportunity has been provided, but we must work out how we can ensure that we compete with the support and the process that are available across Europe. We are in competition with other medical cities.

Alexandria Real Estate Equities is a fantastic example of an organisation that will help by acting as a magnet. Its contribution as a developer of life science business parks will be driven by our enthusiasm and drive, which we must enhance. We need to work out how to compete with the amount of support that is provided to small companies in the United States. A small company in the US will get more than \$1 million in small business innovation research grants, which really helps in the early phase. The provision of philanthropic support for early clinical development of interesting drugs is a significant factor in the US. We must consider how we can enhance that and bring in all those stakeholders. I have dealt with only a small part of the overall picture, but I

feel that the health and life science area can be a significant economic driver.

**The Convener:** Thank you—that was fascinating. Our discussion began with Iain McMillan talking about building blocks and I can think of no one who has to spend more of his day-to-day job on linking the public and private sectors and everything in between than Steve Dunlop. I ask him to talk about that side of things.

**Steve Dunlop (British Waterways Scotland):** It is great to be here.

The convener will know that we have almost finished our 20-year programme of restoration of Scotland's canals, over a good part of which he presided as a minister. Over those 20 years, we have spent tens, if not hundreds, of millions of public sector pounds on restoring the canal network. That has not just been a good thing in its own right. As well as being a scheduled historic monument, the canal network is an economic driver. At our annual general meeting last week, we were pleased to announce that although the millennium link, which joins Edinburgh and Glasgow and continues on to Bowling on the west coast, cost the public sector £86 million, in four years or so £178 million has been paid back through private and public sector economic investment.

Major areas of growth in place making are beginning to emerge. Over the next five to 10 years, we will concentrate on seven areas, including Glasgow, Edinburgh, Inverness, smaller places such as Ardrishaig on the west coast, Falkirk and, perhaps most excitingly, west Dumbarton and the Clyde. We will talk about that in a moment.

As David Whitton will acknowledge, communities along the canal are beginning to embrace the economic opportunities that creating great places stimulates. In Kirkintilloch, commercial space is emerging and new marinas, arts centres, community facilities and leisure facilities are being created. That is all bound together by an almost unique public and private partnership. I am sure that, as a former minister, Tavish Scott will take great heart from the fact that the £86 million investment is beginning to bear fruit.

Although we can continue with our efforts, particularly in the seven areas to which I referred, public and private partnerships such as the one that we own should not be left to chance. I will give two examples of why that is the case. We are leading the regeneration of 1,000 acres in north Glasgow, which will connect Maryhill to Speirs Wharf along the canal corridor through Firhill and rejuvenate Port Dundas. That is almost a quarter of north Glasgow. Anyone who is familiar with the

economic and social statistics and all the other determinants of health in north Glasgow will know that it is an area that needs huge investment. Unless we deal collectively with the anchor that north Glasgow represents for Glasgow as a whole, we can be as prosperous as we want to be in the city centre but north Glasgow will always be an economic drag.

I make a plea that we ensure that once the delivery landscape in Scotland has been decluttered and brought back together again, it adds value. That is Liz Cameron's point. I often use an anecdote from my previous job, which was director of regeneration in Newcastle. My first task there was to bid for the Government's housing market renewal pathfinder initiative, the aim of which was to rebuild failed communities. We could bid for up to £100 million and we received £70 million. We were successful—it was terrific. However, of the £70 million of public investment that we got, £50 million was used to demolish £800 million of Government investment over the previous 20 to 30 years.

Regeneration on such a scale is not just down to British Waterways. We have been working fantastically well with Glasgow City Council. Our own private sector wing came in to assist, and we also worked with Scottish Enterprise Glasgow. Dealing with the regeneration of 1,000 acres in the hardest-hit area of Glasgow cannot be down to us alone. In my experience, we need 10 out of the 10 ingredients that make regeneration work. They all need to be managed.

I will give a practical example. If we cannot, at some point, remove the pylons that run through north Glasgow, from the Diageo distillery up to Ruchill, that will sterilise 42 hectares of prime developable land, which could come back into use for family housing or to meet whatever economic need. We cannot do it on our own; we need other partners.

Therefore, I make this plea. If we are to declutter the delivery landscape, when we bring it back together we must ensure that it has a spatial focus on the big regeneration areas. That could make a significant difference to Scotland's economy. Glasgow is one such area; the area covering the Clyde coast up to Dumbarton and Loch Lomond is another.

I would like to finish on an area that I think has enormous potential. The waters off the Clyde coast are either the second-best or the sixth-best—it depends who you talk to—sailing grounds in the world. We have a global asset there, from Dumfriesshire up through Argyll to Mull and the islands, yet no single cohesive approach is being taken to ensure that the maritime economy is bound together, with a skills sector to support it and a service sector in place to supply hotels. It is

left to chance. An asset of that scale, or quantum, deserves to have someone looking after it to ensure that it is all cohesively managed for the future. It is a wonderful asset.

I have mentioned decluttering and a focus on spatial priorities. After we declutter, rearrange the deckchairs and use all the levers of power, things should come back together in a way that adds value and makes sense.

**The Convener:** That was helpful. I should stress that Steve Dunlop is not here just because I put money into his budget when I had some responsibilities for that.

I open up the discussion to anyone with contributions to make. Committee colleagues with questions to ask and themes that they wish to pursue with our experts should pitch in whenever they like. We have had a lot of important points and contributions already, and I am grateful for that.

**Antonia Swinson:** I will pick up on something that Liz Cameron said. The criteria of competition, connectivity and culture are important. Liz spoke about inward investment. I was looking round the table and thinking about the extraordinary global reach that we have, with the chambers of commerce movement, the co-operative moment and the universities. I would like the committee to consider doing some work on inward investment. We have a homecoming year the year after next. It is not just about tourism; it should be about inward investment, including inward social investment. Down south, the office of the third sector is considering how to connect with the City in investing in social enterprises. We would like some social investment to come from the Scottish diaspora.

Knowledge transfer is a huge issue for all businesses, and for small businesses in particular. Social enterprise is an important aspect of their activities. Inward investment, knowledge transfer, capital investment and social investment all tie in with connectivity and culture. They would help Scotland to build on its strengths. I am sorry to refer back to Ireland again, but many people think that Ireland has done rather better at tapping into inward investment from the Irish diaspora. The Scottish diaspora remains a hugely underplayed resource.

10:15

**Brian Adam (Aberdeen North) (SNP):** I am struck by the extent of agreement round the table among a wide range of people. In the past, those same people might have taken diametrically opposing views about where the economy ought to go. That development is extremely positive.

We need to focus on competition, productivity and how to manage change, whether that is about management or the need to work co-operatively throughout the workforce. There has not been much focus on R and D this morning, other than the particular area that was highlighted. We discussed ownership and acquiring assets. All those things are important. Some of the issues are to do with what we do after skills training—whether it happens in colleges, universities or otherwise. I think that how we best manage the skills and knowledge that we have to make the change and to get the growth is an area that we could move along.

I was particularly intrigued by Steve Dunlop's contribution. A couple of weeks ago, we visited Glasgow and went down the Clyde on a boat. What struck me about that boat trip was that ours was the only boat on the river. Steve Dunlop was absolutely right in what he said: we have stunning assets, particularly on the west coast. I spent some time this summer on the east coast of the States, where I saw boats everywhere and very busy harbours. We are just not cutting it as far as that is concerned. I am not sure about the extent to which that is due to a lack of public drivers to make the private sector viable, or indeed whether we can transform that overnight, or whether we should focus on it. However, if we have an underutilised asset, we should use it.

I have a challenge for those who represent the various business interests, which leads on from a point that our colleague Professor Christopher Harvie has raised. Is the current lack of success in terms of growth in the SME sector caused by, or partly caused by, the crowding out of the sector by the black economy? Perhaps the FSB representative has something to say on that. Do we not have an acquisitive private sector because it is being crowded out by a variety of substantial economic activities? I am talking not only about the illicit drug trade but about other such activities that may be crowding out the SMEs.

**The Convener:** You do not need to answer all of that at once. In fairness to Brian Adam, the issue that Christopher Harvie raised is a serious and substantial one. I suggest that our witnesses think about it and come back on it later.

