

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 5 December 2007

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE **10th 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 Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

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:

Jim Mather (Minister for Enterprise, Energy and Tourism)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 5 December 2007

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

Decision on Taking Business in Private

The Convener (Tavish Scott): This is the 10th meeting this year—good gosh: is it already?—of the Economy, Energy and Tourism Committee. Item 1 is to ask members whether they are content to take item 4 in private.

Members *indicated agreement.*

Budget Process 2008-09

09:33

The Convener: Item 2 is the budget process 2008-09, at stage 2. We are pleased to be joined this morning by John Swinney, the Cabinet Secretary for Finance and Sustainable Growth; by his deputy, Jim Mather, Minister for Enterprise, Energy and Tourism; and by Chris McCrone and Graeme Dickson.

We will pitch straight into questions, unless Mr Swinney has anything to say by way of introduction.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): I could give you an opening statement, but in the interests of my voice I shall save you from that.

The Convener: I will start with some factual questions on the budget, referring to the advice that we have received from our budget adviser. We have information suggesting that the Highlands and Islands Enterprise budget reduction is 21 per cent, while the Scottish Enterprise budget reduction is 14 per cent. Are those figures correct?

John Swinney: I do not know on what basis your—

The Convener: In real terms.

John Swinney: They may well be; in cash terms, the figure for Scottish Enterprise is 7.2 per cent, and it is 14.3 per cent for Highlands and Islands Enterprise.

The Convener: Would you be able to tell the committee how those budgets were constructed?

John Swinney: We examined the size and operations of the organisations as we envisage them going forward, and we considered other investments that the Government is making to support economic growth and development. The budgets have been set in the context of such assumptions and judgments by the Government. The headline budget numbers require to be translated into detailed operating plans for the organisations. That work is under way—I am sure that it will be shared with the committee in due course.

The Convener: That will be after the committee has had to take a view on the budget.

John Swinney: It will—although I will remind you of the time circumstance that we face. The budget was announced on 14 November, four and a half weeks after the information on the headline budget numbers was provided to the Government by HM Treasury. We turned around a headline

budget for the Scottish Government within four and a half weeks. If we consider previous form, previous Administrations had the best part of three months to do that exercise. It was done very quickly this year, and significantly later in the year than would normally have been the case—it was done in October and November, rather than from July to September.

We are now right up against the budget process, and the budgets must be approved to allow some spend in 2008-09. I accept that the sequence of events is not ideal, but I suggest that the Government in Scotland has worked expeditiously to ensure that Parliament has a budget to consider. In particular, the parliamentary committees have two months to consider the contents of the budget, as they had under the previous arrangements, which I have protected through the timetable by which I have supplied information to Parliament.

The Convener: I accept that, but I am interested in the construction of the enterprise budgets. This is a difficult matter for the committee, as has been plain in the past three weeks while we have been assessing a budget for which we have not been able to get details in relation to Highlands and Islands Enterprise and Scottish Enterprise. It should be a matter of record that HIE was much more forthcoming and helpful to the committee than was Scottish Enterprise. I am interested in the global number that you gave those organisations. How was it constructed and what was its basis?

John Swinney: The basis was arrived at through our having made a number of judgments, some of which I have spoken about already. Some related to the expected size of the organisations. Both Scottish Enterprise and Highlands and Islands Enterprise have clarified to the committee the likely reduction in staff numbers and head count that they envisage taking place in the course of implementing the budgets.

Secondly, we have taken into account the role and function of the enterprise organisations, having translated the thinking that was implicit in my statement to Parliament in late September on the role of the enterprise network into the structure of the budgets. Subsequent changes to the budgets will be implemented, and I will be happy to report to the committee once the discussions are concluded on transfer of responsibilities for local regeneration, for the skills elements and for the new skills development Scotland organisation.

Thirdly, we considered the other interventions that the Government was making to support economic growth. They are set out in other proposals that the Government is making in relation to the agenda. The specific considerations around the enterprise budget must be set in the

context of the overall financial settlement and the discussions and decisions that I must take as finance secretary across portfolios, as we settle on where the balance of expenditure should lie and where the Government's relative priorities—which it wishes to take forward in a comprehensive way—must be settled.

The Convener: So there was not a zero-base budgeting exercise in relation to Scottish Enterprise, for example. I am still not clear about this. I understand everything that you said, and I understand the wider role that you, as finance secretary, have across the whole of your Government: that is accepted. Maybe I am being thick, but I do not understand how the Scottish Enterprise budget was built, given the complete absence of any figures. It looks to the committee as if the enterprise organisations have simply been given a lump of money—we can argue about how much it was, but that is not what I am driving at—and then simply told that that is their budget. It was not built up or constructed in a way that one might be familiar with from other spheres.

John Swinney: As I said, the budget was constructed on the basis of an assessment of the on-going priorities of the organisations. In my statement of 26 September, I set out the role of the enterprise networks. After defining that role, we constructed an appropriate level of resourcing to support the role of Scottish Enterprise and that of Highlands and Islands Enterprise and VisitScotland. That is the construction and that is how we arrived at the amounts. Clearly, a degree of specification will need to be undertaken to translate the headline budget into an operating plan to take forward the work of those organisations. I am happy to report to Parliament on that, in due course.

The Convener: That answer is fair. Surely it is also fair to say that, following your decision of 26 September on the enterprise networks, you gave both bodies a budget and told them to construct their budgets from within. If that was the case, we would have the budgets, which we demonstrably do not. Neither Sandy Cumming nor Jack Perry could give us one single detail of the make-up of their budgets.

John Swinney: The quantum of the budgets was determined by the Government's assessment of the role and functions that we consider appropriate for Scottish Enterprise and Highlands and Islands Enterprise. As a consequence, the organisations determine the exact priorities to follow, within those parameters.

The construction of the budgets and the assessment of the role of the organisations is a product of their existing functions, the different functions that the Government wants them to produce and perform, and the functions that the

Government no longer wants them to be involved in nor to produce and perform. Based on all those decisions, assessments are made about the likely components of the budget. All the factors that the Government took into account in assessing the role and responsibilities of the enterprise networks have consequences in terms of the construction of the budgets. That is how we arrived at the position at which we have arrived.

The Convener: That is fine, but it should also be a matter of record that Sandy Cumming said last week that he did not know why his budget had been cut. That is an important point for the committee.

Gavin Brown (Lothians) (Con): The Government says that it knows what it wants Scottish Enterprise and HIE to do, and what it wants them not to do. At the moment, we have only headline figures for Scottish Enterprise and HIE. Cannot the Government give us at least the level of detail that the previous Administration gave in the draft budget for 2007-08? Page 73 of that document has a table with a breakdown of the Scottish Enterprise budget. Eight different categories of spending are shown: "Growing Business", "Skills and Learning", "Global Connections", "Management and Administration", "Careers Scotland", "Voted Loans (Net)" and "Non-cash Budget". That is a much greater level of detail than we have before us. Surely you can provide a similar level of detail, albeit with different functions, and to the timescale within which the committee has to take a view and report on the budget.

John Swinney: The Government has provided the committee with additional detail by way of a letter of 26 November, in which a table sets out the spending review and includes figures for Scottish Enterprise and Highlands and Islands Enterprise's current funding, net investment funding and administration.

As a matter of fact, although "Global Connections" and "Skills and Learning" categories may have been included in the 2007-08 budget document, no scrutiny measures were made available to ministers to assess the performance of outturn expenditure. It is relatively pointless for a Government to give budget headings against which it cannot realistically provide outturn performance data. The organisations did not assess their financial performance and outturn expenditure based on those numbers.

It would also be completely meaningless for the Government to divide up the elements of Scottish Enterprise's 2008-09 budget of £448 million into categories that do not also enable assessment of outturn expenditure. When we consider Scottish Enterprise's operating plans, we will judge the outturn expenditure on the basis of the categories

in the operating plan. Obviously, the committee will also be in a position to scrutinise that.

I am at a loss to understand the point of the budget lines in the 2007-08 budget to which Gavin Brown referred. I cannot see how that would have shone much light on the priorities of the organisation, given that I discovered that that is not actually how outturn expenditure is assessed.

09:45

Gavin Brown: Is not the solution, in that case, to assess outturn expenditure rather than simply not bother?

John Swinney: I will certainly assess outturn expenditure. Under this Government, organisations will be subjected to the most rigorous assessment of their outturn performance and expenditure—although I question the value of outturn assessments of meaningless headlines.

Gavin Brown: I accept that, but we are going to be assessing that based on current funding of £295 million, net investment funding of £52 million and administration costs of £101 million. There is not a great deal of assessment that can be done using those three headings.

