ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 29 October 2008

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE
20th Meeting 2008, Session 3

CONVENER

Iain Smith (North East Fife) (LD)

DEPUTY CONVENER

*Rob Gibson (Highlands and Islands) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)
*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)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)
Alex Johnstone (North East Scotland) (Con)
*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Garry Clark (Scottish Chambers of Commerce)
Professor Hervey Gibson (COGENT Strategies International Ltd)
Dr Peter Hughes (Scottish Engineering)
Owen Kelly (Scottish Financial Enterprise)
Michael Levack (Scottish Building Federation)
Niall Stuart (Scottish Council for Development and Industry)
John Watt (Grant Thornton UK LLP)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

LOCATION

Committee Room 2

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 29 October 2008

[THE DEPUTY CONVENER *opened the meeting at 09:31*]

Budget Process 2009-10

The Deputy Convener (Rob Gibson): Good morning and welcome to the 20th meeting this year of the Economy, Energy and Tourism Committee. We have received apologies from the convener, Iain Smith, and I welcome his committee substitute, Jeremy Purvis. I remind everyone to turn off their mobile phones, BlackBerrys and other such devices, which interfere with the public address system.

The committee continues to take evidence as part of our scrutiny of the Scottish Government's draft budget proposals for 2009-10. I remind everyone that we have chosen to focus on the measures that the Scottish Government and others should be taking to help the Scottish economy through these difficult times.

We are joined by a panel of experts from business organisations, trade associations and private sector businesses. I welcome the witnesses and invite them to introduce themselves and make brief opening remarks.

John Watt (Grant Thornton UK LLP): Good morning. I am a partner in Grant Thornton and I run the government and infrastructure advisory team in Scotland, which is a team of some 25 people. I am involved in financial services, the construction industry and public-private partnership and private finance initiative-type transactions.

Owen Kelly (Scottish Financial Enterprise): I am chief executive of Scottish Financial Enterprise, which is the industry body that represents the financial services industry. We are entirely funded by our member companies, which are drawn from the largest financial services companies—banks, building societies and so on—and from the much smaller, more aspirational support companies that are also part of the industry.

Michael Levack (Scottish Building Federation): I am chief executive of the Scottish Building Federation. We are 113 years young and have some 700 members, from Orkney to the Borders. We are a true federation, with 17 local associations. For my sins, I am also the employers secretary on the Scottish Building Apprenticeship and Training Council, which we administer on behalf of the industry.

Niall Stuart (Scottish Council for Development and Industry): The Scottish Council for Development and Industry is the economic development network that intends to lead the debate on economic development in Scotland. Our membership is drawn from large corporations, small businesses, academia, local government, Government agencies and so forth.

Garry Clark (Scottish Chambers of Commerce): I am head of policy and public affairs at Scottish Chambers of Commerce. Our network represents 20 local chambers of commerce throughout Scotland. We have a business membership of some 9,500 businesses, from sole traders to large multinationals. We represent businesses across the sectoral base and geography of Scotland.

Dr Peter Hughes (Scottish Engineering): I am chief executive of Scottish Engineering, which was formerly known as the Scottish Engineering Employers Association. We have more than 400 member companies, which are scattered round the country, from Thurso in the north to Jedburgh in the south and everywhere in between. We help our member companies with everything from industrial relations and employment tribunals to wellbeing—you name it, we help them, in 101 different ways. We act as the voice of manufacturing engineering in Scotland.

The Deputy Convener: We will move to questions and answers. We want to get through as wide a range of questions as possible, so it may not be necessary for everybody to answer every question.

Lewis Macdonald (Aberdeen Central) (Lab): A few weeks ago, Mike Levack gave evidence to the committee on the importance of introducing capital projects, particularly in construction. One issue that he highlighted was publicly financed projects. Since May last year, we have had a hiatus in the development of public-private partnership projects, in that few additional ones have come through. One has been introduced in my city of Aberdeen using the model that we are led to believe the Scottish Futures Trust will follow, which is that of non-profit distribution. Under that model, the profit accrues to the investors over 30 years, rather than up front. I ask Mr Levack, John Watt—who also has expertise in the matter—and any other witness to comment on the benefit if the Scottish Futures Trust project is accelerated and introduced in line with existing public-private partnership models. Are we at risk of missing an opportunity because of the delay in introducing new school and hospital building programmes?

Niall Stuart: We must give the Government credit, because businesses, unions, building authorities and the development community are all upset about the delay in the introduction of the Scottish Futures Trust. All those who are involved in the debate are concerned about the delay and about how the trust will work and what it will mean for new schools and hospitals.

Michael Levack: I am happy to elaborate on the comments that I made a few weeks ago. I stress that the construction industry is not interested in the politics. We have heard a fair bit in recent weeks about consensus politics at the United Kingdom and Scottish levels. We hope that there can be consensus on introducing these essential infrastructure projects. We need to get projects moving quickly, bearing in mind that the procurement period is always extremely lengthy and fraught with delay. We are already losing significant capacity in the industry by the week. We are concerned that, if we continue to lose capacity at the current rate, in years to come we will be faced with rampant construction inflation, which ultimately will erode any benefit that the Scottish Futures Trust is trying to achieve. I think that the targeted saving is £100 million to £150 million per annum, although the detail on that is yet to come.

On the non-profit distributing model, the question that I continue to ask myself and which I am surprised is not asked more widely is whether banks will wish to participate in the Scottish Futures Trust, given the current state of the financial markets and the banking industry and given that the Scottish Government has used fairly robust language about ensuring that any return for equity providers will be capped and limited.

John Watt: To give an example, as I said, my team has 25 people working on projects. Approximately 50 per cent of our work is outside Scotland, which is sustainable at present but, ultimately, somebody will ask why we are based in Scotland and why our people are not elsewhere.

With regard to financial services, Michael Levack has just mentioned the banks' position: the HBOS and Royal Bank of Scotland teams were closed down before the current hiatus, so we have lost 20 fairly experienced bankers in Scotland. They have all gone to other posts, but they are not necessarily in the banking industry, so that level of expertise has already disappeared.

If we consider the construction industry—for which Michael Levack is in a better position to speak—I am seeing clients disappear from the marketplace. There are concerns: if I count the projects that are in the market at the present time, I find three live PPP projects with less than £200 million of capital value on the go. That contrasts with the situation at the peak of the school building programme, in which there were about £1 billion-worth of projects in either procurement or delivery at any point in time.

There is a massive change in the pipeline, and a big hiatus at present. People are looking very sceptically at the market, and the international contractors—the likes of Bilfinger Berger, Hochtief and others—who were operating in the marketplace do not view Scotland as a positive environment in which to invest. Something needs to be done quickly. Whether or not that should involve SFT is a debate for another committee.

Owen Kelly: The point about flight of expertise is important, not only for the companies that John Watt mentioned, but for lawyers, accountants and others. It is a real issue that needs to be dealt with urgently. The appointment of Sir Angus Grossart was a significant step forward; however, from our point of view, it is still work in progress.

Michael Levack makes a good point about the banks but, given the current circumstances, the long-term nature of some of those projects might, perversely, make them more interesting and attractive. I was reading yesterday about the deal that Clare College has done, which runs over 40 years. If anything, perversely that kind of long-term approach to investment is likely to become more interesting.

Lewis Macdonald: I want to return to a couple of points that have been made. In particular, I would like to know John Watt's view on Michael Levack's concern about the banks. We have heard Owen Kelly's view that there might be a perverse attraction in projects that do not pay back for a long time.

John, what is your view of the position for people who have invested in public sector projects in recent years? Will a longer delay in returns increase the attractiveness of those projects, or is there a risk that—as Michael Levack said—caps will act as a disincentive to investing in Scotland?

John Watt: The risk is that they will disincentivise people.