**Lewis Macdonald:** I, too, am interested in the number of themes that have been raised from different angles, particularly the idea that productivity is the key to our competitiveness. Stephen Boyd made that point initially and it was echoed by others. I wonder what the committee can do with that proposition. In practical terms and in terms of what the Government can do in partnership with business, what are the key issues for productivity that have not yet been addressed? Clearly, skills and training are part of it, as is

employability. Are there other areas that the committee should consider that are important in addressing the productivity gap? Many of the points that have been made on where Scotland is in the global economy have focused on how we compete and where people make their investments. What will give Scotland an edge?

**The Convener:** Lewis Macdonald has asked a good question on productivity and Brian Adam put a good one on the black economy. Does any other member have a question to put before I bring our panel members back in?

**Gavin Brown (Lothians) (Con):** We have heard a lot about the building blocks that make up the economy; some excellent and highly original contributions have been made today, in addition to points that we have heard previously. I am interested in hearing what our experts think about where the economy as a whole can go. What does success look like? The Scottish Government has set a target for Scotland to match UK annual growth by the end of the parliamentary session. Is the target the right one? Is it ambitious enough, or is it too ambitious? Where can we take the economy as a whole?

**The Convener:** It may be interesting for the witnesses to know that, when we had presentations from our economists, we could not get them to agree what the right target was and what the measurements should be. The witnesses should not feel that Gavin Brown's question is loaded by any means; he is quite right to ask it in that context.

**Marilyn Livingstone (Kirkcaldy) (Lab):** I thank the witnesses for their remarks. I was pleased that everyone mentioned education, skills and training as crucial to anything that we do. We need to capture that and take it forward.

I have a question about partnership working. Steve Dunlop talked about cohesive management and how to bring everything back together and ensure added value if we declutter the landscape. I represent a constituency in Fife, where one of our huge assets has been working in partnership.

Iain McMillan said that a lot more work was needed on the Scottish Enterprise reorganisation. He is right that the devil is in the detail. How do we achieve better cohesive management and partnership working? Howard Marriage raised that as well. When the public and private sectors work together, we get cohesive management and things work. What should the balance be between local economic development and national strategies? Have we got that balance right? What impact will the Scottish Enterprise review have on how partnerships work? How do we get maximum benefit and added value out of that?

**The Convener:** Dave Thompson, David Whitton and Christopher Harvie all want to ask questions. Perhaps we could deal with that first tranche of questions first before we come to them. Otherwise no one will remember what all the issues are—me included.

**Iain McMillan:** To recap, there was a question on the black economy and then a question on productivity. I think that the next one was Gavin Brown's question on what success is and then we had Marilyn Livingstone's points about partnership working and the devil being in the detail.

I will answer on the black economy first. The honest answer is that I do not know its extent. Personally, I have nothing to do with it.

**The Convener:** That is most reassuring, Mr McMillan.

**Iain McMillan:** Perhaps a question to Her Majesty's Revenue and Customs would clarify it. I honestly do not know the extent of the black economy. It clearly exists, and none of us can be happy about that. People in the black economy do not pay tax or national insurance or employ people to correct standards.

We should not beat ourselves up too much about productivity. There is clearly a long way to go in improving it but, as manufacturing industry in Scotland has reduced its output as a percentage of gross domestic product in Scotland over the past few years, the sector has become much more modern and robust. Our surveys on industrial trends for the past year or so show that the significant rise in costs for oil and other raw materials and the significant squeeze in output prices have not resulted in a reduction in orders or output. That suggests that our manufacturing base has been moving up the value chain over the years—as we had hoped that it would—and that, as a result, it is much more robust and resilient than it was in the past.

To be frank, there is little future in Scotland for manufacturing industry to try to compete internationally on price and commodity. We have to be at the higher end of the marketplace, where there is a premium on the value of the products that we make and sell throughout the world. The direction of travel on that is correct, although we have further to go.

Gavin Brown asked what success is and whether the current target of equalling UK growth is the right one. It probably is the right target in the short and medium term, but we should not underestimate how difficult it will be for Scotland to achieve it. I am not saying that, come 2010 or 2011, that will not happen, because there are international factors at play. For example, if the sub-prime mortgage problems in the USA blow across the Atlantic and hit our financial services

industry in the City of London very hard, the proportionate effect on the rest of the UK economy could be quite severe. We could find that, as happened in the early 1990s, the Scottish economy goes up while the rest of the UK economy goes down. It is easy to forget that in the early 1990s, places in the south-east such as Redhill in Surrey had 9 per cent unemployment. I am not predicting that, but it could happen by accident. All things being equal, if the UK economy is stable and we continue to grow as we have been, it will be quite hard to achieve that target of matching UK growth. We should not regard that as an inappropriate target in the short to medium term. Beyond that, we can look nearer the time.

Partnership working tends to be a cultural issue. It happens because people feel good about it and want to do it. We are seeing some readjustment in what local authorities and Scottish Enterprise will do in future, and the role of the private sector in that mix. The most important thing for the committee, perhaps in partnership with us, is to send out a strong message that what is needed is good, sound collaboration. That has to be the starting point; if we do not do that, the whole agenda may not work. If it does work, it will be severely held back.

On the balance of who does what, Marilyn Livingstone is right. The devil is in the detail. We are not sure yet what is local regeneration, for the local authorities, and what is the larger stuff that Scottish Enterprise would do. The business gateway is going to the local authorities, although I understand that Scottish Enterprise will keep control of the website and that it will have some scope in determining the evenness of Scottish standards and so on. Things like that need to be worked out as well.

One thing that the spotlight has not really been on, because it has been more on Scottish Enterprise, is the new skills agency. It will have learndirect Scotland, the careers service and most of the skills agenda that Scottish Enterprise had. It is hugely important that that organisation is structured and does its work properly. Skills guidance is incredibly important in trying to get young people and adults into the right job and the right education and training, yet since Careers Scotland went into Scottish Enterprise, it has been almost invisible. It must not be invisible when it goes into the new skills agency. There will be a big job in ensuring that that is done right.

**The Convener:** Thank you. Would any other guests like to talk? Liz Cameron?

**Liz Cameron:** I do not have any measurement of what the black economy is doing or where it is at. The question was about the impact of the black economy on SME growth and development. I will

give you what is probably my personal view. In all my travels throughout Scotland, meeting SMEs, I have not picked up that that has been a major factor in relation to their ability to grow and develop. You will get a different view from some of the very small, two-person or three-person operations that are setting up in business and trying to compete with people who are doing evening or weekend work. That has been the situation for many years. I do not know about the impact. I am not picking it up to be major, but without research and market intelligence—

10:30

**The Convener:** Sorry to interrupt, Liz, but as the issue has been raised I should say that because we are in exactly the position that you describe, we commissioned some research into the matter, which we will share with you.

**Liz Cameron:** Good.

Productivity is a major issue for SME growth. Some of our major corporates in Scotland do tremendous work on productivity. They have to, because they have to compete with their sister plants throughout the world. They look for every opportunity to increase efficiency. I regard efficiency and productivity as being in the same basket: they involve getting goods or services from A to B. In driving productivity, we need to consider new business models, which is where innovation and R and D come into play. As we have heard, that has been demonstrated mainly by the larger corporates in Scotland. We need to examine their models and consider transferring their excellence and knowledge into SMEs. That will make us more efficient and help the bottom line as well. We need to share excellence in business models.

Transport plays a big role in productivity. Businesses need to get goods from A to B by road or by other freight transport, but we are not connecting those effectively. We can make it easier for companies to do business here, and transport will play a major role in that.

The question of what a successful economy looks like is an interesting one. I believe that our target of matching the UK is not ambitious enough. As I said earlier, Scotland cannot become insular and compare itself only with the UK. Europe is a major market and we have major global players. We need to look at Europe and the world rather than look only at the UK targets. Comparing Scotland with the UK might be phase 1 but, frankly, we need to work together at going way beyond that.

On growing the economy, we are not yet clear where growth will come from, although there are little pockets of clarity in the development strategies of Scottish Enterprise and other

organisations. I agree with Iain McMillan—for the second time this morning—that Scottish Enterprise is but one economic development delivery agency. It deals with less than 1 per cent of the customer market. We need to start thinking about joining things up. Local authorities deliver major economic business support services and they are also involved in international trade activity. I want all that work to be joined up. That will help us to consider where the growth markets will be, and every delivery mechanism will understand where we are going and how their input will help to deliver growth. We do not join things up effectively at present.