John Swinney: Those headings will be translated into operating plan details, which will be the subject of scrutiny by the committee, based on Scottish Enterprise's reporting, according to the priorities of the operating plan that is developed. I am happy for that level of scrutiny to take place, in order to guarantee that we can interrogate all the financial information and assess the effectiveness of the financial performance of what it delivers.

Gavin Brown: I accept that we can look at the operating plan, but I assume that that will come out after we have voted on the budget in its entirety. Is this information as good as we are going to get before we vote on the budget?

John Swinney: That is a realistic assessment. The operating plan is currently in development and it is unlikely that it will be available to Parliament before Parliament votes. It might be available before the stage 3 process, which I understand will take place in the first week in February. However, I cannot promise the committee that the operating plan will be available before the committee has to submit information to the Finance Committee.

Lewis Macdonald (Aberdeen Central) (Lab): You described the previous budget headings for the enterprise network's expenditure as "pointless" because they were not reported on in the way that you described. Did you consider introducing a reporting mechanism, rather than removing those budget lines?

John Swinney: I have considered that. There will be a reporting mechanism that will be based on the operating plan of Scottish Enterprise.

Lewis Macdonald: Did you consider a reporting mechanism that would be based on the previous budget lines, which would involve, for example, the distinction between growing business and skills and training?

John Swinney: Those budget lines were aligned—as Lewis Macdonald will know—with the smart, successful Scotland strategy, which was the property of the previous Administration. We have set in place the policy framework for the operation of economic policy and management of the enterprise networks, which is captured in the Government's economic strategy published in mid-November, and in the statement that I gave to Parliament in September about the role of the enterprise networks.

We could not have put more on the record about the strategic policy guidance. Now, that will be translated into the breakdown of the different components of the £448 million budget for Scottish Enterprise and the £92 million for Highlands and Islands Enterprise in a fashion that will allow the priorities that the Government has set to be assessed clearly in terms of the financial performance of those organisations against the priorities of the Government. As I said to Gavin Brown, I do not see what the point is of constructing information based on the headings that he mentioned, given that outturn expenditure was not measured in that way and that those priorities were associated with a previous economic strategy.

Lewis Macdonald: You have removed the previous criteria; however, I fail to see in your letter much detail about how the expenditure of the enterprise networks will address the new objectives that you have set.

I would like to explore further the issues that the convener raised in his questions. The enterprise networks have to make spending decisions. You have said that a change in roles and functions was part of your considerations, as was the expected size of the organisations. Up to now, the roles and functions of the enterprise networks have included a skills function and a business gateway function, both of which will now be transferred. Your figures relate to the time before the transfer, so your budgets for the enterprise networks do not take into account the change in roles and functions. Is that an accurate assessment?

John Swinney: As I think I have already said to the convener, changes have yet to be made to do with regeneration, the business gateway and the skills function. I have made clear to Scottish Enterprise the role that we wish it to perform in

supporting delivery of the Government's economic strategy. We want it to focus its efforts on the core function of being an enterprise development organisation that works to provide the quality support that companies require. That is the direction that it has been given.

You have asked whether we have made Scottish Enterprise's priorities clear. I want Scottish Enterprise to be fully aligned with delivering the Government's economic strategy, and I am pleased that it is responding positively to the challenge.

Within a relatively short time, we have had to marshal financial information to give direction to the financial settlement. However, we have not yet been able to provide all the necessary detail. A level of iteration is required of Scottish Enterprise and Highlands and Islands Enterprise.

Lewis Macdonald: What functions do you expect them to cease to carry out, other than the functions—business gateway and regeneration and others—that are transferring?

John Swinney: Those functions will be removed from Scottish Enterprise. It is not for me to micromanage, but I want the remainder of the organisation's function to concentrate on enterprise development, on company support, and on ensuring that we can transform the prospects of companies.

Lewis Macdonald: Last week, we asked the enterprise companies what they expect not to be able to do any longer, within the scope of their remaining remit. Highlands and Islands Enterprise suggested that it will no longer be able to acquire property as it has done in the past. Such acquisition of property can be helpful to the local economy.

John Swinney: We want the enterprise organisations to ensure that property is acquired to support enterprise development. There is a subtle difference between performing that role and being a big landlord. Enterprise companies may have to dispose of assets more frequently, or recycle them, in order to make other acquisitions so that the networks have a property portfolio that adequately and appropriately supports opportunities for enterprise development. The companies should be happy to perform that role.

Lewis Macdonald: Is there not a risk that, if they can acquire less, they will be able to dispose of less and therefore less able to accrue income?

John Swinney: If we were to consider landholdings and property holdings across the public sector—of which Highlands and Islands Enterprise and Scottish Enterprise are part—we would find that the level of property retention is greater than we require.

As I mentioned to the committee at the previous meeting, there is an asset management review under way in the Government just now, and I will have further discussions about that during the next few days. The review will assess the appropriateness of the land holdings of different organisations. The key point is that our enterprise agencies have to be involved in identifying the most appropriate assets for use, in relation to their functions and how those functions can support the process of enterprise development.

The Convener: Regarding Lewis Macdonald's earlier point, Highlands and Islands Enterprise is going to lose 50 jobs—that was stated in evidence that the committee heard last week. By definition, that organisation will be doing less, and you have given it no indication in that regard—it is up to that organisation to decide what it will not do as a result of losing those 50 posts throughout every part of the Highlands and Islands.

John Swinney: It depends on how you look at the question. I have clarified for Highlands and Islands Enterprise and Scottish Enterprise what I expect them to do, the role I expect them to perform as enterprises, and the structure of their approach as enterprise networks and in relation to the priorities of the Government's economic strategy. Therefore, I expect those organisations to align themselves to support that strategy.

I could take a different view—I could specify to the n^{th} degree what each of those organisations would do, and I would be criticised for not respecting the right of those organisations to determine their priorities within the Government's strategic framework for the economy. I have made it clear that I expect those organisations to work within the parameters of the Government's economic strategy. That is a given, and I want the organisations—with the resources that are available—to configure their priorities to support that effort.

The Convener: With 50 fewer people in HIE and less money?

John Swinney: There are other ways in which we are investing in economic activity and growth in different areas. I am satisfied, from the discussions that I have had with management of Scottish Enterprise and Highlands and Islands Enterprise, that the organisations are able to deal with and address the reduction in staff numbers that we are looking for. I remind the committee that on different occasions in the past, under the previous Administration, there were significant reductions in Scottish Enterprise's head count.

There are also advantages and benefits from the structural change that we have applied—abolishing the local enterprise companies abolishes with them a level of bureaucracy that

had to be addressed. The other significant point is the question of shared services among the organisations. Mr Mather and I discussed that matter with the chairs and chief executives of the enterprise companies and VisitScotland at the most recent meeting of our strategic enterprise forum. All three are keen to make progress, because they see the advantages of sharing the type of services that it is not essential for each organisation to have in place separately and distinctively. There is an opportunity for some of those reductions in staff numbers to be addressed by moving forward on the sharing of services between the three organisations. That will make a significant impact on their activities and allow them to do what I have asked them to do, which is to focus as much of their effort as they can on enterprise development and company development support—their core purpose.

Brian Adam (Aberdeen North) (SNP): I echo some of the sentiments that have been expressed by the convener and other members—the responses that we received from HIE were infinitely more helpful than those from the Scottish Enterprise network. We have been advised that real growth in public spending in Scotland over the next three years will be very low by recent standards and, indeed, lower than that in the rest of the United Kingdom. Can you confirm that total managed expenditure will rise by an average of 1.2 per cent in real terms over the current period, compared with the previous one? How will we be able to deliver increased growth, given the changes in the budget? Obviously, in relation to both development agencies, there is a decrease in expenditure.

How do you expect a cut in business rates to contribute to increased growth? It has been suggested to us that that cut might be worth as little as £1,000 per business. Would you care to comment on that suggestion? If you are not prepared to comment on the detail of that today, could you give us a detailed answer in sufficient time for us to consider it as part of our report to the Finance Committee?

10:00

John Swinney: Certainly. The committee has to be careful about the type of comparisons of expenditure it uses. The change in total managed expenditure, for example, takes into account factors that are completely outwith the control of ministers and is dependent on demand-related functions such as the volume of business rates raised and pension contributions that are contributed by the UK Government to some of our statutory pension schemes. That means that we do not get a particularly realistic comparison.

A more appropriate comparison would use the departmental expenditure limit money, which comes directly from the Treasury. That shows that our budget increases by 0.5 per cent in the first year, 1.6 per cent in the second year and 2.3 per cent in the third year, which averages out across the period as 1.4 per cent above inflation. That is the comparator that the Government has used and I think that it provides a realistic assessment of the spending settlement.