Lewis Macdonald: I have a particular interest in that—I mentioned the schools building project in Aberdeen, which borrowed £120 million from an Icelandic bank and which might now have to seek an alternative financier for a project that is already far advanced. What is your assessment of the market for potential investors in projects of the non-profit-distributing type?

John Watt: There are differing views. I will stay away from speaking specifically about Aberdeen, if you do not mind, as I know a bit more about it than I want to share here.

Clients of ours have said that they do not want to go for the NPD model because, as they see it, the risk reward ratio within that structure does not work for them. People have considered different ways of approaching the issue to try to reach a position with which they are comfortable, because the costs of bidding for such projects are high, and the time frame that is involved in trying to win the contract for a project is pretty lengthy. A lot of money is spent: on some of the larger projects, people were spending £2 million or £4 million and not winning the contract, and they then had to recoup that money from elsewhere. The concern is that capped returns, as there are in the NPD model, will cause real problems.

Nobody is against the idea of the refinancing provisions that have been introduced. In the early stages of PFI, excessive returns were made, but people on both the private and the public sector sides were learning. I have worked for clients in both sectors, so I am confident in saying that. We were getting to the point where the model was better established, the returns that the private sector were likely to make were commensurate with the risks it took, and the public sector could recoup any excessive gains. If resources are scarce and there is an unfamiliar model, it is natural to look for other ways in which to apply your resources and effort in order to get a better return. That is the concern about the NPD model. We see the lack of a pipeline: there are not enough projects out there to interest people.

09:45

Lewis Macdonald: Mr Levack spoke about the importance of finding consensus in bringing projects forward. Is the finding of consensus hampered in any way by the Government's wish to change the funding model, or do we just have to press on?

John Watt: It is uncertain; we just do not know what SFT will look like. A number of people in the industry are concerned about what SFT is and what it will mean. Much has been said about what it might look like, but it seems that it will be some time before SFT is realised. The last date that I heard for SFT having its own funding capability was 2010, which is quite a way off. People will not be able to hold on until 2010 in the hope of seeing a pipeline then.

The Deputy Convener: Do others wish to speak about this subject just now? I see that Wendy Alexander, Chris Harvie, Dave Thompson and Marilyn Livingstone do.

Ms Wendy Alexander (Paisley North) (Lab): I was struck by John Watt's observation that three live projects worth about £200 million are in the marketplace, which contrasts with the good times, when about £1 billion-worth of projects were—I think he said—in procurement or delivery. That obviously suggests a hiatus.

I think that there is a unanimous view that we need to accelerate infrastructure projects. Would any of the witnesses like to hazard a guess on the timescales for gearing up? Owen Kelly suggested that we had a chairman for SFT, but we do not have a board or a chief executive, and the corporate structure of SFT will—rightly—require a memorandum of agreement, between the Government and the board, on how SFT will operate. All of those things are required before there can even begin to be a discussion on how to accelerate the pipeline or on what models are or are not appropriate.

The Deputy Convener: Do you have a question?

Ms Alexander: My question is on the timescales before we will see a board, a chief executive, a memorandum of agreement and an agreed investment model. How long will it take us to get back from £200 million to £1 billion, before we even think about exceeding £1 billion?

Michael Levack: I speak on behalf of the construction sector. John Watt has spoken about high bidding costs. It is not inconceivable that two years could pass between a project coming to the market for bids and a shovel being put in the ground. We are not yet at the point where the SFT is fully established, its governance is clear and projects are coming to the market. That seems to be affecting the decision making of local authorities. They are unclear about how exactly to proceed with their plans for infrastructure.

Christopher Harvie (Mid Scotland and Fife) (SNP): Financial conditions have been changing practically daily. What appeared to be a set situation a fortnight ago—for instance, a low dollar—has been totally transformed today.

Some of us suspected that a crash along these lines would turn up and would centre on the financial services industry, and we are interested in what will replace, for example, bank saving. When there has to be a drastic reduction in interest rates, putting money into a money market account will not be a reasonably sure earner. Surely that opens up the possibilities of bond finance, in which we are dealing with a return of about 5 per cent. It could attract the people who would have had money in savings accounts and money from people who no longer regard housing—let alone some of the interesting financial products that have been crashing into the sea all around us—as a safe speculation. I would like the witnesses' views on the practicalities of bond finance, which has always been one of the great means of financing public works, because it is unquestionable that we will recover through public infrastructure, if we cannot look to housing or financial services.

John Watt: Worryingly, everyone is looking at me. I will answer Ms Alexander's question on the timeframe first, if that is all right.

Once projects that will be taken forward have been identified, it could easily be three to four years before the construction industry really starts to gear up and put spades in the ground. It has taken that length of time in the past to sort out the scope of projects and how they will be procured. That ignores any of the other elements of the SFT, such as the memorandum of understanding.

Projects such as the replacement Forth crossing and Glasgow southern general hospital are still a long way into the future. I am aware of a number of projects that people have wanted to bring forward but which are stuck for whatever reason. I do not know the answer for those projects. Even if they were resurrected, by the time the business cases and procurement models were worked through, it would take some time before they came out.

I will try to answer Christopher Harvie's question on bonds, although I am not a personal finance expert—I have one bank account and a pretty boring set of financial investments.

Bonds will potentially be more interesting because people perceive them to be safe. In the past, the rating agencies have typically rated the bonds that were issued on PPP projects as investment grade. There is a caveat there, because the rating agencies are hugely suspect at present. However, investors were quite willing to consider investment-grade projects and, even without the rating agencies, one would expect a public sector infrastructure project to be rated as being an investment-grade transaction.

How we go about selling such bonds to widows and orphans and encouraging them to invest in such projects is a different matter. To be inventive about it, a corporate-type bond that allows money to be distributed into different projects would be necessary. It would not be possible to sell bonds to the general public on a project-by-project basis because they would not go for the cost of that.

Dave Thompson (Highlands and Islands) (SNP): Is the £200 million that was mentioned purely PPP projects? Am I correct in saying that it does not take into account capital projects that are funded in other ways?

John Watt: It is purely the PPP element, as far as I am aware.

Dave Thompson: Do we have any idea how much is being spent using other methods of raising capital? You mentioned that it was £200 million compared to £1 billion in the past, so I would be interested to know whether other sources of funding have increased. Do you know what the figures are?

John Watt: I do not have an exact figure, but the M80/M74 extension is proceeding under traditional procurement. That is about it.

Niall Stuart: The figures are available in the infrastructure investment plan. For example, in transport, there is something like £1 billion of capital investment a year. In health, it is something like £500 million. Hugely more capital investment is being made using traditional means of public spending.

Dave Thompson: So the fact is that there is still substantial capital spending at the moment within Scotland—you just rhymed off £1.5 billion—so we should not get carried away with thinking that PPP/PFI is the only method.

I think that John Watt mentioned the excessive returns that were made on some PFI projects. I come from the Highlands and Islands, where we are familiar with such returns. The returns on the Inverness airport and Skye bridge projects were not just excessive; they were excessive excessive excessive—they were ridiculous. Perhaps that was symptomatic of the economic madness during the great age of irresponsibility that has brought us into the current situation.

Is it not incumbent on Government to get best value for public money? If banks are not interested in the Scottish Futures Trust, because they are interested only in the PPP/PFI model, which brought them pretty big profits, is John Watt suggesting that we should go back to those profit levels, albeit perhaps not to the excessive profits that were made when the model was first used? You seem to be suggesting that the SFT will not attract the banks; are you suggesting that we return to the old PPP/PFI model, which is costing the public purse and will continue to do so through revenue spend for years to come for all the schools projects and everything else? Is that the only way to attract financiers?

John Watt: On whether or not the SFT is attractive to the banks, the fundamental point is that we do not know what the SFT is. Nobody fully understands what it will be and what it might look like.

The PPP/PFI model and contract structures have developed in such a way as to severely restrict the opportunity to make the excessive returns that were made on many early projects, and mechanisms for sharing returns with the public sector are much better developed. The Treasury recently issued a new guidance note on refinancing gains, which goes even further towards ensuring public sector benefit. The model is evolving all the time.