On partnership working, it is correct to say that the devil is in the detail. We welcome the decluttering. However, there is a big “but” in relation to partnership working. I was disappointed to note that local economic forums are not on the agenda. I would like to discuss that. The national forums are fantastic and the regional forums are the right way to go, but a lot of successful partnership working is being done throughout Scotland and I would not like the local economic forums to be removed from the scene. They still have a major role to play. A detailed discussion needs to be had about how we can capture the expertise in and partnership working between the public and private sectors and, more important, about how it can be improved.

**Dr Marriage:** The point about the diaspora is interesting. I was fortunate enough to join the globalscot network last year. Since then, through the proof of concept programme, which is a catalytic programme for developing business outcomes, we have been bringing in global Scots and asking them specific questions. Their plea is, “It’s great to come and celebrate what’s good in Scotland. We’ve been away for 20 years and we’ve had great careers. We’d like to bring something back, but we need to be told what it is that we can bring back.” We are starting to engage with global Scots who have fantastic management experience. They could come back and be the executive chairmen of businesses. We are working with some who run substantial investment funds and who are interested in helping; we just have to ask them the specific question.

So the interest exists, but it is a question of enhancing many of the things that we have got. The proof of concept programme has been heralded globally as one of the most imaginative programmes of its type, and there is no need to change it; it should be developed and enhanced.

**The Convener:** Thank you, that is useful.

**Stephen Boyd:** I want to come back to Lewis Macdonald’s comment, which was essentially about what Government can do to boost productivity. The previous Administration had an

economic development framework in the “Framework for Economic Development in Scotland” and “A Smart, Successful Scotland”. Generally, it was very good, but the major omission was the workplace, which was entirely absent. There was no mention of those who were meant to become more productive, despite the fact that FEDS in particular was framed as a document on boosting productivity.

What can Government do about the situation? I have already referred to the Government being generally good at increasing the stock of skills, but no complementary interventions currently exist in Scotland to ensure that that stock of skills is used efficiently in the workforce. Such interventions happen routinely in other European countries where productivity is substantially higher than ours.

Iain McMillan referred to manufacturing productivity having improved, and undoubtedly it has. There are some outstanding examples, such as Rolls-Royce and Diageo, where members of Iain’s organisation and members of our organisation have worked together to introduce the type of workplace change that allows them to compete effectively in the global economy. Unfortunately, that situation is not reflected throughout the manufacturing industry. Other organisations have improved productivity by stripping their assets, whether capital or people, but that is not sustainable in the long term. We have to consider how to improve productivity by ensuring that interventions in the workplace are fit for purpose, and by looking at existing models. As I said, some have been very effective.

We also have to address the issue of local capital stock. Unfortunately, the short-term horizons in the UK’s financial services industry have left the manufacturing industry with low levels of capital stock, which has had a direct impact on manufacturing productivity across the economy.

On the question of what is success, I have to say that I am somewhat troubled by the targets that have been set. I ask myself what Government can do in the short term to meet those targets, and I am really struggling to come up with interventions that can boost productivity in the short term. The key lever in the UK is currently held by the monetary policy committee, and it is the one lever that can boost short-term growth. Most interventions are quite properly aimed at the medium to longer term, so how do we associate targets with that? That is not to say that Scotland cannot do better—undoubtedly it can—but it is difficult to relate a target to that aspiration.

I am also troubled by the possibility of there being a competitiveness target in the new economic strategy. What measure will be used?

Will it be the International Institute for Management Development's survey of international competitiveness? As John Kay, a member of the council of economic advisers, has pointed out, it is not a survey of competitiveness at all; it is a survey that measures consonance with the American business model, which would be unhelpful for longer-term development in Scotland.

**Dr Lowe:** I will comment on productivity and partnership and leave the other issues to people who know more about them than I do.

Lewis Moonie commented that we are aware that productivity is linked to skills and learning, and that tends to be received wisdom. It is important that the committee keeps that on its agenda and goes beyond the received wisdom to think about what it means.

The Scottish Further and Higher Education Funding Council is beginning to make considerable strategic investments in colleges and universities to develop students' employability skills and to promote employer engagement and much more productive interactions between colleges and universities and employers. That will impact directly on the curriculum, teaching and learning, work-based learning, work placements, student projects and so on. For us, that is a long-term investment in strategic change over three to five years.

I invite the committee to continue to take an interest in the evaluation of that work and in seeing what we can learn from the initiatives so that we can continue the process of longer-term change, so that people who come into the workplace from colleges and universities demonstrably are able to impact on productivity. We have not yet shown that impact in such a way that we can accelerate it and improve it. I ask the committee to continue to examine the funding council's programme of work on employability and employer engagement and to ask us to report on it in the future.

There is a specific opportunity for partnership in establishing the skills body—whatever it is to be called. The funding council funds the supply side. We require active demand, so there needs to be a body that will drive up demand for learning from individuals, employers and businesses. If the skills body does that more effectively than Careers Scotland and learndirect Scotland have done and works alongside a responsive supply side, we might have a chance to make the mechanism work much better. The colleges and universities are ready to respond to demand, but the new skills body needs to drive up demand. We should be ambitious about its role: it ought to be able to do more than is currently done by Careers Scotland and learndirect Scotland.

**The Convener:** I take it, for the record, that you meant Lewis Macdonald rather than Lewis Moonie.

**Dr Lowe:** Yes. I beg your pardon.

**The Convener:** That is all right. Our Lewis is not quite in the House of Lords yet, but he might be any day now.

**Dr Lowe:** I will apologise profusely personally later.

**The Convener:** I just did not want the *Official Report* to get that one wrong.

**Andrew Watson:** Brian Adam raised the issue of the black economy's impact on SMEs. Like Liz Cameron and Iain McMillan, I have not seen any information on that—we do not know whether the impact is big or small. My gut feeling is that it is not huge, but locally some businesses may be undercut by illegitimate businesses. Iain McMillan made a valuable point about the fact that people who operate in the black economy do not pay business taxes, do not comply with regulations, do not pay the minimum wage and often do not give their employees the holiday entitlements that they are due.

That links in with the committee's work on tourism. In our manifesto, we called for the compulsory registration of businesses that serve the tourism industry, because some people set up accommodation that does not meet the appropriate standards, which undercuts legitimate existing businesses and tarnishes the reputation of accommodation providers in the local economy.

I will address the two points raised by Gavin Brown and Lewis Macdonald on productivity and economic targets. As Scotland is a constituent part of the UK, it is appropriate that Scottish economic growth should at least match—if not surpass—the UK's target for economic growth. That is an appropriate target, but we might struggle to achieve it in Scotland within the four-year session of Parliament. Some of the economic forecasting suggests that Scotland will not close the gap over the next four years.

Much of what the FSB has tried to do over the past couple of years has aimed to give Scottish businesses—our members—a competitive advantage over other parts of the UK. For example, we want business rates to be lower in Scotland than in the rest of the UK, which will make it easier and cheaper to do business in Scotland. We also want better business support, which I will come on to shortly.

We want there to be better skills, training and education—that relates to productivity. The Scottish funding council's skills committee, which Janet Lowe chairs, is doing some valuable work and it has good industry representation around the



table. Scotland has a highly qualified workforce, but that does not necessarily mean that it has a highly skilled workforce—there is obviously a difference.

Do committee members have views on the Scottish Qualifications Authority results that showed that only 20 per cent of Glaswegian students obtained 5 or more standard grade passes? That will obviously make it difficult for businesses in Glasgow and other parts of Scotland to recruit workers with even the most basic skills. Having said that, 50 per cent of vacancies in small businesses are hard to fill, and the figure rises to two thirds in microbusinesses. The overall figure for vacancies that are hard to fill is about 2 per cent, but if a business is affected by that 2 per cent it is difficult for it to attract the people to contribute to it and to help it to grow.

In the past, I have raised with Janet Lowe and the SFC skills committee the issue of supply and demand. Our colleges and universities are sometimes interested in the supply of skills and qualifications rather than in the demand for them or the way in which people will go into the workforce and apply their skills and qualifications to make a real difference to the businesses that they join.

10:45

That brings me on to the SNP's proposals to restructure Scottish Enterprise and Highlands and Islands Enterprise. FSB Scotland broadly agrees with the proposed strategy. Scottish Enterprise will focus on high-growth and high-value businesses and will leave economic growth to local authorities, which already have a role in that. A new skills agency will be set up, which should make it easier for small businesses—which together employ hundreds of thousands of staff—to find out what can be done to help them to provide better training and skills for their workforce.