Brian Adam: Do you accept that TME is even lower?

John Swinney: TME is even lower, but my issue about TME is one of clarity. It includes a number of factors that are not within the control of ministers, which is why the Government has used the DEL comparison.

Brian Adam: We have been advised that public expenditure in Scotland will be lower than that in the rest of the UK over the spending period. Is that true of the DEL as well as the TME?

John Swinney: The DEL comparison will show that there is a narrowing of the gap between per capita expenditure in Scotland and per capita expenditure in the rest of the UK in the course of the spending review period. Public expenditure in Scotland will not rise as quickly as public expenditure will be rising in England during that period.

Brian Adam: How, in those circumstances, will you be able to deliver the economic growth—

John Swinney: That is the challenge, Mr Adam. The Government has to play with the hand it is dealt by the UK Government. That goes back to the points I made about the tightness of this settlement. Average growth over the next three years is 1.4 per cent, compared with previous increases in the DEL budget—on certain occasions in the past few years—of more than 11 per cent above inflation.

The hard reality, which we all have to accept, is that over the next three years we will be dealing with a much tighter financial climate than we have dealt with in the past eight years. That has a consequence in relation to the decisions that we are able to make. It is for that reason that I have applied a much tougher level of efficiency savings than I previously envisaged applying, so that we can guarantee that greater value will be delivered from the public expenditure that we have at our disposal. Similarly, it is why we have obliged organisations to operate more effectively. That is why the asset management review has been designed to consider how the public sector uses its asset base. It is also why we have encouraged organisations such as Scottish Enterprise and Highlands and Islands Enterprise to ensure that they are appropriately structured for the much

more focused purpose that they have to carry out in a tighter financial climate.

The last thing I want the committee to think is that the only money that we put into economic development is what is spent on Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland. Our economic interventions are much more comprehensive than that. They take into account a formidable investment programme in the transport sector over the next three years, investment in the higher and further education sectors, a significant increase in the capital expenditure opportunities for local authorities throughout Scotland and the economic consequences of local authorities' investment. They also take into account the fact that the Government is putting in place a significant scheme to reduce the cost of doing business for small companies. That measure will have an effect on communities in every part of Scotland and a beneficial effect on smaller companies.

If I picked you up correctly, Mr Adam, you said that you have had advice that suggested that the reduction in business rates would be of the order of £1,000 per company. Obviously, the reduction will relate to the level of rates companies pay and the rateable value of their properties, so some examples may be of that order. For example, if a company has a property with a rateable value of £6,000, it pays £2,116 in business rates today but, by the completion of the Government's programme, it will pay nothing—zero—in business rates. That will be a saving of £2,116 to that company.

I have had correspondence from a number of small companies and, the day after the budget, I heard on the radio a particular small businessman extolling the virtues of business rates being significantly reduced or removed from his company. The gentleman made it clear that he considered that to be a direct intervention by the Government to boost his competitiveness. That is one of the other interventions that the Government has made to take account of the need for economic growth.

You will find that the cost of the resource that the Government is allocating to reduce business rates outweighs the reductions in the budgets to Scottish Enterprise and Highlands and Islands Enterprise. The Government is putting resources directly into improving the competitiveness of businesses in every part of Scotland, which is a sensible intervention to support economic growth.

Brian Adam: I accept completely the example that you gave. I presume that, as you have quantified the amount of money that reducing business rates will cost, you will be able to give us some detailed figures on what the average reduction will be and whether the advice that it

might be as low as £1,000 is accurate. If it is as low as that, that suggests that we have a lot of very small businesses that operate out of premises with rateable values of between £2,500 and £3,000. I find that quite hard to believe, so I hope that you can give us data that help us to form a judgment on that part of the budget before we report to the Finance Committee. Might it be possible for you to do that?

John Swinney: If there is a possibility of giving the committee an assessment of the average impact of the reduction in business rates over the course of the spending review, I will happily provide it. I will ask officials whether such a calculation can be made. There will be issues about whether that can be done based on the number of companies and the scale of rateable values, but I undertake to examine that point and come back to the committee timeously on it.

You expressed surprise at the number of businesses that operate out of properties with small rateable values, but I would not be at all surprised by that—and it is why the small business bonus scheme will have such a significant impact on communities the length and breadth of Scotland. In all the settlements in the different parts of Scotland that members around the table represent, a formidable number of businesses operate in premises of relatively low rateable values. A business rate cut of perhaps £1,000—I cited the example of a business in premises with a rateable value of £6,000 for which the cut would be £2,116—would contribute formidably to their economic health. That is precisely why the Government has introduced the scheme: to improve companies' competitiveness in every community in Scotland.

The Convener: In fairness to Brian Adam, he asked for evidence on the budget, which is what the committee is after. All he asked for was figures that would help us to understand the impact that the scheme will have. It was a fair request.

John Swinney: I hope that I did not conduct myself in any way that suggested that I thought the request was not fair. I would be delighted to supply the information if it can be supplied in the requested form—that is my only point. If the committee can be given an absolute quantification on an average basis, that will be provided. I used the examples simply to highlight the proposal's significant impact around the country.

The Convener: I am sure that the Government bases decisions not on one example, but on evidence. That was the point that Mr Adam was right to drive at.

Lewis Macdonald: Mr Swinney said that he has figures that show that the reduction in funding for the enterprise networks will be more than offset by

the funding that will be put out the door through the small business rates reduction. What are those two figures?

John Swinney: Expenditure on the small business rates scheme in 2008-09 will be a net additional cost of £37 million, followed by £89 million in 2009-10 and £139 million in 2010-11.

Lewis Macdonald: What about the reduction in spending on the enterprise networks?

John Swinney: The comparative figures for the enterprise networks in 2008-09 are £16.5 million for Scottish Enterprise and £11.2 million for Highlands and Islands Enterprise, which adds up to £27.7 million.

Lewis Macdonald: That is for the first year. I understand that the same thing continues in the following years.

The Convener: I will conclude the point about business rates—forgive me, Mr Swinney. The figures to which Brian Adam referred relate to a paper that shows that

“of the 158,852 firms in total which would benefit from the scheme, over half (82,483) have a Rateable Value of under £3,500”.

Our budget adviser tells us that the majority of firms benefiting would therefore gain less than £1,000 per annum. Those figures came from an SNP document, which is why we ask the questions and why we would be grateful for an answer.

John Swinney: I am at a loss to understand the problem. I have volunteered to provide the information if the committee wishes to have it and I am happy to do that.

Marilyn Livingstone (Kirkcaldy) (Lab): I will ask strictly about the budget. You have talked about priorities in the budget, the impact of decisions and not micromanaging. You will not be surprised that my first question is about skills. The Minister for Enterprise, Energy and Tourism determines the budget for the Scottish Further and Higher Education Funding Council, and it will drop in real terms next year. I am interested in how the council will work with your new skills agency and how much funding will be available to that agency from HIE and Scottish Enterprise to progress one of your priorities.

We heard evidence from Scottish Enterprise that it will keep back funding for workforce development, so what percentage of its budget will support modern apprenticeships? As you know, I am the convener of the cross-party group on construction, which is concerned about the need to increase the number of modern apprenticeships to sustain the Government's priorities on building houses and the trunk roads that the cabinet secretary mentioned.

If the number of modern apprenticeships is not increased, that will be a huge inhibitor to economic growth. In real terms, how much money will move from Scottish Enterprise to the new skills agency? How does that compare with what is currently spent? Will there be any funding increases? How will the cabinet secretary be able to influence matters?

Members who lodge written parliamentary questions on such matters are told that they come within Scottish Enterprise's remit, so they cannot find out what is happening to money, which is frustrating. We asked Scottish Enterprise how much of its current budget will move to the skills agency and about Government supervision over the money that will move. HIE gave us indicative figures.

10:15

John Swinney: The current position is that Scottish Enterprise earmarked £149 million as spend on skills and career development in 2007-08. A proportion of that money—around £15 million—is for skills interventions that will remain within Scottish Enterprise's remit once the changes are made. The comparable figure to that £149 million for Highlands and Islands Enterprise is £15 million. That is the inherited position in 2007-08.

The decision-making process on skills development Scotland's budgets and its balance of resources are properly matters for ministers. Decisions on those matters have yet to be taken, as we are currently constructing that organisation and identifying its priorities. That answers the point on the process of constructing the budget.

Marilyn Livingstone raises wider issues. Obviously, the Government is determined to ensure that adequate and appropriate funding is in place for skills development in Scotland. We are determined to take decisions that will allow us to continue to invest in skills development and deliver the level of skills activity that we have told Parliament we will deliver. That is how we will progress matters. I will address those issues in due course with the Cabinet Secretary for Education and Lifelong Learning.