It is interesting that you mentioned Inverness airport. I have some knowledge of that very early deal, which was a learning exercise for the people involved. There were counter-indicators in that regard, which created the excessive returns, because the airport was being funded through the route development fund, to encourage passengers to use it, and the PFI contract was paid on a volume basis. Two different levers were working against each other, which is why the costs racked up as much as they did.

I am not saying that we need to go back to PPP/PFI, but the model was delivering and we would not necessarily go back to the model that led to excessive returns. The NPD model is causing concern, SFT is adding another layer of concern and people are saying, "We cannot see a pipeline of projects coming forward." We had built up a good pipeline of schools projects and, if interest and momentum are lost, it will take a long time to recover them. As Wendy Alexander said, what timeframe are we talking about? It will take considerable time to get people back into the market, and in the meantime there could be quite a loss of talent in the construction industry and in legal and financial services.

The Deputy Convener: I am keen to move on to consider what the Government can do to improve the general economy, but first I bring in Marilyn Livingstone.

Marilyn Livingstone (Kirkcaldy) (Lab): I think that my question, which is for Michael Levack, will help us in our subsequent discussion. At a previous meeting, the committee discussed timeframes, which Wendy Alexander mentioned, and witnesses have talked today about the flight of expertise. I am concerned that we should protect and develop skills. We have witnessed a big downturn and big job losses in the house building sector, but witnesses from the construction industry have told us that there is a bank of projects to see them through. Can the panel estimate when the work will run dry and the sector will be in crisis? If the committee is to reach a consensus, we need to know when we will reach a crisis situation. The situation for house builders is already bad, but when will crisis hit the entire industry?

10:00

Michael Levack: We are already there. If we do not take action now, there will be no point in doing so in six months' time when the work dries up. Work is coming through by traditionally funded means, but such work would have come through anyway.

The industry has been criticised wrongly for a lack of training, and we have spoken about skills shortages in recent years, but we recruited almost 5,000 apprentices last year, so we are probably running at capacity for training. Those people need to be able to complete their training and we need to sustain the industry's capacity, to go back to my earlier point, otherwise we will face rampant construction inflation—I use that term very thoughtfully. The time for action is now.

The situation is worst in rural areas such as the Western Isles, Orkney and the Borders, where the industry is facing really serious issues. We are talking about second and third-generation businesses that directly employ a significant number of people that might not see past Christmas. The environment is challenging and we need to take action now rather than in six months when it will be too late.

The Deputy Convener: I am keen to pursue a line that John McLaren raised with the committee last week about several aspects that could help us to kick-start the economy in these difficult times. One of his points was about supporting key sectors or areas. I am keen to bring in other members of the panel as well as the financial experts to consider that point. Are there particular elements of the economy, such as construction, that we could develop in these difficult times to start the economy off again?

Garry Clark: We have been surveying our members across sectors throughout this year. In the construction sector, quite some time ago we picked up a drop-off in the number of house building projects. Until now, there has been a buoyancy effect from the public sector contracts. To underline what Michael Levack said, it is essential that whatever mechanism is used, the nation should continue to invest in the public sector construction industry.

No doubt Peter Hughes will talk about manufacturing and engineering, in which businesses have been performing relatively well in comparison with the rest of the economy this year. The Scottish manufacturing advisory service has certainly made a great impact during the past couple of years; perhaps that is an area in which we might benefit from slightly greater investment now.

The tourism sector has had a reasonably poor summer, part of which is down to the economy and part of which is down to the weather. Tourism has not gone well this summer, but there are things that can be done to boost it, such as better marketing. VisitScotland is doing a great job, but perhaps we could market particular regions of Scotland better. I also underline the importance of having an effective transport infrastructure to ensure the free movement of tourists around the country, particularly to the more rural areas.

Dr Hughes: As has been said, the engineering and manufacturing sector in Scotland has been doing fairly well for the past five years. The results that we published in the first week in September showed the first negative order intake report for five years, which is one quarter out of 20. It is interesting to set it in context.

There is no doubt that those of our members who are involved in the construction sector are having a tough time and have already experienced significant redundancies. There have been 20,000 to 30,000 redundancies across the sector in the past few months.

Our other Scottish engineering member companies are fairly buoyant. The oil and gas sector is going at an amazing pace right now. There are severe skills shortages: we cannot get enough people. Trying to recruit people in Aberdeen is like looking for hen's teeth—so much so, in fact, that a number of companies have established bases in and around the west of Scotland. Wood Group Engineering (North Sea) Ltd is a typical example—it now has 400 engineers at Robroyston—and another is FMC Technologies Ltd of Dunfermline, which has set up bases in Glasgow.

There is some evidence of belts being tightened and redundancies creeping up, but the numbers are relatively small and in our sector are certainly in the minority. Although we are reasonably buoyant, there are still shortages and concerns. The movement in sterling has certainly helped our export market, but those markets have to be sustainable. It is all very well having a good pound to dollar or pound to euro rate, but exporting to those countries becomes very difficult if their economies are struggling. Over the past 10 years, Scotland's manufacturing exports have averaged £15 billion per annum, £9 billion of which has come from engineering and £6 billion from the electronics sector.

I am not a little amazed at the current furore in the financial sector north and south of the border. I should first of all congratulate the Prime Minister and the Chancellor of the Exchequer on leading the country through it, because they do not get enough credit for their actions. However, where has everyone been over the past five years of suffering in the electronics sector? They have been hiding. Nevertheless, the sector is still the biggest single manufacturing export sector in Scotland by a mile and, indeed, is more than twice the size of the whisky industry. I am not understating the importance of whisky—I love the stuff—but engineering is several times more important. According to the Government's own statistics, over the past four years, engineering exports—excluding electronics—have grown by 33 per cent. We are fairly encouraged by such good news, but we are always looking over our shoulder and worrying whether investment will be available and whether, given the state of the economies elsewhere, we can sustain the export markets that have been sustaining us so far.

Niall Stuart: There are four or five things that we can learn from what happened in Sweden, which experienced a similar financial collapse at the tail-end of the 1990s. First, we need to target overseas trade. Peter Hughes is right to highlight worries about demand from overseas as well as domestic demand. However, given that India and China's annualised economic growth rate is expected to slow only to 7 per cent, there will still be strong demand and strong growth in demand in certain markets. The weak pound should help that position.

Secondly, as Peter Hughes said, the energy sector is very strong. There is still global demand for key Scottish skills and technologies in oil and gas and renewables, but the question is whether we are doing everything that we can to promote Scottish businesses in those overseas markets.

At a time of suppressed private sector demand, we should be doing everything that we can to help Scottish businesses to meet public sector demand. The procurement reforms and today's launch of the Government's portal, which should make it easier for every business to find out about contracts throughout Scotland, can only help.

Similarly, we need an effective regulatory environment that protects the health of consumers and employers while making it easy for businesses to go about their operations. In that respect, the planning reforms announced yesterday will provide help to sectors such as construction and house building that are facing long-term difficulties.

Finally, we have to find ways of embracing the huge opportunity that is presented by homecoming Scotland 2009 and using it to help the tourism market at a difficult time when not just Britain but Europe and North America are experiencing an economic slowdown.

The Deputy Convener: Before we discuss the financial services sector, I want to ask about certain issues that have been highlighted in other committees and are beginning to permeate our economy. What practical steps could the Government take with regard to, for example, the short-term business of retrofitting houses, which can employ many people in the construction industry, and the more long-term business of developing the energy projects that Peter Hughes mentioned, particularly the renewables projects that employ somewhat similar skills?

Michael Levack: I am delighted that you have raised that issue because, although the draft budget proposals are littered with comments about climate change, improving energy efficiency and so on, and although I appreciate that the budgets are fixed, I wonder whether some funds could not be redeployed in the manner that you have suggested. Such a move would help to stimulate the construction industry, keep people in jobs, keep the skills in the sector and help those who are suffering most from fuel poverty. The quicker we start on the massive task of reaching the 2050 targets, the better.