We have raised concerns about the business gateways and how they will be controlled by local authorities. We are seeking answers to a number of detailed questions that we have put to the Scottish Government. For example, how will contracts work after three years? Will councils be able to cancel contracts before the three years are up? What will happen where the existing business gateway operates over a number of local authority areas? For example, the Ayrshire business gateway operates over three local authority areas. Those questions require detailed answers so that we can better understand how things will work over the longer term.

Earlier, I promised that I would speak about planning. In Scotland, the average percentage of planning applications that are turned around within

two months is something like 44.6 per cent; in England, it is something like 74 per cent. The target for Scotland is 80 per cent, but we are just over halfway at the moment. The best-performing council is West Lothian Council, where the figure is just over 70 per cent, which is 10 per cent below the Scottish target and 4 per cent below the English average. Those figures could have a fairly significant impact on our plans for economic growth, certainly over the short term. The committee might want to consider that in more detail.

**Jim Lee:** I want to respond to Lewis Macdonald's points on productivity and competitiveness, and to support Stephen Boyd's point. In considering these issues, we have to consider the part played by the workforce.

There is a business in Fife called Tullis Russell, just outside Glenrothes. It is unusual in many ways. It used to be family owned, but it is now owned by its employees. It is a paper manufacturer, which is not the kind of business that you would expect to find any more in Scotland, or even in this part of the world. However, it continues to be successful and to develop. Lewis Macdonald asked for practical examples of what could be done. We could do worse than look at Tullis Russell and ask ourselves why such a business succeeds. Tullis Russell is not based simply in Scotland; it has global reach, with a particular focus on South Korea. In other words, there is a company in Scotland that actually owns a business in South Korea. That may well be unique.

Loch Fyne Oysters is another employee-owned company. The business was not really going anywhere, but now it is thriving. Another example is the Edinburgh Bicycle Co-operative, which is expanding greatly and owns bicycle shops well beyond Edinburgh, including down south. The business is owned by its employees, so the workforce is engaged in it.

I also want to talk about Gavin Brown's point about success. There are lots of ways of measuring success, but you have to consider involvement and engagement. There is no point in having success if significant numbers of people are not involved in it. From our perspective, it is about sharing benefits.

I suggest that the reason the black economy exists is that some people feel alienated. We are all sitting here this morning, suited and booted and fairly comfortable, but lots of people out there do not feel that way. It is not just about people who have something to offer, such as workers with a business idea, looking to the black economy; it is about consumers, who probably often feel that they get a raw deal from traditional businesses.

We should examine that carefully. I think that we would find a lot of creativity in the black economy. Someone mentioned drugs, but the black economy goes way beyond that: it includes many people who are creative and are doing lots of stuff but are off the radar. The issue is how we bring them on to the radar, so that they can expand in ways that they cannot in the black economy, because it is not appropriate for them to do so.

**Antonia Swinson:** The Scottish Social Enterprise Coalition broadly welcomes the changes to the enterprise networks, but would like the regional bodies to be involved in partnerships that have much broader buy-in than just the usual suspects. Also, Highlands and Islands Enterprise's social remit should be celebrated and extended in the six regional bodies.

I have two things to say on the black economy. I think that I was the first journalist to spend a day with the Strathclyde fraud squad when I was with *Scotland on Sunday*. I do not know whether the committee knows that Glasgow is the long firm fraud capital of the world—I was told that then, but I am sure that it is not the case now. The fraud squad told me that the black economy affects small local and retail businesses.

I spent another interesting day at the Barras in Glasgow. The issue there is the lack of microcredit for entrepreneurs, who come from very different areas from the folk who are gathered round the table here. They want to participate in the economy, but will not go to a bank for a loan. Microcredit for microbusinesses—a completely different area of business—needs to be considered. The social entrepreneur the Grameen Bank is one example of how that has been addressed.

On economic growth, I share Iain McMillan's view that the target to equal UK growth is suitable, but I echo Jim Lee's point about economic activity and participation. Success should be defined as an economy that demonstrates cohesion and in which communities are transformed and can share.

No one has mentioned procurement. It is a big issue, and the committee probably does not want to go into it, but we need to examine it, particularly in view of microenterprises.

The Scottish Family Business Association has recently released some interesting statistics, which show that around 60 per cent—that is not exactly correct—of family businesses have no succession planning. The Scottish Social Enterprise Coalition is examining what is happening in Australia, where social enterprises are buying family businesses to turn them into social firms. We must consider how to nurture the microbusiness and family business sector without forgetting how fragile it is. In

business journalism, the focus is often on big business, but social enterprise is a part of family business and microbusiness.

**Iain Duff:** Jim Lee and Antonia Swinson have made a couple of points on the black economy. When I was an academic, I worked alongside somebody in the north of England who tried to get a handle on the black economy. By definition, it is a difficult animal to get a hold of. It can be dangerous for a researcher to try to get information on the criminal activity in the black economy, so good luck to anyone who researches it.

The issues are the legitimate activity that simply does not go through the formal processes and the incentives that exist for people to engage in the black economy, whether businesses that are supplying it or consumers. Such activity does not go through the books, so nobody has to pay tax on it. In some areas, it is the only economic activity that is going on. We have to separate out what we are dealing with in the black economy.

There are some international data on the black economy. The European Union tried to track the black economy in Italy—where it was thought to be a fairly large sector of the economy—and add it to Italy's GDP, and the effect was that it changed Italy's GDP figure significantly.

On productivity, I previously touched on leadership, management and how we are putting skills to use. We should also be considering the openness of our management and our companies to new practices. We talked about Tullis Russell and its involvement in South Korea. In years gone by, there was a stark difference between productivity levels in indigenous manufacturing companies and productivity levels in inward investment companies. The latter were always much more productive in manufacturing. They had the same workforce—a Scottish workforce and, indeed, Scottish managers—but were they just more open to international best practice and to looking at benchmarking throughout the world? Was there an insularity within the Scottish business community that meant that it was not open to those international, global practices? We have to consider the extent to which we are bringing in and applying new and best practice from around the world.

On targets in the economy, I am not a huge fan of GDP targets, particularly in a devolved situation. As I think Stephen Boyd mentioned, what is the Government to do to achieve that target? The UK does not have a growth target, although it has forecasts. I would have thought that, from a political point of view, that is rather risky. Many things that are outwith Government control can affect GDP, such as a fall-off in the US or the European economies, which would hinder our

exports. Aspirations are all very well, but setting a target without putting the building blocks together to achieve economic growth would have unintended consequences—we might put so much into targeting the figure that we are trying to achieve that other things drop off the edge.

There are much wider ways to measure how the economy and society are doing. Well-being is one measure that has been given a bit more prominence recently. The economic target is useful as an aspiration, but in terms of setting it in stone and saying, “We must achieve that,” as Stephen Boyd said, there is not enough linkage between the target and how we achieve it, particularly in a devolved situation.

On partnership, whenever there is a plethora of public sector bodies in a sector, we feel that strong guidance from the centre—from Government, by and large—is lacking. Guidance should set out the roles of each player, in whatever sector, for example tourism or economic development. Duplication between organisations should be reduced, their task should be set out, they should be resourced effectively to enable them to do the job that they are tasked with, and they should be left to get on with it. However, there must be central guidance and control to ensure that each of the players knows what they are doing. Without that, we get the duplication, restructuring and decluttering that we have been through quite a few times with different sectors and different agencies. There has to be clear leadership from Government about what each sector should do.

**Steve Dunlop:** I agree to an extent with the previous speaker. I just have a couple of points. I am slightly worried about the differentiation between what is local, what is regional and what is national, in terms of major regeneration projects. A lot of the devil will be in the detail. I am frightened that enterprise companies will walk off into the growth agenda and leave behind the expectation that local authorities—which have few or tight resources—will be the agencies to deliver large infrastructure change programmes requiring tens if not hundreds of millions of pounds across the piece. We need to be careful about the devil in the detail.

There is nothing like aspirational projects—real guiding and binding initiatives—from Government to bring partnerships together. If we consider the impact on Glasgow of being city of culture and city of architecture, and even the effect on Newcastle and Inverness of simply bidding to be city of culture, we see that such brave, aspirational initiatives from Government create partnerships, binding ideas and a gel, when other things do not. When partnerships emerge, the Government cannot be prescriptive about how they are made up. It is for the partnerships to demonstrate that

they understand what the need is and that they have in place the correct mix of protocols to guarantee delivery. If such partnerships are in place, Governments should whole-heartedly support them with cash, in order to make a difference.