One of the Administration's major themes is ensuring that there is better cohesion and co-ordination when policies are being developed in different portfolios. Obviously, the Cabinet Secretary for Education and Lifelong Learning and I have a shared interest in bringing issues together effectively and cohesively in order to support the Government's economic strategy. That is the approach that we will take to resolving issues, and it means that the funding council will be heavily involved in discussions about how spend on skills

development can be maximised using the inputs of organisations such as the funding council and skills development Scotland in a much more simplified and cohesive structure.

Marilyn Livingstone: This year, there will be a reduction in real terms in funding to further and higher education colleges. That could be a serious issue. I think that almost 50 per cent of funding for skills goes to further and higher education. If that funding is reduced, it would be a further reduction in funding to organisations that are important for economic growth.

I am keen that the committee should see what money is going to modern apprenticeships in particular and what funding is finding its way to our further and higher education colleges. That is the only way in which we will be able to see what is happening with the skills agenda, which is crucial to the priorities of the Government and the Parliament. It is important for us to see the figures.

John Swinney: I appreciate the significance of the issue. It will be addressed by the Cabinet Secretary for Education and Lifelong Learning and by me. I will be happy to report back to the committee on the matter.

Marilyn Livingstone: My second question concerns local economic development, regeneration and decision making in the budget process. As I said in the chamber, I am convinced that you wish to decentralise and declutter the landscape, but I still have great difficulty seeing how the proposed structure will deliver, as I envisage all roads in decision making—especially for this part of Scotland—leading to Atlantic Quay. I would like you to reassure me that that will not happen. It is important that we have a decision-making process in the regions.

Can you explain to me how you will square the circle on local economic development and regeneration, especially in light of the evidence that the enterprise agencies and the Convention of Scottish Local Authorities gave to the committee last week? How will budgets be determined? How will we ensure that the good work that is being done on regeneration continues? Who will fund urban regeneration companies? How will funding be made available? Who will make decisions on the budget? We were unable to get that information last week. How much money will move to local government?

John Swinney: A lot of work is being done to implement the enterprise network reform package that I announced in September. That was one of the major topics for discussion at the strategic enterprise forum that Mr Mather and I convened the other week. We are assessing and considering all the work streams that are under way to support the reforms. I am satisfied that the approach that the Government has set out is being implemented.

As I said when I appeared before the committee previously and in the chamber, I would be happy to meet Marilyn Livingstone—I know that she has particular concerns about the situation in Fife—to ensure that what we have said in Parliament will happen. I have no desire for anything other than that to happen during the implementation of the enterprise network reforms.

As I said, issues such as local regeneration are being discussed with COSLA. The allocation of resources to those matters will be resolved in due course. In one case, I have made clear in correspondence to members of the Parliament that existing commitments with a forward component will be honoured, regardless of where responsibility for the policy rests. A number of such commitments have been made—for example, to support urban regeneration companies. There will be continuity of funding to guarantee that there is no interruption of existing commitments. As part of the discussions that are taking place with local authorities, we are examining where responsibility and funding streams should lie in future. Those discussions will be concluded shortly.

Marilyn Livingstone: I am nervous because, in its evidence, COSLA was not clear how what you describe will be achieved, and when I probed Scottish Enterprise representatives repeatedly on how economic development outwith its main priorities—for example, local economic development in Fife—will be supported, they responded by talking about the Fife energy park, which, as you know, is a key priority. I was not asking how it will be funded; I was trying to look at how the network will continue to support a company such as NGT, which is the biggest private employer in my constituency. We have the six key priorities, but how will such companies continue to be supported? I could not get an answer.

John Swinney: I am surprised that you could not get an answer. The question is pretty straightforward; you should have got one. I will give one now. If the company is the largest employer in the constituency, it is likely that it is a Scottish Enterprise account-managed company. If that is the case, account-managed support will continue to be delivered by a Scottish Enterprise employee who is currently working through the auspices of Fife Enterprise.

That support will continue to be provided on an account-managed basis by employees who will continue to be Scottish Enterprise employees and who will work out of Scottish Enterprise's Fife office. That is a subtle difference from working out of the office of Scottish Enterprise Fife. I am not being pedantic—

Marilyn Livingstone: I know.

John Swinney: That is the point. I am at a loss to understand why you could not get a clear answer to the question. It is absolutely clear in the Government's commitments.

Marilyn Livingstone: Perhaps the example was a bad one, given that the company will continue to be account managed. The question that I was asking was really about who will decide on budgets for any given area—I will try not to be parochial. Who will decide how much will be spent in each area? How much influence will remain at the local level to influence things that are outwith the key sectors? What I am trying to ask is what influence will local business and stakeholders now have on budgets and priorities in their areas?

John Swinney: If we look at the situation pre enterprise network reform under this Administration, Fife Enterprise's budget was determined by the Scottish Enterprise board. It would have decided how much money went to Fife Enterprise and, within certain delegated responsibilities, Fife Enterprise would have taken decisions on the allocation of responsibilities, although that would have been done at a relatively low level in terms of financial controls.

I hope that I do not offend anyone by using the Fife energy park as an example. It was established by way of a decision that was taken at the national level by the Scottish Enterprise board. Obviously, work that had been done in Fife fed into that decision-making process but, ultimately, the decision was taken by the Scottish Enterprise board.

In the new situation, the Scottish Enterprise board will take decisions on the deployment of resources at the local level, but operational responsibility for the determination of local priorities will remain with officials at the local level. However, if a big priority such as the Fife energy park came along, I would have no intention of changing the current decision-making process; rightly and properly, it should be taken at national level by the Scottish Enterprise board. Investment on that scale is such that ministers must be satisfied that the decision is made on an appropriate basis, in the national interest.

Marilyn Livingstone: But the difference remains. Local people felt empowered; they took part in the decision-making process. That will go.

John Swinney: The only part of the process that affects that area of decision making that will change is the local enterprise company boards. That part of the landscape is changing, to try to make the network more efficient and cohesive and to ensure that we maximise the use of resources in a much tighter financial climate.

A significant amount of operational responsibility and decision making will continue at the local

level. I assure Marilyn Livingstone and the committee, as I have done in the past, that there will be a movement of individuals out of Atlantic Quay into the areas of Scotland. That will guarantee that strong enterprise development resources will be made available in all the communities of Scotland.

The Convener: Jack Perry could give us no detail of that either when we asked him the question last week.

Do you recognise the £100 million figure that COSLA quoted to the committee last week in terms of the transfer?

John Swinney: It is a figure that I have heard.

The Convener: That was not quite what I was asking, Mr Swinney.

John Swinney: Convener, you asked whether I recognised the figure, and it is a figure that I have heard mentioned.

The Convener: If you are going to be like that, I will try to ask the question a different way. Is the figure of £100 million for the transfer accurate?

10:30

John Swinney: In the short time that has been available, Scottish Enterprise and COSLA have been discussing the allocation of resources and debating the right amount of money that should be transferred. The discussion has been constructive and I look forward to the issues being resolved.

The Convener: Are those discussions being facilitated by the Government?

John Swinney: Yes.

The Convener: When are they likely to conclude?

John Swinney: I hope that they will conclude shortly with a constructive agreement.

The Convener: Will that be after the committee has had to take a view on the budget?

John Swinney: Yes.

The Convener: Will the skills agency be up and running by 1 April?

John Swinney: That is the Government's hope.

The Convener: Thank you.

Dave Thompson (Highlands and Islands) (SNP): Cabinet secretary, you mentioned that various other interventions would compensate for the reduction in the SE and HIE budgets. You mentioned things like investment in infrastructure, the third sector, energy, business rates and so on. I am particularly interested in that because of the situation in the Highlands and Islands and the

need to improve infrastructure such as the A9 and the railways between the central belt and the north. A recent report showed that the dualling of the A9, for example, would add £1,000 million to the economy of the Highlands and Islands over a 30-year period. It is therefore absolutely right that such investment would help the economy. However, are you confident that the amount of investment that you are making in other interventions will compensate for the reductions in the SE and HIE budgets?

John Swinney: I am confident of that because of a number of factors. I have already said to the committee that we will invest in the small business bonus scheme and that that investment will outweigh the reduction in the Scottish Enterprise and Highlands and Islands Enterprise budgets. That is one material intervention that will affect the bottom line and the performance of all the companies that will benefit from the initiative.

The Government is taking forward an extensive transport investment programme with a range of priorities in different parts of the country. Clearly, more needs to be and could be done, but we must bear in mind our resources and what we can afford within a given period of time.