I brought the so-called Sullivan report with me, and I wonder whether we have made enough progress in examining the costs that are associated with retrofitting buildings. I must have been very sad last night, because I watched a live House of Commons debate on the Climate Change Bill. An MP for Nottingham was very articulate about his views and said that we need to do what is being done in other countries, such as Germany. We should bear in mind that, although we can tackle public sector buildings, some grant funding may well have to be made available for those in the private sector because, in the current climate, who is going to volunteer to spend several thousand pounds on retrofitting their house?

The Deputy Convener: It has been suggested that there are ways of doing that, such as the concierge system that was set up by the London Assembly, which enables better-off people to get access to the necessary skills and guidance while the public sector invests in the affordable housing stock and so on. Do you think that the construction industry will be able to move in that direction in the near future?

Michael Levack: Absolutely. I have talked about the potentially devastating situation that could arise otherwise, particularly in rural communities, many of which have poor housing stock. Although the difficulties that are being experienced with regard to the Scottish Futures Trust and the financial markets are complex, it seems to me that, if we can get expenditure into energy-saving initiatives—even if we start with public sector housing—we can do relatively quick work.

The Deputy Convener: Is there anything that the engineering sector might wish to say about this particular issue?

Dr Hughes: First, for businesses to invest, there has to be a long-term period of stability and certainty against which we can plan. Within the engineering and manufacturing sector, there is an underlying concern with regard to energy policy. The sector is keen that there be a balanced, long-term, sustainable and affordable policy that will give us security of supply. Scotland is well placed to do that. We have the skills; the key thing is to keep them and develop them. We need to make use of all available technologies to ensure long-term security of supply, particularly of electricity. Those technologies include onshore and offshore wind power, clean coal, carbon capture, biomass energy, wave and tidal power and nuclear power, which currently accounts for between 30 per cent and 40 per cent of Scotland's electricity—we turn our back on nuclear power at our peril.

Scottish Engineering's members include British Energy, Scottish Power and Vestas-Celtic Wind Technology, which has its own problems at the moment. We need a clear message that Scotland is open for business and can use the skills that it undoubtedly has. We have universities that are punching above their weight in terms of research and a great deal of expertise in power systems. We avoid using those advantages at our peril.

The Deputy Convener: The committee is also undertaking an energy inquiry, so I do not want to stray directly into the details of that. Today, we are talking about the budget and the Government's ability to ensure that it is clear. In that regard, you are saying that you need a clear steer about how, for example, the renewables part of the budget will be taken forward.

Dr Hughes: Not only the renewables part; a clear message must be sent about the entire picture. Renewables cannot be taken in isolation.

10:15

Christopher Harvie: As a result of the visit a couple of months ago of Dr Frankenberg, who is the minister for research in Baden-Württemberg, a group from Scotland is going to visit the new Karlsruhe institute of technology to find out about its research into power and housing, in particular its work on passive housing, which is housing in which no energy input is required in order to generate heat. I note that the trip cannot be classed as a freebie, because the group will fly out, be there for a day, and fly right back.

Dr Hughes, you are quite right to emphasise the good research capabilities of Scottish universities, but we also face a problem in the relative lack of apprentices who can become technical assistants, who are the sort of people who can turn a research breakthrough into a production process. Baden-Württemberg is five times more productive than Scotland in that regard.

On the point about choices of sources of power, Germany—even with its coalition Government—is still committed to a non-nuclear policy, so there are various circumstances in which it would be dependent on us to supply it with renewable power, when that becomes exportable. That is one of the major areas of interest that it has.

Dr Hughes: You have given me an opportunity to get on my favourite hobbyhorse. If the Scottish

Government were funding apprentices at the same level as the rest of the UK is, we might have a few more. Scotland gets around £3,000 less, per modern apprentice, than the rest of the UK.

Despite that, I have good news for you. The modern apprentice intake over the past three years is the highest intake in the past 10 to 15 years. The company on the Clyde that is now known as BVT Surface Fleet—it was previously BAE Systems and, before that, Yarrows—has taken on several hundred modern apprentices in the past few years, and the same thing has happened elsewhere in Scotland. There are now around 30,000 modern apprentices.

The other piece of good news is that the youngsters who are applying are of a very high standard. We are delighted with them. For 300 modern apprentice posts, we had around 4,000 applications, and the standard was excellent.

Niall Stuart: From speaking to various people in industry, I think that it is clear that the economics of renewable energy retrofitting in housing estates and commercial property now makes sense because of high energy prices. The only thing that I would flag up is that I have heard people say that the planning system can cause difficulties in that regard, as it was not designed to cope with developments of that sort. The relationship between the planning authority and the Scottish Environment Protection Agency can often mean that there are long delays in getting work approved, because the planning authority wants to conduct the same checks that SEPA wants to do, which means that people end up getting regulated twice.

The economic case now stacks up, but it has to be made easier for people to do the work.

Lewis Macdonald: We have had discussions about public investment in the energy efficiency retrofitting work and about the importance of modern apprenticeships. Do you recognise that the changes that the Government makes to its budget processes need to be coherent and that, according to the advice that we have had, there is a choice of what kind of coherent objective the Government should seek? What would your advice be to us on the relative importance of protecting employment, training and skills and long-term growth? Given that the changes that can be made at the margins cannot protect all those things equally, what should the priorities be?

Michael Levack: In terms of energy efficiency, there is a simple hierarchy of what can be tackled. Quite simply, there are basic measures that we should be taking with regard to our public housing and public buildings. That could be done quickly, and—with all due respect—we do not need to go on any more visits to see what our neighbours are doing. People from across Europe participated in the Sullivan report. We know that we need to start work on the basics, and we would do no damage by immediately diverting apprentices and other tradespeople to that work.

To come back to Dave Thompson's earlier point about value for money in terms of public expenditure, the way in which we can get—to use that terrible American phrase—more bang for our buck is to get on with the work now. We have a massive job to do. The construction industry welcomes that, because it will give us a work flow for the next generation.

Owen Kelly: My point is more general, and not only because I know nothing about energy efficiency. Work that we have been doing with member companies shows that there is perhaps a surprising amount of investment going into skills and workforce development. One thing that Government can use in some circumstances—in economic times such as these, for example—is its ability to invest for the long term. Notwithstanding the difficulties that our industry is currently dealing with, our success over the past hundreds of years has come about not by accident but because of particular concentrations of skills and expertise. You may not turn most naturally to our sector for advice at the moment, but if you are looking for advice on setting priorities, I would say that the general point about skills remains strong. Globalisation and international competition will not go away whatever is going on in the world economy, and investment in skills by Government and industry is absolutely the priority for the long term.

Dr Hughes: I have a little concern about the term "protecting employment", which suggests protectionism and building walls. That is not the way to protect jobs; rather, the way to do so is by ensuring that businesses are efficient and can compete in the global market. At the end of the day, making profits is not a bad idea. Doing so safeguards jobs and leads to more jobs being developed in the longer term.

A good example of what is happening is, of course, the support that is provided by the Scottish manufacturing advisory service, which has been a great success and has had a very good track record to date. We welcome that and we would certainly welcome further support and the continuation of the good work that it has done in the first couple of years.

Niall Stuart: A key area for Scotland is, of course, capital investment. That was picked up by the previous incarnation of this committee in the previous session. We have already talked about the importance of capital investment to employment. As Peter Hughes said, the issue is not protecting employment but generating and maintaining jobs. Over the past 40 to 50 years, we have invested around 40 per cent less in transport than our European neighbours have. We should also consider our school and further and higher education estates and the huge need for investment in our energy networks if the Government is to achieve its target of 50 per cent of electricity being produced from renewable sources by 2020. We have discussed that. There are areas in which we clearly need capital investment, which will provide employment.