11:00

**The Convener:** I am aware that David Whitton, Dave Thompson and Christopher Harvie have been waiting patiently to speak.

**David Whitton (Strathkelvin and Bearsden) (Lab):** I want to shift the conversation slightly by posing the question, “Where does economic growth begin?” At our away day, Donald MacRae made the interesting suggestion that Scotland would be far better investing more money in early years education than in university education. He also suggested that nursery education should start at a younger age and be targeted at specific groups. For example, it might start at the age of two in areas of multiple deprivation. I would quite like to hear people’s views on that.

I was quite taken with Janet Lowe’s comments about our universities not targeting where future skills demand will come from. That issue certainly interests me. For example, we do a lot of trade with Europe, but the growing global markets are in China, India and so on. What are we doing about language skills in Mandarin Chinese and Urdu? Spanish is another possibly global language. At what point do we start teaching those languages? Should they be more readily available?

If we are to focus on what Scotland could be good at, renewable energy presents many opportunities that the committee has heard much about. Not that long ago, however, the SCDI produced a paper that highlighted the shortage of science graduates who could contribute to that sector of industry. That brings us back to Janet Lowe’s point about whether universities properly target the areas of opportunity that will exist for future workers. Are we doing enough to encourage our schoolchildren into those fields? Perhaps the new skills agency’s job should include illustrating to students how they could have a really exciting job in such industries. It might need to say, “Do not be put off by the fact that physics and chemistry seem boring subjects because, by learning this science, you can go into this industry.” I do not think that enough of that is done. We should perhaps look at that issue.

On productivity and planning, in a previous life I worked with a company called Ross International Ltd, which is run by Stuart Ross who is a kaizen expert. He goes into companies to show them how they can improve their productivity and he has had some amazing results. I have always thought that

more companies should make use of his skills, but he is now moving into the public sector. For example, he turned around Aberdeenshire Council's planning department by helping it to cut its turnaround time by 60 or 70 per cent within a short period. However, he did that—Stephen Boyd made this point—by involving the workforce in asking how improvements could be made. It might be worth considering how companies can be encouraged to sit down with their workforce and ask, "How can we make improvements?" As Jim Lee said, if we make improvements, we all get the benefit. That issue should also be considered.

On planning, I worry a bit about the extent to which economic growth might depend on local authorities. I know that, in my area, East Dunbartonshire Council has a shortage of planners. I just wonder—this is a skills issue—whether enough people are being encouraged to become planners if planning is so vital for economic growth.

**Dave Thompson (Highlands and Islands) (SNP):** Until we heard from the last couple of speakers—David Whitton and Andrew Watson—I was surprised that we had not heard more about planning. In previous round-table discussions, planning seemed to feature fairly high up the agenda as a major inhibitor. I suppose that the issue is the time that it takes for planning applications to go through, but planning guidelines might sometimes be too restrictive. I would like to hear more from our guests about the planning system and how it could be improved. I know that a new system has been put in place, so they might want to comment on that. Would they prefer the new system to settle in for a wee while, or should we look at planning in some detail now?

Infrastructure issues such as transport have been mentioned, but I was surprised that no one mentioned the lack of housing as an inhibitor. If we cannot house the workforce, we will have serious problems in developing our economy. There is a housing crisis in the country: people cannot buy houses, or even get houses to rent. That is a real difficulty.

In Inverness, for example, someone will pay £85 a week for a room in a house. People who bought, say, an ex-council house with four bedrooms are making a pretty penny from that. The cost of housing is a real problem, especially for people on lower wages.

The final thing on which I would like a wee bit more information is how social enterprises can help with the problem of those who are not in education, employment or training and the vast number of unproductive people who are on various benefits. If we can get those people back into some kind of productive life, that would boost the economy considerably.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** I will make three points. First, there have been a lot of nebulous estimates of the value of the black economy. We have a drug problem that is three times the European level, and the money from that is recycled through—I just drew up a rough list—property, including shop-let property, minicabs, tanning studios, counterfeiting, pubs and clubs, scrapyards and loan sharks. Someone who is involved in public transport in a west of Scotland burgh told me that, outwith the First bus routes in the burgh, everything else is controlled by drug money. That is just one aspect.

We have lots of supervisory and investigatory authorities, but they are all tripping over one another. There are some eight or nine bodies with responsibility for the matter and they often have competing jurisdictions. In Jeremy Rifkin's very good book "The Age of Access", he classifies the black economy as the fourth sector. He takes it seriously; he says that it has a morphology and that we ought to study it.

My second point is quite different. I return to whisky and kilts. People come to this country to buy such traditional things and they are prepared to pay premium prices for them. We have to retain those things. In the time for which I have been making films for the BBC, the Harris tweed industry in the Western Isles has gone to the edge of ruin. No other country in Europe would have allowed that to happen.

My third point is on control and infrastructure. We should remember that we have a reverse diaspora. At the end of June, the German Bundesbahn took over most of the freight services on British rail. Yesterday, the French haulier Norbert Dentressangle agreed to take over Christian Salvesen. That could mean that control is passing out of the country, but on the other hand it could mean that we are bringing in expertise. I would much rather that our railway lines were run by Deutsche Bahn than by Network Rail.

If you go around Europe and talk to university students, you will find that many of them have Scottish connections—I am not just talking about the huge and talented flow that is coming from eastern Europe at the moment. If we do the calculations, we will find that those people are just as valuable as our outward diaspora, which is chiefly to North America and a rather different economy from the one that we have here. We ought to bear that in mind.

**The Convener:** Thank you, Christopher. You mentioned various subjects for our expert guests to think about.

I would like to finish by half past 11. If people wish to pick up on any of the points that the three

committee members made, I am happy to hear comments.

**Liz Cameron:** David Whitton's comments on demand and the fact that the skills agenda needs to be driven by the customer rather than the supplier were music to my ears. There have been many initiatives in colleges and universities, and substantial funding resource has been allocated to help them engage with business. However, they are working in their small silos and are all going around trying to engage with business. I would like the agenda to be lifted up, with a wider strategy and an implementation plan. We need to consider new ways of engaging with business.

My earlier comments about productivity in the private sector also apply to the public sector, which is looking at the same suspects and the ways in which it has done business before. We need to change the way in which we attempt to get private sector customer demand for skills. At the moment, that is about knocking on the doors of X, Y and Z or creating yet more positions in colleges or universities. We cannot deal with the matter from a business perspective. I would like the agenda to be lifted substantially.

I would also like the funding council to review how, and to which disciplines, it allocates funding. We might want to consider incentivising colleges, universities and training providers to focus on areas in which we have skill shortages and gaps and on disciplines in which we want to expand graduate uptake. We should incentivise colleges and universities to do more to attract people into those disciplines.

The careers service, which is what the new skills agency will be, has a major role. I would like a major culture change in how it approaches its agenda. If we do more of the same and just have the label of a new skills agency, we will not meet the skill requirements of Scotland plc. The business model in such agencies needs to change.

I reinforce that we need to explore how the funding council funds colleges and universities. In some cases, we encourage competition among universities for funds rather than considering where excellence is practised and what our focus is. We do not join up those factors.

On planning, Dave Thompson was right to ask whether we should act now or sit back and wait and see whether improvements take place. A plan was put in place to improve the efficiency of planning departments throughout Scotland. Resources are an issue; I understand that not enough planning specialists or procurement specialists are available.

Now is the time to put in place ways to measure improvements. The strategy and the

implementation plan are right, but we are not good at returning in six months' time—rather than three years' time—to find out whether the customer has a better service and whether businesses can increase investment as a result of changes to how local authorities approach planning applications. Those are two key measures. I have asked my network to provide examples from around Scotland of planning authorities that are doing good jobs—Andrew Watson mentioned a few of them. The more important issue is in what areas we are being blocked and why. The committee should consider doing such work in relation to planning.

**The Convener:** That is helpful.

**Dr Marriage:** From the perspective of the industry of which I am part, aspirational projects capture the global imagination and bring in global capital. That is a roadblock to us. People can focus on such projects and use them to learn best practice and to spill skills out. Building the sector is probably a 10-year mission, but there is nothing like a 95 per cent gross margin to inspire an industry.