Another significant element is how we draw together the work of different parts of Government to focus on supporting the Government's purpose of increasing sustainable economic growth. For example, at the Little France development in Edinburgh, the University of Edinburgh is working with Scottish Enterprise and Lothian NHS Board to create a new centre for regenerative medicine and other research facilities, and now a private-sector partner, Alexandria Real Estate Equities, is involved in the commercial roll-out of the life science development at the University of Edinburgh. That might be the best example of how different elements of the public sector can play a part in supporting economic growth in Scotland.

If we had said at the outset that the health service has a role to play in economic development, people might have taken a bit of persuading, but there is a good example of it out at Little France. As I said in the chamber some weeks ago, we had the good fortune to inherit that initiative from the previous Administration, and I congratulate it on what was achieved. It is a good example of how, if we pursue the Government's purpose of focusing public services on supporting sustainable economic growth, that growth can be delivered.

Dave Thompson: I am sorry to be parochial, but I am aware that the infrastructure developments for the Highlands and Islands will be coming forward next summer. I hope that, when that happens, you will give a sympathetic ear to them, given that HIE is suffering a greater

reduction in funding than SE. I do not know whether you can comment on that at the moment.

I have a couple of other micromanagement issues to raise, if I could classify them as such. One is to do with the business gateway. COSLA representatives raised concerns with us last week about the central unit that deals with business gateway. They were not clear about where that unit would end up. Would it go to one of the larger local authorities, or would some other option be taken? I would like you to comment on that.

John Swinney: As I said to Parliament, the management of the business gateway contracts is a function that will be transferred to local authorities. The management of the central element of that is an issue for further discussion. There is some sense in drawing it all together within a local authority sphere; there is also a sense to keeping it within the Scottish Enterprise sphere. We will have a pragmatic discussion on that to determine the best management arrangement to put in place to guarantee the consistency and quality of the programme in every part of the country, which, as I said to Parliament, is important.

I will return to your earlier point about infrastructure projects. The Government is taking forward a number of interventions to strengthen connections between the central belt and the Highlands. Work will be getting under way on the implementation of the Scotland's railways programme to improve train journeys to Inverness. That is an early priority—as are journeys to the city of Aberdeen. We are undertaking work to formulate the priorities of the strategic transport projects review. The Government will set out its thinking on that in 2008.

As will become clear when documents such as the national planning framework come out in the next few weeks, our desire to take some strategic decisions to improve connectivity within Scotland must be set in the context of the resources that are available. One of the issues that we wrestle with—the convener will be familiar with this from his previous involvement as Minister for Transport—is the formidable amount of time that the preparation of transport projects takes, if I can put it as gently as that. As a consequence of that, a number of the priorities in the transport programme in the forthcoming three-year period are projects resulting from decisions that were taken by the previous Government which this Government will be implementing.

The Convener: I am doing my best to bite my lip during all this.

Dave Thompson: Decentralisation is obviously important, and you touched on it when you were answering Marilyn Livingstone's question about

SE and HIE. HIE has gone to great lengths to decentralise its functions. In particular, it created 29 jobs in Benbecula, dealing with its finance function and various other things. When its representatives were here last week, they said that they were a bit concerned about a good chunk of those jobs, which are tied in with training and skills. I know that I am getting into a micromanaging aspect again, but I wonder if you would be encouraging organisations such as HIE to continue with such decentralisation and to move head-office functions out and about, around the Highlands and Islands. If you have anything to say about the Benbecula situation in particular, I would appreciate that.

John Swinney: I stand to be corrected, but my understanding is that the Benbecula development predominantly involves back-office functions. In relation to what I said earlier about shared services among SE, Highlands and Islands Enterprise and VisitScotland, I cannot think what on earth would be the obstacles to a centre in Benbecula providing some back-office support to all three organisations in the way that it currently provides back-office support to Highlands and Islands Enterprise. With the advances in communications technology that we have, there is no reason why that cannot be the case. Indeed, there is an excellent development in Dingwall—

The Minister for Enterprise, Energy and Tourism (Jim Mather): It is Westminster City Council.

John Swinney: A lot of the back-office functions of Westminster City Council are delivered by a centre in Dingwall, to the enormous satisfaction of Westminster City Council. I cannot see what impediment there would be to that type of shared service activity.

Training skills functions are predominantly local interventions. Bearing in mind the point that I made to Marilyn Livingstone, I see the importance of such interventions and want the priorities of the organisations to reflect the need to have as much local deployment of resource and activity as is possible.

David Whitton (Strathkelvin and Bearsden) (Lab): In response to Dave Thompson, you said that discussions are still to be held on whether the central management of the business gateway is to be in Scottish Enterprise or in local authorities. You also say that you want consistency in quality. If you do not yet know where the central function is going to be, why on earth are you breaking up the business gateway and sending it out to 32 local authorities?

John Swinney: I am giving local authorities responsibility for managing the local delivery of contracts, which are provided on a multi-council

basis in different parts of Scotland. I want local authorities to be more clearly involved and to have greater proximity to the delivery of local business development services in every part of Scotland.

That brings us back to some of the issues that I talked about when I was at the committee previously. For example, if an individual is setting up a new business, it is likely that they will have to go to the local authority to get planning advice or consent. In my experience, people often have a bit of a journey from pillar to post in trying to get all the advice that is required to set up a business. By drawing the business gateway closer to the delivery of services at the local authority level, we can provide a more cohesive system at the local level for individuals who want to set up in business.

Crucially, in connection with the wider economic agenda, we must identify businesses with growth potential. They will then be handed on to Scottish Enterprise for further development and detailed support in the fashion of the account management to which I referred in my answer to Marilyn Livingstone. That is an implicit part of the responsibility of the business gateway that will be maintained under the contract.

David Whitton: Yes, we spoke about the matter at your last appearance at the committee, and I am grateful for the letter that you wrote to me about the situation in Kirkintilloch. The business gateway office there, which was fully staffed, has been closed and replaced with an office in an enterprise centre where people can make an appointment. I do not see how that helps to identify growing businesses. I have spoken to my local authority, and it does not yet know how many people it will have or what budget it will have to enable it to carry out the function. Basically, local authorities do not yet know how they are going to manage the function, and I do not see how that helps economic growth in the short term.

John Swinney: There are three points for me to address. First, I looked carefully at the position of the facility in Kirkintilloch after we discussed the matter the last time. You are correct in saying that there is a facility in Kirkintilloch where individuals can make appointments to obtain business advice. All the evidence tells us that, generally, people are not walking along high streets when they suddenly decide to go into a business advice centre to get advice on setting up a new business. That just does not happen, not because the service is not appropriate, but because life has changed and people are now getting information in a different fashion—they are pre-planning things and getting their information over the internet. That is a reflection of the reality. You would be the last person, Mr Whitton, to say that we should keep facilities that are providing a service that is 10

years out of date. There will be changes to service delivery to take account of different patterns in the way in which people live their lives and access public services, and Government should be responsive to that.

10:45

The second point is on the level of clarity in the delivery of business gateway services. The business gateway is being delivered under the terms of a contract that has been approved, and the services are being provided. However, the management arrangements are undergoing some change because we want to involve local authorities in the process. I appreciate that I am not in a position today to give the committee every definitive piece of information that it will require. We are going through a process of change, and I simply ask for that to be reflected in the context of my answers.

The final point relates to what was almost a policy question about the point of making those changes. The point is to ensure that local authorities are more involved in the process of creating economic growth at a local level in Scotland. That brings me back to the purpose of the Government, which is to encourage Government and public services to work for increased sustainable economic growth. That means telling every part of Government that it has a role to play in stimulating economic growth at a local level, whether that is NHS Lothian and its excellent contribution to the centre for regenerative medicine or East Dunbartonshire Council. From my visit to East Dunbartonshire, I know that there are plenty of good examples of how that work has been done in many different ways. That is the focus of the policy and why the changes are important.

David Whitton: But do you recognise that there is a lack of clarity about when all the changes will be made and how much the budgets will be? The committee heard last week that Highlands and Islands Enterprise can estimate how much money it is transferring over, but Scottish Enterprise cannot. HIE reckons that £2 million will be transferred to the business gateway, but we could not get a figure from Scottish Enterprise, which astonishes me. COSLA also seems to have a different view.

Perhaps we are just in the negotiation game between bodies that are competing for a slice of money to deliver a service, but when will all the organisations know how much cash they have, who is responsible and how many people are responsible?

John Swinney: Those issues are currently being addressed. As I said, it is a work in

progress, and the issues will be resolved well in advance of the commencement of the new financial year.

Marilyn Livingstone: David Whitton made a really important point. COSLA asked how local government could be held responsible for output if it has no control over the input. That was COSLA's point in a nutshell, and I make a plea to the cabinet secretary to take it on board. It is a question of having the authority to implement the changes and ensure the output.