Garry Clark: I want to underline some points that have been made. It is extremely important that the Government does everything possible to bring forward capital projects earlier than expected in order to get us through the next year or so, and that it continues to work hard on procurement and opening up opportunities for small and medium-sized businesses—by which I mean businesses in which 50 or fewer people work—in particular. There are huge potential benefits for those businesses through being able to contract with the public sector. We are making progress on that, but we need to make more progress.

I underline the point that has been made about skills. We need to continue to invest in skills. The issue will not go away. When we emerge from the tunnel that we are in, we need to do so with the skills to compete in a global marketplace.

The Deputy Convener: You may want to clarify a point about procurement for us. Some procurement is becoming more centralised. Is that militating against local firms at a time when they need to be supported?

Garry Clark: The Government needs to draw a line between clear efficiency savings for local authorities and other public sector agencies and using procurement as a way of delivering economic benefits to small and medium-sized businesses in Scotland. There is a line to be drawn and a balance to be struck. Given the current economic circumstances, the best value for the country would be delivered if the balance was more towards providing opportunities for small and medium-sized businesses than towards simple money saving for local authorities.

Gavin Brown (Lothians) (Con): Aside from the acceleration of capital spending, the Government's main response in the past month or so to what has been happening is its six-point plan: maximising tourism, simplifying planning, boosting advice to business, promoting energy efficiency, encouraging the uptake of health benefits and looking at fuel poverty. Let us take the first two of those. The budget for VisitScotland goes down by £1 million this year, and the planning budget goes down from £8 million to £2 million. What do our witnesses have to say about the six-point plan that the Government produced last week? What additional points could be included in the plan?

Dr Hughes: I would pick one specific point, relating to planning. This comes up on a regular basis. In our discussions with Vestas-Celtic, which announced the closure of its facility at Machrihanish—albeit that discussions are continuing—planning and the delays in getting things done came through loud and clear. We have raised the matter directly with the Cabinet Secretary for Finance and Sustainable Growth, Mr Swinney, who has undertaken that something will be done to streamline the planning process.

However, as you say, it seems that the moneys going into planning are less than they were. Planning departments do not seem to be up to speed when it comes to getting things moving. It is all very well having public consultation, but we are being consulted to death in some areas, instead of things just getting done. One very good example that is often used is the speed with which the Chinese have built their infrastructure. The length of time that it takes them is virtually nothing compared with the time that it takes us here. We have got to get moving much more quickly and efficiently.

Niall Stuart: To an extent, the changes in the planning budget can be accounted for by the huge activity of central Government in formulating a new way forward. Now, implementation is up to local authorities. On tourism, VisitScotland has an excellent record for return on investment. That industry has always argued for more money to be spent on marketing Scotland abroad.

There is a strong case for enhancing the promotion of Scotland's businesses overseas at this time. There is a huge onus on the public sector when it comes to procurement. There are huge threats and opportunities from procurement reform. There is a huge responsibility on the public sector to ensure that all businesses know about and understand the changes and how they can compete in the new environment. It is clear from speaking to SCDI members that an awful lot of small suppliers to the public sector do not understand the changes, and they do not know how to compete in the new environment.

We would add to the six-point list the dropping of the proposed local income tax, because of the uncertainty that it would bring to the economy.

The Deputy Convener: I return to your point about promoting our businesses abroad. How would you go about that? How should they be promoted at this time?

Niall Stuart: We should seek to work with key sectors such as energy and consider how to promote them in key markets, such as India and China. It is not a matter of doing anything differently compared with how things happen at the moment, but it is simply a case of scaling up our activity.

Gavin Brown: You represent SCDI rather than Scottish Development International, but I notice that the SDI budget is going from £1.7 million to £0.7 million. There has been a £1 million cut in the budget for the organisation that promotes businesses overseas. I would be keen to know what our witnesses think about that.

Owen Kelly: I thought that the six points were all quite sensible, but I would have been keen to see a bit more of a relationship between those actions and what the UK Government is doing. All those things are connected. You mentioned SDI, which obviously has an important role. We work closely with it, and it does a very good job. There is also UK Trade and Investment, and UK ministers go overseas all the time, too. It is all part of the larger picture. I agree that the single biggest lever that the devolved Government could pull would be postponing or dropping the local income tax, which would have the most obvious impact on Scotland's competitiveness.

Dr Hughes: At the end of September, we hosted a lunch at our offices in Glasgow for members of the UK Trade and Investment team working with embassies around the globe, especially those involved in high-value engineering. UK Trade and Investment's centre for high-value engineering is based in Glasgow—it was a spin-off from the former offshore supplies office. The lunch allowed us to get member companies face to face with the folk who represent the UK in various embassies around the globe. We had people coming in from China, India, Korea and all over the place. That was very useful. If we can promote such involvement a bit more, it will ensure that the folk out in the field will know where to come when they need support in skills, and high-value engineering: that place has got to be Scotland.

The Deputy Convener: We will be able to ask the minister about that in due course, but it is a fair point to make just now.

10:30

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I thank the deputy convener for the opportunity to ask a question, as I am not a member of the committee. I will follow the deputy convener's questions about housing. The issue is capital, because that is a lever that the Scottish Government has at its disposal with its capital budget. We probably all know that the £100 million for the affordable housing investment programme has been taken from other capital budgets, which cannot be accelerated if that money is not available. That includes £20 million from the education sector, £10 million from the budget for modernising private sector housing and £40 million from local government.

In my constituency, the housing grant for housing associations has been reduced by 25 per cent this financial year. They cannot use that grant to retrofit housing stock and bring it up to the housing standard, so that work must be funded through increased rents. The witnesses have expertise in the matter. How will the affordable housing investment programme money be spent? Will that happen through the Communities Scotland-approved plan, which will mean no new investment? Can the money be used differently from how housing associations and councils understand it can be used?

Michael Levack: The announcement of £100 million, which preceded the six-point plan, was most welcome. Our concern, which is witnessed on the ground, is about delay. The money has been brought forward to stimulate and assist in provision of much-needed affordable housing, but it takes time to go through the system.

I appreciate that checks and balances must be appropriate when dealing with public funds—that is obvious. However, I am concerned that we almost accepted in recent years—perhaps it was okay when the economy was buoyant—that planning applications would take three to four years, that achieving approval for a scheme through the old Communities Scotland could take a couple of years and that obtaining approval from utilities and the Scottish Environment Protection Agency takes 18 months to two years. We need to go on a war footing to challenge such timescales. If fewer planning applications are processed and fewer applications are being made to the organisations that I mentioned, I hope that the remaining applications will be expedited.

I repeat that we need to get infrastructure moving—the infrastructure investment plan is only a plan at the moment. We need expenditure on the ground to protect ourselves in some respects from construction inflation, which is global. In our manufacturing sector, some organisations operate globally, but in construction, most companies work only in Scotland; few construction companies, apart from one or two specialists, have the opportunity to go abroad. All sectors rely on the construction sector to build factories, offices and facilities to expand their businesses.

Jeremy Purvis: I have another question about capital. Mr Brown pointed to published reductions in the budgets of the enterprise networks and of VisitScotland. The pipeline of projects that Scottish Enterprise supported has almost halved. Of Scottish Enterprise's budget of £289 million for the coming financial year, £73 million is for the agency's administration costs—nearly 40 per cent of its costs are for staff and information technology processes. What do you know about the impact of halting of infrastructure projects that Scottish Enterprise had been involved with?

Michael Levack: I have received no comments from our member companies about any change in expenditure by Scottish Enterprise on infrastructure. That is not a significant issue that has been brought to my attention.

Jeremy Purvis: So projects that are now on ice, such as the Ravenscraig redevelopment, have never come up in any of the representative bodies.