It just struck me that there is one skill that is missing in my sector. We can acquire the biologists and chemists—PhD people—with the right skills from our universities. However, we cannot acquire the business development people—people who sell—who are a vital economic driver. Not having places in which to train them or innate access to them is a brake on development. I would be interested in debating how to enhance that situation.

**Dr Lowe:** As people might expect, I do not agree entirely with Liz Cameron's evaluation of how the funding council operates, but I will take that up with her outside.

**The Convener:** We cannot have agreement all day; that would be boring.

**Dr Lowe:** We will have a lively debate later.

However, I agree absolutely with Liz Cameron that the issue concerns supply and demand, as I said. The mechanism needs to work better. David Whitton gave the good example of languages. The SFC's skills committee, which I chair, spends much of its time grappling with supply and demand. When clear evidence is available of a failure of supply, the funding council is perfectly prepared to address that with colleges and universities. However, we need the evidence and we need to understand the relationship between supply and demand before we move funding around in ways that we cannot guarantee or prove will have the right effect.

We have in place an investigation into languages, because demand for them appears to

be experiencing a serious downturn, which threatens the viability of the supply from colleges and universities. That appears to be evidence of market failure, so we need to do something about it.

11:15

It is absolutely right that we should continue to focus on supply and demand for skills, understand the demand and enable our colleges and universities to respond to it. If the committee can continue to keep that area in its brief and help us with it, it will do a good job and address a very important issue. Members should be assured that the Scottish funding council and its skills committee stand prepared to respond and to develop our system of colleges and universities to meet the economy's needs. The challenge for all of us is that we all need to work out how to do that well.

On the question whether we should fund early years or universities, my view is as you would expect: we need to fund both. It is not an either/or situation; it is about what kind of return we get on our investment. There is much to do to ensure that money is spent on both because they help our very young and young people to gain the necessary skills to function effectively in the economy, whether that is in life sciences, business development or whatever. We should emphasise what, why and how people are learning in all sectors from early years right through to university.

**Jim Lee:** I have no further comments.

**Andrew Watson:** I have a couple of points about supply and demand. We have talked about languages; the newspapers have reported that the number of language graduates has risen by one third, so we might need to consider that. Science is obviously a key subject. The SFC skills committee has considered physiotherapy, and seeks flexibility in the early years of university so that people in allied professions do a similar degree and only specialise after the first two years. That might cause problems over what people thought they were going into, but it might help us to match supply to demand better.

To address David Whitton's point, I will try to give an example of how skills can impact on economic growth. He talked about the lack of planners in East Dunbartonshire Council, and he might be right about that. East Dunbartonshire turns around 30.8 per cent of its planning applications within two months. That is the lowest rate; it is well below the Scottish average and the target. Fife Council is only marginally better, as it turns around about 30.9 per cent of applications in a two-month period. We have talked about matching supply with demand and there seems to

be a lack of planners, which impacts on the speed of planning decisions, which in turn impacts on small businesses. People in those businesses get very frustrated at the time taken by their local authority to turn around planning applications, often for small-scale developments. That is a good note on which to conclude.

**Stephen Boyd:** David Whitton raised one of the more interesting economic debates under way at the moment—the debate about the value of early years education. Professor Heckman from Chicago gave an Allander series lecture on the subject several years ago, and the debate has continued.

A substantial body of evidence shows the value of investing more in early years education, but I caution members in relation to how we apply those lessons to Scotland in 2007. If I remember rightly—it is some time since I read the lecture—Heckman compared early years education not only to further and higher education, but to active labour market programmes. However, if there is a generation of unemployment, as exists in central Scotland, where would doing away with one to pay for the other get us at the end of the day? We have to be very careful about the lessons that we take from that debate.

David Whitton also raised the issue of trade. Unfortunately, we have figures only for the UK, which has not been successful at exploiting emerging markets. Once again, Germany is leading the world on that—it is the world's greatest exporter. With that in mind, I am not sure about languages. Clearly, they are part of a wider package, but the English language is one of our great comparative advantages. Whether we like it or not, it is the global language of business. We have to be careful about where we use our resources.

Scottish Development International is one of the less open, shall we say, public sector institutions in Scotland, and I do not think that it is open to using expertise from other constituencies in Scotland. The STUC has a massive amount of global contacts; for example, the Swedes are over next week, and the Chinese came a couple of years ago. I have suggested that colleagues at Scottish Enterprise could make use of those contacts, particularly in the emerging economies of China and Japan, which are not particularly open societies. There are opportunities to exploit, but we have had no positive feedback about them.

On planning, it has already been said that the STUC is generally content with the new framework, but if it is not properly resourced it will be a disaster. At the moment, a real vicious circle is setting in, given the incentives for public sector planners to move into the private sector. The situation will only get worse unless we actively

attempt to train more people and get them into the public sector.

**The Convener:** Indeed.

**Antonia Swinson:** David Whitton asked about social enterprise and the NEET group. Before I tackle that point, I want to describe social enterprise. It is a mutation of capitalism; it is an alternative business model that delivers a social and environmental purpose. Although there is interest in the model among younger people, there is still a long way to go before there is awareness of it in business schools and on business courses.

Social enterprise has a first-class track record with the NEET group. We have the Kibble group in Paisley; Benarty Regeneration Action Group Enterprises in Fife; and Blackburn Local Employment Scheme in West Lothian. Social enterprise does business and delivers a social purpose where the private and public sectors perhaps cannot reach. We are also growing business in the area of incapacity benefit claimants. Marginalised groups can be trained and brought into the job market. Underemployment among the over-55s—from all groups—is a huge issue in Scotland. That is an area in which social enterprise could provide many opportunities.

There is an issue of replication among big businesses in the sector. How will we get the critical mass necessary to make a real difference? How will we get the appropriate finance? On top of that, we need a change of culture in local authorities. When someone goes into a restaurant, they do not just buy a plate of pasta, although they do not think that they are paying for the cleaning of the restaurant or the accountant. They pay what they pay. Local authorities need to consider the issue of full-cost recovery because the growth of the sector is being limited in that area.

Christopher Harvie raised the issue of loan sharks. That brings me back to partnerships and some of the most innovative approaches to tackling loan sharks, which come from housing associations working with the credit unions. The Link group in Falkirk treats tenant defaults as an issue. It has been working with credit unions in the area, getting management not only to consider financial inclusion but to tackle the issue of loan sharks. The housing associations are a big bit of the social enterprise sector that could have a huge role to play in knowledge transfer and in helping us to build a social enterprise sector in areas of greatest multiple deprivation.

**Iain McMillan:** I echo that point. The Consumer Credit Act 2006 lays down clearly the laws and rules concerning the lending of money and the penalties involved for those who do not abide by the law, but it is important to give people an alternative—for example, through a credit union—

so that they are not attracted to loan sharks. Credit unions are legal operators in the first place, so I endorse what Antonia Swinson said about that.

There are two principal issues, one of which is to do with education. All education is important, and we should not fund one aspect of education while neglecting another. Early years education is very important. In the early 1990s, the UK Government set up a national inquiry into education, chaired by Lord Walton, a general practitioner from the north-east of England. The inquiry's conclusions laid heavy emphasis on the importance of the early years in education. If I remember rightly, the report included a Scottish section—it might be an idea to dust that one down.

On the difficult question of demand and supply in universities and colleges, I do not think that there is necessarily a mismatch between demand and supply, although there is possibly a mismatch between informed demand and supply.

If there are reductions in the number of mathematics or chemistry departments, we will know that there has been a reduction in the number of students who are attracted to those areas. That is why it is important that careers advice for young people should be high on the agenda. I am not sure whether this statistic is right up to date, but in recent years the number of law students has been twice the number of apprenticeships in Scottish legal firms. Who advised those young people to read law? There will be jobs in their chosen profession for only half of them, so there is work to be done in that regard.

On planning, I agree that the shortage of planners is an issue. I understand that when Andy Kerr was Minister for Finance and Public Services, he put in place an inquiry to determine whether local authorities needed extra assistance through ring-fenced moneys to employ more planners. I am not sure about the fate of that inquiry, but it may be a good idea for the committee to look into it.

More important than anything is the presumption against development; with it in place, our economy will continue to be held back. Again, if we could deal with the situation easily, we would be doing so now. We cannot, because it is difficult. All members know of constituents who do not want a factory built next to their house. Nonetheless, there needs to be an overarching presumption in favour of development. Without that, we will simply be trying to do all of this with one hand tied behind our backs.