John Swinney: The point is this. Essentially, we are replacing the management of the business gateway contract with a different player. The contractual relationship has not changed; it is as it has always been. Previous Administrations have taken the view—and we are happy to agree—that an organisation should have the management role over the contract, which is delivered by a third party. Under previous Administrations, that organisation was the local enterprise companies; under this Administration, it will be the local authority.

Although the contractual relationship has changed in terms of who the contracting party is, the nature of the relationship is the same as it was. The contract includes certain assumptions and expectations that have to be delivered and it makes more sense to involve local authorities in the process and to stimulate their role in local economic development and growth.

David Whitton: Convener, may I ask a quick supplementary on that?

The Convener: Let Marilyn Livingstone finish first. After that, I will call you and then Lewis Macdonald, who also has a question on the business gateway.

Marilyn Livingstone: I do not disagree with what you said, cabinet secretary. However, if local authorities are not in control and have no authority over the input, it will be hard for them to be able to control the output.

John Swinney: If I understand your point, it is an argument for abolishing the business gateway contract and having local authorities—

Marilyn Livingstone: No.

John Swinney: Hear me out.

If your proposition is correct and the contractual relationship between local authorities and the management of the business gateway contract somehow does not allow local authorities effective control over the process, we should remove that contractual relationship and have direct provision by local authorities. That is not what the Government proposes and, from what I have heard, I do not think that COSLA is arguing for that either.

Marilyn Livingstone: That is not what I was asking. I will use the business gateway as an example. The output is the number of new businesses that start up. The input comes through the call centre, which is managed by someone else. If local authorities have no management over the input—that is, the number of inquiries, the marketing and the way in which it operates—how can they feel confident about achieving the outputs that you require? That is the point that they made to us. Maybe I did not explain myself, but that is what I was trying to—

John Swinney: The input, if we express it in that way, is the extent to which there is a sufficient body or base of new business propositions to be considered within the business gateway. To be frank, that is a product of the atmosphere and the enthusiasm of individuals who want to start a business rather than a product of what a local authority or business gateway provider—

Marilyn Livingstone: No. David, can you explain the question that I am asking better than I have been able to?

John Swinney: I apologise if I am missing a point—

Marilyn Livingstone: I think that you are.

John Swinney:—but I do not understand.

David Whitton: I think that what Marilyn Livingstone means is that, if local authorities have no control over the number of inquiries, how can they be held responsible for reaching a target, for example, to create 50 new businesses?

John Swinney: The business gateway contract requires a certain amount of new business generation, but I am at a loss to understand how anyone—

David Whitton: Have you set a target for that?

John Swinney: It is part of the business gateway contract. The elements of the outcome framework are set out in chapter 8 of the spending review document, which covers business start-ups. That fits into the Government's performance framework.

However, I am at a loss to understand how anyone could give anyone else a guarantee that there would be, say, 100 new business inquiries a month. That depends on whether people want to set up new businesses or not. We have to make sure that, if people want to do that, we have the services in place to guarantee the quality and effectiveness of the services that support people. That is what the contract is all about.

David Whitton: Yes, but that is a bit like saying, "We want to match UK gross domestic product growth, but we might not manage it."

John Swinney: It is all about aspiration, Mr Whitton. You should be comfortable with that. It is about having the determination to achieve a certain level of performance and having a satisfactory assumption about the components of how one can deliver.

The Convener: On that optimistic note, Lewis Macdonald has a supplementary question on the business gateway.

Lewis Macdonald: You said that you are still in discussion, or that discussions continue between Scottish Enterprise and local government, about the central element in the business gateway. When the matter was raised at our meeting last week, I asked COSLA to explain what it meant by the central element and how many people were involved. COSLA was unable to give me an answer. Are you in a better position to tell us what it means?

John Swinney: The annual value of the 12 local delivery contracts in the Scottish Enterprise area is approximately £10 million. We estimate the national functions—inquiry handling, website maintenance and so on—to be of the order of £6 million. I cannot give you personnel numbers, but I will contact the committee with the appropriate information.

Lewis Macdonald: Are the functions that you mentioned currently provided by Scottish Enterprise?

John Swinney: Yes.

Lewis Macdonald: Whether that continues to be the case is open to discussion. What alternative model might you consider?

John Swinney: The proposition that I advanced in my statement on 26 September was that Scottish Enterprise would continue to have that role, for national consistency. Discussion is going on about whether it would be more appropriate for the work to be handled by local authorities in a pan-Scotland approach. The issue is being examined.

The Convener: You mentioned 1 April. When David Valentine gave evidence for COSLA at last week's meeting, he said:

"The context is that although 1 April has been mooted as a date for the whole exercise, we understand from Scottish Government officials that that date is not sacrosanct."—*[Official Report, Economy, Energy and Tourism Committee, 28 November 2007; c 335.]*

Can you help the committee to understand that?

John Swinney: I am keen and determined to ensure that 1 April is sacrosanct. In my view, the situation must be clear a good while before then, to allow for implementation on 1 April. I hope that I have made my intention clear. I want the exercise

to be done and dusted in a clear and ordered fashion, for implementation on 1 April. As a consequence, we must have clarity before that date.

The Convener: That is helpful. It is important that COSLA is also clear about that.

John Swinney: If there has been uncertainty, I hope that my remarks have provided the clarity that is required.

The Convener: You have certainly told us what is going on.

Christopher Harvie (Mid Scotland and Fife) (SNP): I want to ask about renewables—I am becoming rather like Marilyn Livingstone asking about skills.

Two things have happened since the cabinet secretary last met the committee: Jim Mather has moved the target for 2020 from 40 per cent to 50 per cent, and we have witnessed various technologies becoming imminent. How might your forecasts for the next three years be altered if we find ourselves in the situation that the Board of Trade was in in relation to North Sea oil in 1972—it seemed incapable of keeping up with the movements of the industry as a whole? The Scottish National Party knew more about the oil industry than did the Board of Trade, which was not surprising given that only 39 people were working in the Board of Trade, compared with 10,000 in nuclear energy.

In that context, I make four points. First, are we prepared for the alterations in technology finance that might be brought about by, for instance, great success following the award of your saltire or horizon prize? Secondly, buy-to-let, in which there has been a certain amount of public investment through Scottish Enterprise, might run into trouble. Thirdly, do we have the cash or ability to create the public partnership that might be needed? I have mooted the notion of a statewave company, which would be like Statoil in Norway—it might be set up with the co-operation of the Norwegians. Fourthly, I remember from German local government, in which I was slightly involved, that having an awful lot of money in the roads budget is useful because that budget is notoriously lumpy—a big project is succeeded by several small projects—and one can always vire cash across temporarily. Might spare cash become available in that regard?

The Convener: Perish the thought.

11:00

John Swinney: I imagine that some people are horrified by the scale of the roads budget as it is, let alone if spare cash was lolling about in it. The budget is the budget; there is no spare cash lying

around. There might be instances in which programmes do not perform to timetable. We will make decisions in-year, through the autumn and spring budget revisions, on how budgets are adjusted. Such issues will be addressed.

You asked about cash to create a public-private partnership for renewables. I might have already highlighted to the committee one of our great strengths in this area, which is the fantastic work being carried out in Orkney on wave and tidal power. Without a word of exaggeration, I believe that we are global leaders in developing that technology.

Our major challenge is to guarantee that such work is maintained and to ensure that it can be transferred into manufacturing capacity and capability. I might casually observe that the Fife energy park would be ideally suited for that job. The Government will facilitate discussions to ensure that such benefits arise.

The capacity to create what might be called statwave is a different matter. I dare say that such a move could raise issues with regard to state aid rules, and we have to be careful how we go in that respect.

I ask Mr Mather to address the questions about the saltire award and the buy-to-let issue, as he has been very heavily involved in developing our approach to renewables technology.

Jim Mather: As far as the saltire prize is concerned, you have only to look at the number of delegates and exhibitors that turn up at the likes of the all-energy conference in Aberdeen or the recent British Wind Energy Association event to realise that people have a real appetite to be involved in this work. The European Marine Energy Centre has created a new level of excitement, which we were able to fan the flames of on a recent visit to British Columbia. We discovered that although the British Columbians have an almost exact match of everything we have, including legacy hydro, they do not have something like EMEC. As a result, we were able to get that concept into play and encourage even more people to understand the possibilities of such an approach.

I can highlight some other good examples. The Highlands and Islands Community Energy Company is beginning to flex its muscles, carry out more work and pass some of the expertise that it has acquired in places such as Gigha to other communities.