Garry Clark: Ravenscraig has been discussed. Lanarkshire Chamber of Commerce is extremely anxious about developments there and has been in contact with Scottish Enterprise's west of Scotland regional team. There is concern that investment in regenerating an area such as Ravenscraig is under threat.

Michael Levack: Sorry—I was responding specifically on changes in expenditure by Scottish Enterprise. I will shortly head down to the waterfront in Edinburgh for the opening of a new training facility, which involves an accord to which employers are signing up. Regeneration projects are clearly affected significantly because of the cross-subsidy from, to a large extent, private sector housing and developer contributions to the public purse. I visited a local authority yesterday that is witnessing significant reductions in its capital receipts because of the lack of housing and development projects.

Dave Thompson: Jeremy Purvis made the good point that if we want to increase capital investment, the money must come from somewhere and that an increase in one area means a reduction in another. There are two ways to deal with the issue. First, we can cut some funding to increase other funding. The witnesses have made many good suggestions on what they would like to be done. I do not expect you to be experts on the Scottish budget, but are there any obvious areas in which money is being spent unnecessarily and could perhaps be pushed aside?

The second way is for the Scottish Government to get more money. The Scottish budget is fixed, but there are ways of increasing it. On renewables, £120 million is sitting with the Office of Gas and Electricity Markets, but Treasury rules say that we cannot use it in Scotland and Westminster will not waive the rules, although it has waived other rules. Should we just accept our budget as it is and cut some funding to increase funding in other areas, or should the Government continue to press Westminster to be a bit more co-operative in these difficult times and to waive rules? That would allow the OFGEM money to come to us and we could get rid of the capital burdens on the councils that have rejected housing stock transfer. Councils such as Highland Council and the City of Edinburgh Council could then spend a lot of money on modernising their houses. However, that is in the hands of Westminster, not the Scottish Government.

The Deputy Convener: Do you have a question?

Dave Thompson: There have been various arguments about the Barnett consequentials and us not getting our share. I put my question earlier. Are there areas in which the witnesses would like us to reduce spending, or should we spend most of our energy arguing the case for our cash to be released from London?

Owen Kelly: It is difficult to answer that without straying into politics, which I strictly do not want to do as my organisation is completely politically neutral. I do not want to imply anything by this but, being practical, our members want politicians to take decisions within the existing structures. I absolutely do not want to comment on whether more money should come from the UK Government. Mr Mather talks about playing the ball where it lies, which is what most of our members probably want to happen, rather than there being consideration of all the possibilities. At the end of the day, for industry, public expenditure is public expenditure. Generally speaking, our members are fairly neutral on whether that expenditure should come through budgets that are managed and controlled at the devolved level or the national level.

You asked about priorities. As interviewers often do to politicians, you turned round the question and asked what we would cut. To be honest, we look to politicians to take those decisions on our behalf.

Dr Hughes: My comments will be in a similar vein to those of Owen Kelly. Scottish Engineering is an apolitical body that does not support any political party. However, our member companies are used to operating to budgets and we play the ball where it lies. The rules are the rules, and the game is the game: we should do what we can within the budget and make it work, instead of wasting time and effort chasing you up and down to London right now. The game is to use the budget to the best of our ability. I certainly agree with Owen Kelly that we should let politicians make hard decisions—that is why I am leaving it to members, and why I am not in politics.

Niall Stuart: With regard to the housing stock transfer, there were clear rules around the formula for that money coming back. There is general agreement that the money from the fossil fuel levy should be relayed to Scotland without any impact on the block grant. The context is different in relation to the work of the Calman commission and the national conversation, which must now consider how the Scottish Government and the Scottish Parliament respond to a time of economic difficulty, such as that which we are currently experiencing, without borrowing powers or significant tax-raising powers.

Dave Thompson: I accept that we should play the ball where it lies—there is no doubt about that. However, there are two balls, in a sense: both the Scottish Government and the Westminster Government can help you. Just because you are in a Scottish Parliament committee right now does not mean that you should not take a view on what Westminster should be doing and whether it is doing enough, because it holds all the levers and we do not. If you focus only on what we can do, which is a very minor amount, you are missing the bigger ball.

John Watt: I will make another non-political comment. If our budget is restricted, are there things that we could do within it to be more efficient and effective? Are there realisable assets that are currently within Government control when they should not be? I spoke yesterday to the asset realisation team in the Treasury and saw a list of things that it is considering for future disposals, which was two pages long—I did not get a copy of it. The team is examining which assets are held across Government in areas in which they do not need to be held. There is potential to be slightly radical in working within the budget by considering different things, although those things might not be palatable.

Dr Hughes: I want to clarify something in relation to Mr Thompson's point. The fact that we are giving evidence here in Holyrood does not mean that we are silent in Westminster: we are lobbying there as well to ensure that whatever needs to be done in that regard is done.

Ms Alexander: Although there is a live political debate about the appropriate powers for Scotland and whether we should have more control over the balance between taxation and public spending, we have, unarguably, a very high level of discretion over the mix of public spending in Scotland. The issue that Jeremy Purvis and others have raised about the mix between capital and revenue is what we as a committee are trying to advise the Scottish Government on. The Government will take profound decisions over the coming months in circumstances that have changed fundamentally from the time when the budget was proposed.

I will throw two areas at you for comment, and urge your organisations to think about making submissions to us in advance of our making a submission to the Government.

First, when the £100 million of affordable housing investment was announced, it is fair to say that it was pretty universally assumed that that was a shift into capital investment. It has now transpired that over 60 per cent of that actually comes from existing capital spending, and it is not in any sense a shift towards capital investment—it will have no net economic activity beyond benefiting those who will take up the additional houses. The other residual £40 million is discretionary on local government, and there is no agreement there.

It was assumed that we were accelerating capital expenditure by moving into capital investment, but we have not yet taken that decision. The Government has the opportunity to take that decision in the next three months, and advice from our business organisations on that—either now or later—would be helpful.

10:45

Secondly—and on an even larger scale—last year, at the time of the comprehensive spending review, the Scottish Government sought the right to draw down £1 billion, which had accumulated in the UK reserve, and in so doing to shift the mix between capital and revenue significantly towards revenue spending. Because the money is available in the budget next year and the year after, we have a choice about whether the balance that was chosen last year—the shift towards revenue and away from capital—is appropriate as we go forward.

Those are complex issues and I do not necessarily expect a complete answer from witnesses today, but it seems that such issues will crystallise in the report that the committee's budget adviser will draw up on our behalf as we try to speak for Scottish business organisations during the next six to eight weeks. There is no doubt that advice would be helpful.

The Deputy Convener: The report will certainly include such issues. Do witnesses want to comment briefly on the matter, which might affect your sectors?

Michael Levack: In the invitation to attend today's meeting it was suggested that we would consider measures to alleviate the current challenges. We are trying to assist our member companies in relation to expenditure of the £100 million—I do not want to get involved in the politics around that. As I said, if we are to get value for the public purse and retain capacity in the construction industry, the speed at which the money goes through the system is critical.

If people do not mind, I will jump back to the question about whether money is being misspent. I have not managed to read all 127 pages of the budget documents, but I was concerned by the table on page 11, according to which £10.8 million has been allocated in each year to advertising and marketing. I appreciate that the Scottish Government must communicate with the people of Scotland, but £10.8 million is a huge percentage of £100 million and I would like that figure to be trimmed slightly.

Owen Kelly: I take Wendy Alexander's points and I will consider them. In any shift from capital to revenue spend there must be a clear understanding of when that will come to an end—the sunset. Perhaps that is an obvious point.

Jeremy Purvis: The difference between the indicative budget for the coming financial year, which was published in the spending review, and the draft budget documents is 0.3 per cent. How does that reflect the Scottish Government's central purpose—purpose with a capital p—which is to grow the Scottish economy, now that the economy is in recession? The witnesses might want to come back to me on that.