**The Convener:** I thank all our guests for coming to the meeting. Your thoughtful and considered contributions will assist us in our considerations. Over the next week or so, I hope that we will sort out how to pull together all the evidence that we

have heard and that we will draw up the precise terms of the inquiry. I am sure that we will look for your thoughts on that in due course. The session has been very useful.

We will have a five-minute break. No doubt, members need to use their mobile phones.

11:27

*Meeting suspended.*

11:36

*On resuming—*

**The Convener:** Ladies and gentlemen, let us reconvene the meeting. On reflection, that was probably the best session that we have had in terms of how thoughtful the guests were in their contributions.

Item 4 is consideration of the work programme, for which Stephen Imrie and the clerking team have pulled together a paper. I will have a first cut at what our overall approach should be. I appreciate that this will worry people, but I think that I have been Jim Mathered—I know, I know—as I was mind mapping throughout that presentation. Blimey, I will have to get the software next. However, the conclusion that I took from the session was that we could take one of our principal areas of responsibility, such as tourism, and then take the legs off it—as we did today and in previous evidence sessions—by considering the issues such as inward investment, contribution to growth, business models, regulation or planning, skills and leadership management. For example, I remember that we had a presentation about the hospitality school when we were up in Pitlochry.

For the sake of argument, let us say that we constructed an inquiry around the central principle of the growth numbers—growth in value rather than in the number of people—for tourism. We could take the legs off that and allow individual members to pursue their particular interests. For example, I have a strong focus on the skills agenda, on which we heard a lot today. We could construct an inquiry on that basis.

I throw that on the table, but I am keen to hear whether members completely knock it down or whether they think that there is merit in that approach. My suggestion would allow us to take an industry that is part of our remit, look at the different legs of that industry and—as many people today and in previous sessions, both publicly and privately, have recommended—get involved in a bit of the decluttering agenda. We can look at how things join up and how they are pulled together. As Lewis Macdonald asked today, what things are we not doing right and how can we

address those? That is my suggestion, but I am happy to take others.

Does Brian Adam want to have a first cut at it?

**Brian Adam:** I am quite happy with that general approach, which is in essence what I was asking for before. There was general agreement that we want to seek to grow the tourism industry by 50 per cent within a fairly short timescale, but I was never convinced that we had heard how we would get there and what barriers would need to be overcome. The issues that the convener has listed are certainly significant.

Dave Thompson asked about the role of planning. We could explore planning issues, but this might be a wee bit early given that new legislation has only just been put in place and we do not know what kind of impact it will have.

I would be content to move down the line the convener has suggested. The inquiry would focus on a specific industry in the economy and address all the issues that were raised at the away day.

**Christopher Harvie:** I do not like to come as the man with the negative arguments—

**The Convener:** You are quite entitled to do that.

**Christopher Harvie:** We should look at tourism not just as something that we want to encourage, but as something that we want to discourage in certain respects. Ten or 15 years ago, more money came in from tourists than went out, but the situation has altered completely. Now, a third more money leaves the country than comes in. I am a bit of a protectionist in this area. Infrastructure ought to attract people rather than make it easier for them to quit the country. If we want tourism to have a social benefit, we should have a system that attracts people and high value-added custom from abroad. We should not just provide an infrastructure without caring how it is used. At the moment, to a great extent, people use it to kick the dust of Scotland off their feet.

**The Convener:** That is not inconsistent with what we propose. It is fair that it should be part of the analysis that we must carry out.

**Lewis Macdonald:** If we look at tourism, the focus of our inquiry should be not infrastructure—although elements of infrastructure such as air routes and ferry routes are very significant—but standards of service, training of staff and the things that add value to the Scottish offer in the world tourism market. The energy industries are also at the forefront of Scotland's economic development. Today we heard again how important it is for Scottish business that we think about security and diversity of supply and how we develop our energy resource in the years ahead. If there is scope and capacity in our programme to conduct two inquiries over the coming period—my



reading of the committee papers suggests that there may be—an energy inquiry should be in the mix. We should consider which of the two inquiries is most pressing.

**The Convener:** I totally accept that we need to look at energy. We need to choose which inquiry will we carry out first and which will follow.

**Gavin Brown:** On first blush, I am taken by the convener's suggestion, which is not dissimilar to the first possible inquiry that we identified at Pitlochry. It was a good idea for us to look at how the 50 per cent growth target for Scottish tourism can be met, and the convener's comments strengthen the case for such an inquiry. I was taken by the fact that, when we held our round-table session on tourism and asked the VisitScotland representative where the 50 per cent target came from, he told us that he was not sure but that it seemed like a good idea. We are a year and a half into the supposed 10-year cycle, but VisitScotland is not sure where the target came from. Although all the major players are probably aware of the target, many other players in the industry are not. If they are not aware of it, how can they hit it? The convener's proposal is good, as it straddles economy and tourism. I would be happy for it to be our first priority.

I echo Lewis Macdonald's comments on the importance of energy. At the away day we identified as a possible inquiry

"Defining Scotland's energy future and the challenges and opportunities of its realisation".

That is a strong suggestion that could work out well, although the tourism inquiry should probably take place first. The proposed energy inquiry is quite similar to that suggested by the Royal Society of Edinburgh, which was commended by Stephen Boyd of the STUC. I echo his comments on the society's submission, which was excellent. However, if I must come down on one side, I think that the tourism/economy inquiry should be carried out first.

**Marilyn Livingstone:** I am taken by the convener's suggestion of a tourism/economy inquiry. A skills strategy and a new strategy for economic development in Scotland have been announced, and I have concerns about both. We have voiced our concerns about the skills strategy, and further concerns were expressed to us today. I am concerned not by what is in the strategy but by what is not in it. Similarly, I am concerned about what the reorganisation of Scottish Enterprise leaves out and about the impact that it will have at local, regional and national level. It will have a huge impact on how the areas that we all represent work. It will be interesting to look at the changes, as the convener suggested, and at how they affect economic growth in the tourism sector.

11:45

I must put it on record that I was very disappointed that the committee was not consulted about the proposed changes to Scottish Enterprise. There was definitely debate with the previous committees that Tavish Scott and I served on. I am very sorry that that did not happen in this case. We have to keep a close watch on that situation now and the convener's proposal for our work programme will allow us to do so.

I support Lewis Macdonald's point that we need to look at the security and diversity of our energy supply. That proposal and the economy one are both important, but if I were to lean one way, I would probably choose to look at the economy first.

**David Whitton:** I echo what other members have said. I support the view that we look at tourism first, because it embraces everything that we have heard this morning and affects all of Scotland—it does not focus only on the north or south of Scotland; tourism is a Scotland-wide business.

To answer Christopher Harvie, I guess that people are going elsewhere because the economy has improved, people have jobs and they are using the money that they earn to go away. We have to improve the tourism industry here so that there is inter-UK as well as foreign travel. At our away day, we identified certain areas of weakness. Scotland plc has to understand better how it can be a more welcoming place on the tourism map.

**Dave Thompson:** Both tourism and energy are important, certainly from a Highlands and Islands perspective. The planning issue also needs to be touched on, although the convener alluded to the fact that it could be picked up during our consideration of those other matters. However, one of our guests said that it might be better to leave consideration of planning for six months until the new system has settled in, but no longer than six months.

I tend to think that we should consider energy first and tourism later. Marilyn Livingstone and others spoke about skills in relation to tourism. The skills strategy has been published and further announcements will come from the Government in the autumn. We will also have a hearing with the minister in committee. It might be better to wait for those announcements, get the minister here to speak to us and then deal with tourism and skills, if that is what the committee wants. We should start off with the energy inquiry.

**The Convener:** Okay, we have a classic split in the committee—a good old cross-party split, which is extremely helpful for me. I am relaxed about which inquiry to hold first, but based on what we

heard at our away day at Pitlochry, I am clear that we should do both. Dave Thompson and Lewis Macdonald argue that the Government has announced significant changes to the infrastructural environment in the past few weeks. If we considered tourism second, we could pick up those changes six months down the line and they could feed into our deliberations at that time. We could also look at the planning issues with a post-six months perspective.

Stephen Imrie will keep me right, but there are no particular constraints on considering energy now as regards what we might expect from the Government. We could just get on with it. I make the political observation that a bit of an energy mix will be proposed that will lead to a clear difference of opinion—I am thinking of nuclear—so the first thing the committee will do is divide on that point. Some of us might listen to the evidence and then reflect on it, of course. I am sure that we will all listen and reflect, but you know what I mean—let us be real about politics. We might want to weigh up that consideration too.