Moreover, on 5 November, we held a terrific and exciting event in Glasgow that brought together communities, environmentalists, energy activists, council officials, councillors, developers and major energy utility companies to explore how community benefit can be more manifest and how

we can create a climate in which developers and energy companies do a better and more progressive selling job to communities to ensure a certain level of cohesion and collaboration.

We have to get people to understand that developments might benefit them by, for example, lowering the cost of energy, making existing businesses more competitive, attracting more people into a community and, most important, creating more investment opportunities to allow young people to stay in their own areas. Those genies are now out of the bottle, and I think that at the moment the chemistry is very interesting.

In fact, as early as 25 June, we ran an all-energy event in which we got 80 people into a room to contribute ideas to the process. I am now genuinely excited about our ability to drill down into the individual silos that make up Scotland's energy mix.

Christopher Harvie: What about problems that might be created by a possible housing crisis?

Jim Mather: In his book "Boom Bust: House Prices, Banking and the Depression of 2010"—which, I have to say, will probably not happen in 2010—Fred Harrison sets out a very clear vision of a 14-year cycle that will have very severe implications. Of course, it should be pointed out that various wars have messed up his statistics.

We simply have to crack on with a strategy that will work and with setting within the wider economic strategy the worthy unifying goal that will tie up everyone. Beyond the issue of energy, we have now activated the life sciences sector, the textiles sector, the construction sector, the electronics sector, the tourism sector—twice—the energy pipeline, the information and communications technology sector, the third sector, the retail sector, the publishing industry and the music industry. We believe that if we activate those sectors around the economy strategy, we will achieve a much stronger and more diverse economy than that which we inherited.

Christopher Harvie: But do we have—

The Convener: On the budget, please.

Christopher Harvie: Within the capabilities and parameters of the budget, do we have a lever that can be used to generate public works and public sector expenditure should there be a crash that demands counter-cyclical investment?

John Swinney: The answer to that question lies in the fact that we know what resources will be available to us. Because of the nature of the financial settlement, we have available to us a clear level of resources, which the Government has planned to spend over the next three years. The detail in the budget is for the first year and there are plans for the subsequent two years. The

only variables that will be at our disposal beyond that will be any fluctuations in annually managed expenditure through things such as non-domestic rate income or, alternatively, consequentialities that arise from the United Kingdom Government's budgets or pre-budget reports. Those are uncertain at this stage, but I would be surprised if we were not on the receiving end of certain consequential finances.

One of the characteristics of the budget is that it involves a three-year agreement with the United Kingdom Government on the draw-down of resources that are held at the Treasury. That is specified in the budget document: £874 million over the three years of the budget process. That comes with the consequence that the Treasury has made it clear that we cannot revisit that level of draw-down. It is a fixed sum for the three years and we are in a relatively structured financial situation. The one caveat to that is that the Treasury has accepted that if we face certain exceptional financial circumstances that could not have been conceived of at the time of the budget's construction, we will be in a position to make representations about access to any end-year flexibility that may have accrued at the Treasury. However, it would have to accrue for us to have any access to it and I am not terribly keen on it accruing.

Gavin Brown: The Government wants Scotland to become a global powerhouse in renewable energy. A large number of power stations—nuclear and otherwise—will go off line and the Government wants to replace them with renewables, but the only budget line that I can see is about £30 million, which is up from £19.9 million last year. Is the Government's aspiration being fulfilled by that budget?

John Swinney: In my view it is. We have trebled the budget for renewables, which was a helpful intervention in a tight budget settlement. The production of a variety of other interventions by Scottish Power, Scottish and Southern Energy and other private sector players is contributing formidably to the generation of new sources of power. The Government will be interested to follow some of the projects that are under way, such as the exciting projects on new forms of energy generation, and give them whatever support it can. There is a mix of private and public sector activity, and private sector organisations are properly fundamental players in the construction of renewable energy capacity.

Gavin Brown: You described the increase from £19.9 million to £33.5 as a trebling. Will you explain that?

John Swinney: That budget line includes other components. The element of that budget that

relates to renewables has trebled from the baseline figure that we inherited.

Gavin Brown: Are we able to get that evidence?

John Swinney: I am advised that it is in my letter. The baseline figure is perhaps not there, but the total expenditure of £13 million on community and household renewables is a trebling of the baseline figure which, if my memory serves me right, was of the order of £4.5 million.

David Whitton: In the run-up to the election, the SNP produced "Let Scotland Flourish: An economic growth strategy for Scottish success", in which it laid out Scottish golden rules for total growth over the economic cycle. One of those rules was to set specific targets to increase

"the proportion of national wealth held by each of the lowest six income deciles".

That rule has been changed. In the spending review document, it has become:

"To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017".

Another of your rules, which was about achieving

"a 10% reduction in GDP disparity per head between the richest and poorest parts of Scotland",

has become:

"To narrow the gap in participation between Scotland's best and worst performing regions by 2017".

My interpretation of those changes is that—perhaps sensibly—you have slightly weakened your original proposals. Can you explain the thinking behind what you have done? Did your Council of Economic Advisers recommend the changes, or did you just decide to be a bit more prudent?

John Swinney: What we have put in place is set out in chapter 8 of the spending review document and is covered in the Government's economic strategy—there is a read-across between those two documents.

We consider that the indicators and targets that we aim to achieve as an Administration fit with our broad objectives on economic growth, on improving productivity and participation and on ensuring that we deliver greater cohesion in our society and tackle issues of economic inactivity. All of that fits together into a cohesive package of proposals, the contents of which are a product of the discussions that have taken place within Government. As the Parliament knows, the economic strategy that the Government is taking forward was considered by the Council of Economic Advisers. We have taken into account a variety of issues that it raised.

David Whitton: Am I right to interpret you as saying that, following advice from the Council of

Economic Advisers, you have watered your golden rules down a bit?

John Swinney: No. I am simply making a statement of fact. We have engaged in discussions with the Council of Economic Advisers on the formulation of the economic strategy. We have looked at the detail of our targets and we consider that their contents fit together to support our overall purpose and to enable us to achieve our wider objectives within the timeframe that was set out.

The Convener: We are rapidly running out of time, so I ask members to keep things snappy.

Lewis Macdonald: Last week, HIE and VisitScotland told us that, in the past, they have been able to access particular funds for particular purposes, whether for an event that VisitScotland has sought to promote or for an economic development that HIE or Scottish Enterprise has wanted to invest in. For example, HIE's budget for this year included a significant sum above baseline because it had successfully approached ministers with a bid for funding for a specific project. Given what you have done in the budget in general as regards draw-down of end-year flexibility, does your forward planning still include room—as those agencies clearly hoped it would—for such one-off applications to Government for additional funds?

John Swinney: Room would be available only in the context of in-year adjustments, for example if budget lines for other areas had not performed as expected—slippage on a capital programme is a not uncommon factor; revenue demands might not have been as great as we thought. Any such capacity would arise only as a result of in-year changes or of UK Government budget, or pre-budget report, consequentials.

As I said, we have an arrangement to draw down £874 million over three years. If we had not secured that, we would have been looking at a budget that was a great deal tighter. The budget is tight enough as it is. Without such an arrangement, the budget would have been even lumpier, to quote Professor Harvie, because there would have been an abrupt gap in year 2, which we have managed to smooth out.

11:15

Lewis Macdonald: I understand that you told local government that you will guarantee any loss of business rates income that may arise from the changes that you have made. In other words, you will substitute central Government funding for that income. Is that a correct interpretation?

John Swinney: That simply reflects the fact that, every year, the Government makes an

assessment of the volume of non-domestic rates income that will be generated. The Government then assures local authorities that that will be delivered in terms of expenditure. What I have done is entirely consistent with the practice of all previous Governments. The estimate of non-domestic rates income that will be provided is net of the small business support scheme. That is the net income that I will deliver to local authorities, and it is entirely consistent with the practice of all previous Administrations.

Lewis Macdonald: So, other than the change that you have just described, there is no additional change in the substitution of business rates income with Government grant?

John Swinney: Essentially, I have changed the basis upon which business rates will be collected, the consequence of which is that some businesses will pay less and, in due course, some will pay nothing. The change affects the assumptions that underlie the construction of the total figure that we expect from non-domestic rates income. That figure is always guaranteed by the Government, regardless of whether it has changed the basis for collection. In each local government finance settlement, a figure will always be given for the Government's expectation of non-domestic rates income. The figure shows the amount that will be delivered to local authorities.

Dave Thompson: When Scottish Enterprise witnesses gave evidence last week, they said that they were very concerned about RAB—not Rab Nesbitt, but resource accounting and budgeting. They said that RAB discouraged them from acquiring assets and that it had even led to “perverse” decisions not to take a stake in projects, but to give grants. Do you have plans to review RAB?