Garry Clark: The overall level of the budget is perhaps not as important as what the Government—

Jeremy Purvis: When I referred to the 0.3 per cent change between the budget that was published in the spending review and the draft budget, I was referring to different choices in the budget and not to the overall growth in the budget.

Garry Clark: In essence, you are asking whether the changes in the budget are radical enough to cope with the current circumstances.

Government does many things that are beneficial to business, but ultimately it is up to business and not necessarily the Government to bring the country out of the current circumstances, although Government has an important role to play. It is important that we consider the planning system, because the Government can intervene to speed up the system and introduce some certainty, for example in relation to large infrastructure projects and energy projects. It is not all about what the Government can do to help us; it is about freeing up business so that it can do what it does best. Business will attempt to bring the country out of the current situation.

To re-emphasise a point that was made earlier, the Government must look at all means of supporting business at this time. I agree with the other panel members who have said today that the introduction of a local income tax at this time would not be the best way of supporting business in the current circumstances.

The Deputy Convener: Thank you very much, gentlemen, for such a wide-ranging discussion. You have given us plenty food for thought for our report and I thank you for coming here.

I suspend the meeting for about five minutes so that we can change panels.

10:50

Meeting suspended.

11:00

On resuming—

Export Promotion, International Trade and Inward Investment (Public Policy Framework)

The Deputy Convener: Item 2 is a review of the public policy framework for encouraging export promotion, international trade and inward investment—this follows on from some questions that we had under the first item, which may be of interest. This is the culmination of some research that we commissioned into how well the Scottish public sector supports our companies to trade overseas and attract inward investment.

We have before us a representative of Cogent Strategies International Ltd, which carried out the research on our behalf. It has produced a draft report, of which members have received copies. We will have a presentation of some of the key findings.

We will discuss the matter with Professor Hervey Gibson and his team in due course. I remind members that the research was commissioned to inform us of current public policy on the issue and possibly to give us some ideas for future inquiries once we have concluded our energy inquiry in the spring of 2009.

I invite Professor Gibson to give his presentation. After it, I will open up the item for questions, followed by a discussion of what to do next. In any case, we will ask Professor Gibson to update his report after today's meeting and, if needs be, we can discuss the matter again once we have received the final report.

I welcome Professor Gibson to the committee. It is over from one Gibson to another.

Professor Hervey Gibson (Cogent Strategies International Ltd): Thank you, convener. It is a great pleasure to be here. I also thank the committee for considering the work in draft form. It is helpful to have something that can be revised and worked on, and I am looking forward to the discussion.

To get this far, we have received a lot of help from parliamentary staff and many companies and organisations, including the cast of characters—the five just men or whatever they were—who were here for the first item. Scottish Development International and UK Trade and Investment have been particularly helpful in getting us to this point.

Since the research was commissioned, the situation has moved on a lot, and it has become increasingly clear that we are in a period of transformation for all aspects of the international economy. We approached our examination of the business support that is available in Scotland through four questions. The first was: where are we and how did we get here? That is a look in the rear-view mirror. Secondly, we asked what current clients—the people who invest in, or export from, Scotland—think of how things work at the moment. Then we asked about how things work: how is support delivered and what are the competitive circumstances of that? Fourthly, we asked how the committee can help.

I have taken a long-term view—an exceptionally long-term view—in the graph on my third slide, which gives figures for 1951 to 2007. I have plotted our best guess of Scotland's share of international trade, using numbers that, in many cases, originated with the Scottish Council Development and Industry years ago and were then brought together in some statistical publications.

The graph shows a long slide in Scotland's share of international trade from about 0.75 per cent to about 0.25 per cent in 1984, and then the trend turned around and Scotland's share went up to about two thirds of 1 per cent in 1998. The figures come from taking Scotland's exports and dividing them by the world's imports—that is the normal way of measuring Scotland's share.

Since 1998—in effect, since the turn of the century—there has been a very steep slide in the physical export of electronic products. The next graph shows that a bit more clearly. I skipped over an underlying point there. I am talking about international trade outside of the United Kingdom, although we show some figures on trade within the UK. The graph shows the huge importance of the electronics industry that Dr Hughes mentioned earlier this morning. There was massive growth in electronics up to 2000 and, as I have written in my notes, that was due to international investment. It was entirely about companies coming to Scotland to manufacture for the European market, including the UK market.

Lewis Macdonald: Where does oil and gas figure?

Professor Gibson: Offshore oil and gas figures are not included at all.

Lewis Macdonald: They are not in either of the charts that you have shown us.

Professor Gibson: No. I will refer to them later, but they are not included in the tables that I have just shown you.

Ms Alexander: Is that because the continental shelf is extra regio in the accounts?

Professor Gibson: Yes. I have done it like that because I followed the UK convention on the continental shelf. I will refer to that again later.

So the big boom happened because electronics companies came here because we are a skilled and accessible market and, as a result of that, a third of all the personal computers used in Europe were made in Scotland and so on; you will remember the figures.

After 2000, the international electronics industry tended to move on, which affected not just Scotland but another country that had benefited similarly. The next graph shows that Ireland's share of international trade did not decline in the first part of the half century; from 1980 it had a similar rise to that of Scotland, and it has had a similar fall since the turn of the century.

It is interesting to note that, in Ireland and Scotland, there has been an increase in service exports and financial services activity, which, until recently, to some extent offset the merchandise export decline.

To pick up the point about the UK continental shelf, as there has not been a long run of official figures on trade with the rest of the UK, the red area on the next graph is a rough estimate of Scotland's sales to the rest of the UK including the UK continental shelf. The chart shows the effect of the UK continental shelf from the early 1970s to the mid 1980s. The red area rises significantly in that timescale. If the committee would like us to pick up on that point in our final report, we would be delighted to do so.

So what was not a wonderful long-term trade situation was changed for a decade or so. However, for the past seven or eight years, we have had a declining share of international trade, and I am sure that the committee will want to address that issue.

What about investment? I think that at least two committee members might have been involved in a professional capacity in attempts to measure international investment, which is extremely difficult to measure. The numbers are extremely erratic and it is difficult to work out what is simply money changing its address and what is real investment on the ground. That is shown by the red line at the bottom of the graph of how erratic international investment is. The line shows the United Kingdom's inflows of foreign direct investment, which went from $100 billion in 2000 back down to about $15 billion in 2003. The figures are ridiculously erratic and therefore hard to monitor and to manage.

Britain's share of world international investment flows is large—about a tenth. However, if we look through the cycles, we can see that the share has probably been dropping over the past 30 years—that can be seen on the line of red dots on the chart of Britain's share. The share has probably come down from around 14 per cent in the 1970s to around 7 per cent at the moment.

The next chart shows what we think is Scotland's share within Britain's share. Because of the difficulties with the statistics, the chart shows only the number of projects, but we can see that Scotland has been getting just under 10 per cent of the UK's inward investment. The figure has been quite steady for the past 20 years and is quite a high share among regions of the UK. If you define greater London loosely, to include bits of the south-east and east of England, Scotland's share is second only to that of that London conurbation. That is a strong performance in an extremely erratic market.

To summarise, we have had a bout of post-electronic shock—which we are still in—but which has possibly been partially offset by growth within the UK and by service growth. However, it is clear that we could do better on the trade front. As for what will happen as a result of the world situation, it is widely expected that world demand will shrink. That point came out during your discussion in the previous evidence session. However, the lower value of sterling will bring some real benefits to Scottish exporters.

In the previous session, we heard the examples of engineering exports and oil and gas exports. In addition, Scottish Development International reports that an increasing number of companies are looking for export assistance because they can see profitable opportunities or because they feel that they can get into export markets that they have been unable to get into in the recent past. Lower sterling is expected to help—as long as there is a market to sell to.

On the investment side, the track record looks excellent in a chaotic marketplace. Every 10 years or so in world development, there is a dead stop in international investment flows. It would not be at all surprising if there were a dead stop in 2009 or 2010. It is not certain—I do not think that anybody could say that it was certain—but many of the conditions are there. I am thinking of the immediate prospects for the industries in which investment tends to take place.