I am comfortable if the committee's thinking is to consider energy first, because infrastructural changes have just been announced and we should wait six months before we consider them. I do not have a strong view either way.

**David Whitton:** I hesitate to force the question to a vote. We have agreed that we want to look at both areas. Although I accept the points that Dave Thompson is making, I still think that the tourism inquiry embraces more of the things that we have heard about in our round-table discussions; the energy inquiry is more specific. We would be better kicking off with the tourism inquiry—because it brings in all the things that we have been considering—then moving on to the energy inquiry.

**The Convener:** Okay. Stephen Imrie has just suggested the helpful compromise—I do not know why I did not think of this—of running the two inquiries vaguely in parallel. That would depend on our not taking the proposed interest (Scotland) bill—my firm view is that that is not our bill to take, anyway. We could start with the tourism inquiry and overlap it a bit with the energy inquiry.

**Lewis Macdonald:** Holding a tourism inquiry and an energy inquiry would allow us to cover issues around skills, which are a priority, while not taking our eye off the energy ball.

**Marilyn Livingstone:** That would be the way forward. I agree that the interest (Scotland) bill should not be for this committee to consider. We should carry out the two inquiries.

**The Convener:** Okay.

**Brian Adam:** The interest (Scotland) bill is another matter altogether. I do not have any strong views on whether we hold the tourism inquiry or the energy inquiry first. I tend to support David Whitton's view. Given that, as I understand it, we are unlikely to get the proposed energy efficiency and micro-generation (Scotland) bill, because the Government is going to take it on board, it is difficult to argue that we should not take the interest (Scotland) bill. I certainly think that we ought to take it, because we agreed that we would have only one Justice Committee in the Parliament and, as I understand it, that committee will have two bills. The Economy, Energy and Tourism Committee is the next most appropriate committee to consider the interest (Scotland) bill. However, I do not know that we will have desperately much say in the decision, because that is up to the bureau.

**The Convener:** Of course, ultimately, it is for the bureau to award—if that is the right word—bills to committees. Let us deal with the other issue first, then come back to that point.

Are we broadly agreed that we will go with a tourism inquiry and an energy inquiry in a phased fashion?

**Members indicated agreement.**

**The Convener:** I refer to paragraph 15 of the paper on our work programme. Is the committee broadly comfortable with the remaining elements of the work programme, such as the budget scrutiny, the one-off hearing and so on? Certain dates are set out in the programme.

**Gavin Brown:** I have not been a member of a committee before, but on the face of it November looks very cluttered. Is what we are trying to cover achievable? The rest of the programme seems fairly straightforward, but it looks as though we have a lot of work in November.

**The Convener:** You make an entirely fair point, which is true whether you have been in this place eight years or eight days. November is a busy month and we will simply have to adjust our programme accordingly. We cannot do everything that is set out in one month. It has been suggested that the spending review announcement in Westminster might be made on Monday, which will trigger the budget and so on. All that is in the mix. We will keep the committee up to date with that.

**Lewis Macdonald:** I welcome the suggestion of a hearing on the energy technologies institute. When will you come back to us with proposals on how to proceed with that?

**The Convener:** I will do so at the first meeting after the recess.

I refer to paragraph 8 of the paper, which sets out subjects for further research. Since the away

day at Pitlochry, Christopher Harvie has consistently made the point about the black economy. I do not want to be flippant about it. We thought that it was important to stimulate research through Stephen Imrie and the clerking team. That will come back in due course. We are not losing sight of that at all.

**Christopher Harvie:** Down these mean streets a man must walk.

**The Convener:** Quite. Are all the other recommendations fine?

**Members indicated agreement.**

**The Convener:** The only other issue is the interest (Scotland) bill. I take Brian Adam's point. Ultimately, the bureau will decide whether we get the bill, so there is not much point discussing it. My clear view is that it will be a justice bill led by the Cabinet Secretary for Justice and drawn up by the justice department of the Government with justice civil servants. Saying that we should consider a bill because we do not have anything else to do is not a particularly good argument. We demonstrably have a lot else to do. Parliament decided to have one Justice Committee and that committee may now have two bills. I presume that the Parliamentary Bureau, in taking the decision to have one Justice Committee, reflected on the expected workload that the Government will bring to the bureau to be dealt with by appropriate committees.

**Dave Thompson:** The proposed bill will be a business bill because it will enable small businesses to get recompense from suppliers and businesses to which they supply work if, for instance, those bigger companies do not pay them. Small businesses throughout the country would be happy if the committee picked up and dealt with such a bill.

**The Convener:** I suspect that we will not agree on the matter—I could take a diametrically opposed view.

**Lewis Macdonald:** I am about to take a diametrically opposed view. The bill is to be introduced by justice ministers and, under the previous Administration, was in the domain of the justice ministers—that is an argument in itself. If Parliament took the view that the bill should not go to the Justice Committee, it might then consider the proposed bill's social justice aspects before it considered the business element. If we do not take the obvious approach, many arguments can be made for other approaches, but the obvious approach is for the proposed bill to go to the Justice Committee as a justice bill.

**The Convener:** We will not agree on the matter. I appreciate that members have firm views and I

thank them for expressing those. Ultimately, the Parliamentary Bureau will decide on the matter.

If colleagues are content that we have dealt with the issues on the work programme, I ask Stephen Imrie to give the committee a feel for the approach. I presume that we hope to have a proposed remit for our tourism inquiry for sign-off after the recess.

**Stephen Imrie (Clerk):** Yes. My intention is not to have a holiday in the October recess, as is the lot for a clerk. I am grateful to have a steer from members on which inquiries they want to run with. My intention is to draft terms of reference and bring them back to the committee to ensure that all members are comfortable with the remits for the inquiries. We will do that at the first meeting after the recess.

## Petitions

### Small-scale Energy Generation (PE837 and PE969)

**The Convener:** Item 5 is two petitions. I ask Brian Adam to shed a little light on the subject and tell us how the Government may choose to deal with it.

**Brian Adam:** As I understand the matter, the Government will take on board the proposals in the proposed energy efficiency and micro-generation (Scotland) bill, which will be included in a bill that will be produced with Government support. As I understand the process, the proposed member's bill will then fall. The committee is likely to deal with the issue at some point, although I am not sure whether the bill will come to this committee or the Transport, Infrastructure and Climate Change Committee. The petitions ought to be considered as part of that process. The petitions should go to whichever committee the bill goes to.

**The Convener:** That is an eminently sensible suggestion.

**Lewis Macdonald:** The proposed member's bill will fall only when a Government bill is introduced. The paper from the clerk suggests that, as well as having the petitions considered as part of the consideration of any bill, we should ask ministers to respond to the propositions in the petitions. That is a perfectly sensible suggestion that we should follow, as it might encourage thinking about what bill will be produced in due course.

**The Convener:** As no member dissents from those suggestions, we will handle the petitions in that way.

We will now move into private session to consider item 6.

11:59

*Meeting continued in private until 12:02.*

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

**Friday 12 October 2007**

#### PRICES AND SUBSCRIPTION RATES

##### OFFICIAL REPORT daily editions

*Single copies: £5.00*

*Meetings of the Parliament annual subscriptions: £350.00*

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

##### WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

*Single copies: £3.75*

*Annual subscriptions: £150.00*

Standing orders will be accepted at Document Supply.

Published in Edinburgh by RR Donnelley and available from:

#### **Blackwell's Bookshop**

**53 South Bridge  
Edinburgh EH1 1YS  
0131 622 8222**

**Blackwell's Bookshops:**  
243-244 High Holborn  
London WC1 7DZ  
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh.

**Blackwell's Scottish Parliament Documentation**  
Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

**Telephone orders and inquiries**  
**0131 622 8283 or**  
**0131 622 8258**

**Fax orders**  
**0131 557 8149**

**E-mail orders**  
**business.edinburgh@blackwell.co.uk**

**Subscriptions & Standing Orders**  
**business.edinburgh@blackwell.co.uk**

#### **Scottish Parliament**

**RNID Typetalk calls welcome on**  
**18001 0131 348 5000**  
**Textphone 0845 270 0152**

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

**Accredited Agents**  
(see Yellow Pages)

and through good booksellers