John Swinney: RAB is one of those issues over which I do not have control. The United Kingdom Treasury requires RAB to be used. I operate under the rules that are set out for the financial settlement, which I do cheerfully at all times. RAB is RAB—if I can put it like that—

The Convener: Nesbitt or otherwise.

John Swinney: Yes. I suspect that Rab Nesbitt is more intelligible than the RAB rules are.

The area is complex. RAB is designed to apply pressure to organisations to justify their property-holding assets. I return to the point that I discussed with Mr Macdonald. If someone is a landlord, they do not necessarily have to do the right thing by way of their assets. That said, given the property market over recent years, such assets represented a pretty reliable source of growth in someone's asset base.

Quite simply, we have to ensure that we provide, effectively, the appropriate levels of support that

are required under the RAB regime. RAB puts a pressure on organisations to look at their asset base and guarantee that they are managing it wisely and effectively in the public interest.

The Convener: HIE and Scottish Enterprise are unclear whether efficiency savings apply to the total budget or just the administration budget. What is the position? Will HIE and SE be allowed to keep the efficiency savings that they make?

John Swinney: The 2 per cent efficiency savings target applies to the total budget. The figures in the budget document are net of efficiency savings. Essentially, in the judgments at which I arrived, I am saying to organisations, "These are the budget numbers you have to perform to. You have a requirement to provide 2 per cent efficiency savings in that context."

The Convener: That is helpful. Much has been made of the governance costs of the local enterprise companies, but witnesses from the enterprise networks could not tell the committee what they are. I assume that, at the time of the discussions that led up to the statement of 26 September, you asked the organisations to give you the figures. Can the committee have sight of those costs?

John Swinney: I will work to provide the committee with an appropriate assessment of those costs, which are a material factor in my assumptions on the opportunities for efficiency savings in the network. Governance costs are one factor that will contribute to the achievement of the efficiency savings targets.

The Convener: Thank you. We are interested in the figure; it has hitherto not been available.

Finally, I have a question for Mr Mather—poor old Mr Mather has not had much of a look-in today, so it is only fair to give him one crack at it. I will be totally parochial, because I am really concerned about islands tourist boards. We have not discussed VisitScotland at all today, but Mr Mather has not answered questions that colleagues and I have previously asked about the downgrading of islands tourist boards. Will they be retained in their current form? Will their budget be maintained?

Jim Mather: That is largely an operational matter for VisitScotland, but I have shared the concern because I have islands in my constituency. During the summer, I worked on the issues with representatives from Islay, Mull and Bute. We are seeing willingness on VisitScotland's part to engage and maintain the existing brand and presence and to encourage further elements of destination management. VisitScotland has recently supported the Discover Islay website, which brings together contributions from local providers such as restaurants, guest houses,

hotels and organisers of visitor events. We hope to ensure that, in considering the totality of the VisitScotland budget, including the contributions from Scottish Natural Heritage, Historic Scotland, local government and private sector providers through destination management, we will see an organic construction that is above and beyond what we already have.

The Convener: But you are the minister. I am asking you as the minister whether you have told VisitScotland to retain those boards in their current form and not to downgrade them or lose their budgets.

Jim Mather: As I said, the key point is that the matter is an operational one for VisitScotland. We want to ensure that those entities are evaluated through consideration of their vigour and vibrancy and the value that local tourism service providers and industry place on them. Rather than have top-down command and control and rather than dictate from the centre, we want local communities and industry providers to help configure how the system operates, to achieve maximum effectiveness.

John Swinney: My understanding is that the current plan is that the VisitScotland presence in Orkney and Shetland will be maintained. I may have picked that up wrongly, so allow me to clarify the matter in writing, but I think that that is the comment that has been given.

The Convener: I have been told about downgrading and removal of the budget. If you could clarify the matter, I would be immensely and genuinely grateful.

John Swinney: Let us examine that. The Government has every desire to ensure that we have vibrant tourist activity in our island communities. Let us explore that point, because I do not want to give the committee inappropriate information. I take the point seriously.

The Convener: Thank you, gentlemen, for coming and for providing full answers to the questions that the committee posed.

11:23

Meeting suspended.

11:26

On resuming—

Golf Tourism (Aberdeenshire Council Decision)

The Convener: Agenda item 3 is on Aberdeenshire Council's recent decision in relation to golf tourism. In discussion with the clerks, I thought that it would be useful to raise the issue briefly, although we have been overtaken somewhat by last night's welcome decision by the Scottish ministers to call in the proposed development. The committee's interest is in the wider impact of such an enormous development for Scotland. Members from the north-east of Scotland will have strong views about the proposal, but the committee will take a pan-Scotland view on it. Subject to members' views, I suggest that we write to the Government to stress the Scottish implications of that scale of development, particularly given the inquiry that we are about to conduct on tourism. That seems to me to be an appropriate level of interest, but I am happy to open up the matter for debate.

Brian Adam: Your suggestion is eminently sensible, convener. I am grateful that you put the matter on the agenda. The proposed development has major national tourism implications. From briefings that I received recently from Scottish Enterprise Grampian, I am aware that the development will be a big contributor, in the north-east and in the Scottish context, to the aim of a 50 per cent uplift in tourism revenues by 2015. I am concerned that if the development does not go ahead, that will deliver an international message that Scotland is not the kind of place to come and invest in. Therefore, we should write to the Government along the lines that you suggest, convener.

Lewis Macdonald: I agree. The bigger picture is the message that Scotland sends out to the world about business and our ability to take opportunities when they arise. It is striking that a committee of the local council considered the proposal and recommended support, but when the matter went to a sub-committee it rejected the proposal and the council discovered that it did not have the power to review a decision of one of its sub-committees. That is clearly a flaw—the council has devolved decision making to the point at which the authority as a whole has no authority over some of its decisions. Aberdeenshire Council and its leaders acknowledge that that is one issue that has come out of the tale.

I hope that the case is an object lesson for everybody about the mobility of capital in the 21st century. An organisation such as the Trump Organization, which genuinely wants to invest in

Scotland, has other options available to it. When Donald Trump indicated this week that he does not intend to appeal the decision, that was not because of any disrespect for our procedures; it was simply a practical consideration about whether he should submit the application and go through a one or two-year process or take his intentions elsewhere.

11:30

As well as write to the Government in the terms the convener described, we should, when we undertake our tourism inquiry, consider in detail the events that have taken place and the circumstances that have arisen. I hope that, by that time, we will have clarity on the final outcome, which will give us more freedom to explore some of the issues. That would be a useful subject to consider as part of our examination of what it will take to grow tourism revenues by 50 per cent in the coming eight years.

The Convener: That is fair, but the committee will need to be careful because we do not have responsibility for local government or planning—we will need to be clear about our remit. However, I take those points.

Gavin Brown: I agree with much of what has been said. The decision to write to the Government is right. Yesterday's news that the Government has decided to call in the proposal is absolutely welcome. The message from Scotland must be that, Scotland-wide, we are open for business. It is critical that we do that as quickly as possible.

David Whitton: In a similar vein, I agree that the convener's suggestion is the right thing to do. The committee is called the Economy, Energy and Tourism Committee and the development is a huge one that will have a big impact on not only the north-east of Scotland, but the whole of Scotland through the economic input and tourism effects. Elsewhere in the country, Peter de Savary is investing in and developing a hotel and golf facilities in Dornoch. Scotland is known the world over for golf, so if we turn down major golf initiatives, frankly there is no hope for us.

Marilyn Livingstone: I do not represent a north-east constituency, but I support what my colleagues have said. We must consider the bigger picture. As I represent a constituency in Fife, which is the home of golf, I believe that the message that we send out to the wider Scottish community and the wider international community is important. I am pleased that the Government has decided to call in the application. In our inquiry we must take on board seriously the implications of the development.

Dave Thompson: I agree and I welcome the calling-in of the application. Tourism is vital for Scotland and it is even more important for the Highlands and Islands, which have an even greater reliance on it. The planning issues and other matters surrounding the development are important—there are major issues in there. Like Lewis Macdonald, I hope that the matter is decided fairly quickly, so that we can consider the details. The project has implications for the whole of Scotland, not least the Highlands and Islands.

Christopher Harvie: I will abide by whatever decision the First Minister makes.

The Convener: I think that it will be the Scottish ministers—I remember certain things about planning.

I am grateful to the committee for the unanimity on that. We will proceed as I suggested. We will circulate the letter prior to its departure to ensure that colleagues are comfortable with its contents.

We will now move into private session for agenda item 4, which is on the budget process.

11:33

Meeting continued in private until 11:53.

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