Christopher Harvie: Would the Lloyds TSB takeover of HBOS count as inward investment?

11:15

Professor Gibson: Into Scotland, yes. I referred to problems with the addresses of money. One of the big international flows that messes up everyone's statistics occurred when Royal Dutch Shell changed from being a half British, half Dutch company to being a Dutch holding company with British shares. Basically, some very clever person sold half of a huge company to the Dutch and made that year's British inward investment figures look good. You have to be quite careful to rinse such things out.

Although the Scottish share figures that I showed avoid such pitfalls by relating to the number of projects, they are deeply unsatisfying. For a start, they do not show anything about money or jobs, so what you win on one side of the analysis, you lose on the other. It is an extremely difficult issue. Professor Neil Hood was a great expert in this field; unfortunately he is no longer with us and, since he went, the statistics have got worse instead of better.

The nature of international investment has changed hugely since the old days of the so-called screwdriver factories—mobile assembly plants that could be set up anywhere in the world—with the focus now being on individual small firms that have, for example, research or development functions. We might be talking about small biotechnology ventures rather than big pharmaceutical factories. The nature of the current world investment market is such that where, at one time, people in the investment support industry might have worked on projects with 300 to 350 jobs, they are now working on projects employing 20 or 30 people.

The mix of industries changes as the world economy and, indeed, geographies change, and the emerging economies are now coming very much to the fore both as competitors and as sources of investment. The committee has examined the issue of attracting funds from the far east, which is also part of the mix.

What does trade and investment support cover? On the export side, the huge range of services includes strategy workshops, initiation for companies, intelligence gathering on overseas markets, missions, learning journeys, diplomatic introductions, the commissioning of reports, the provision of support to firms for website development, help with language issues and so on. In its regular evaluation survey, UK Trade and Investment distinguishes 20 of those services, and SDI covers not only all those services but others such as the establishment of incubators to help companies in overseas markets.

The product range for inward investment is less clearly defined, because in such cases one tends to try to offer each investor something bespoke. Of course, customers are still provided with important information on the labour markets, people, networks and—increasingly—the universities that they can plug into, giving them a picture of how their business might work in Scotland.

At the end of the day, there is also money. Although that is much less important than it used to be, it is important nevertheless. In that respect, Scotland appears to have pulled off a few small tricks, which is always helpful. For example, the regional selective assistance map for Scotland is relatively better than it has been and research and development funding is more easily available to larger firms here than it can be in other UK regions. That shows that, even on the money side, Scotland is competing well in a few small ways.

That is what happens. What do the clients think? We asked quite a lot of people—there is a list in the report. There is a little bit of wishful thinking in the list as one or two folk swore blind that they would talk to us before we spoke to the committee, but they have not come up with the goods. There are also a few names to add. The list is not a scientific sample and it was made up in two ways. Partly it is a straw poll and partly it is based on referrals, particularly from the agencies, because with inward investors we needed to be careful not to trample into the marketplace.

We asked the clients to tell us anonymously what they made of the service. The responses divided into two. The big firms like what they have got but tend to be self-reliant. The messages that we got from them were the messages that we tend to get from employers organisations and the like: they want a simple system, which has clarity; they want a fair system, so that the service in Scotland is not worse than anywhere else; and they want stability. We heard some of the comments that were made today about local income tax and about exchange rates.

Smaller firms divided into two. Those that had experienced support services universally loved them. We began to feel a bit guilty, as if we were trying to find a stone with a woodlouse underneath to see what the problem was. There was almost no criticism of the services that are being provided by the support systems. Some people said that the process could be a bit bureaucratic, but that was as far as the criticism went. When I talked to UK Trade and Investment for a day I was heartened to find that its survey produces pretty much the same results. They get satisfaction ratings of 85 per cent on almost all their products. The support systems are clearly meeting a need and companies appreciate them.

Some firms said, "Scottish Development International? What's that?" They had very little knowledge of the services that are available and were a bit bemused about why they had not come to them. Other firms said that they had heard of the services but did not want to get into all the form filling and what they saw as bureaucracy. Others said, "Oh no, we can't afford it." In almost all those cases, their perceptions were based on a lack of information rather than on in-depth experience but, as we will see, there are reasons for that lack of information.

The main focus of support is Scottish Development International, which is a tripartite body formed by the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise. It integrates trade and investment services and it has a sector structure which is pretty much parallel to the Government's economic strategy and to Scottish Enterprise's structure—it is not exactly the same, but it is close. Essentially, it operates through the Scottish Enterprise regional structure and HIE. It also has a number of overseas offices, notably in North America and in the far east. It works a bit as a ringmaster—team Scotland is almost as bad a short phrase as Scotland PLC, but nevertheless it is an interesting example of how the various agencies pull together.

About three weeks ago, an event on marine energy, done by the Canadians, was held in Edinburgh. The event originated with the UK consulate in Toronto and the event was organised by UK Trade and Investment in Toronto and the people in Tay house in Glasgow. The Scottish participants were recruited by Scottish Development International. There was major participation by Scottish Enterprise and Highlands and Islands Enterprise, particularly given that the topic was the European Marine Energy Centre. Local councils and Jim Mather were also involved. The event was very much a circus with a ringmaster. Lots of people joined in and it was clear that, although they had different roles to play, they could sing in harmony.

Inward investor support in Scotland is highly regarded. Indeed, it is considered among the best in the world and has won awards from the *Financial Times* and Ernst & Young, who are the accounting specialists in the trade. What has distinguished the approach is that for 30 years Scotland has led the way in integrating its offer. The basic locate in Scotland concept integrated aspects such as grant aid, labour market support and property. The setting up of Scottish Trade International integrated the work of the former British Overseas Trade Board with the work that Scottish Enterprise was doing with companies. Trade support and investment support were then integrated in Scottish Development International. Alongside that approach, there has been a sophisticated understanding of globalisation and global connections, because Scotland has been involved with companies. A wider economic development task is now being integrated and we now have a professionally managed organisation that has a strategic market focus and graded engagement. The home patch is small enough to master, but the organisation is big enough to have a strong sectoral specialisation, which is important.

There are other models, but I am conscious of the time, so perhaps we should discuss them during the question and answer session. I will jump to my final slide. I do not know whether the committee wants to hear this, but Scottish Development International has been significantly reorganised, starting from the committee structure at Holyrood. The reorganisation of Scottish Enterprise was rolled through to SDI. Therefore, SDI is a recently repotted plant. When the committee considers the focus of its inquiry, it will probably not want to put the plant's life at risk by inspecting its roots too closely. The situation has changed and I am sure that the committee can play a role in providing forward-looking guidance.

There has been enough difficulty in monitoring performance to make that an area in which the committee might want to get involved, given that you are not just guardians of the public purse but people with responsibility for Scotland's performance. There are a number of frontiers that you might want to keep under review: the role of international promotion in relation to the more general role of economic development; the political frontier and UKTI's Scottish role; the public-private frontier, which we might talk about when we discuss other models; which services should be free and which should be paid for; and the role of real and financial investment. Those are the main areas of interest.

Finally, what about companies that are global from the start? That issue was raised in the context of the international promotions part of our economic framework but has now moved to a more central place in economic development. It is of sufficient importance that the committee might want to consider it separately.

11:30

The Deputy Convener: Thank you, Professor. Members have an opportunity to ask a few questions, but we should bear in mind the fact that we will develop the issue further. The presentation gives us a good steer for a start.

Lewis Macdonald: I have a factual question as a follow-up to my earlier point. I now understand fully where the oil and gas that are extracted from beneath the North Sea appear in the figures. The reason why I asked my question was principally to do with other earnings from exports. Last year, oil and gas earned £11 billion in exports, but oil and gas-related expertise and technology earned another £4 billion. Is that included in Scotland's share of international trade, or is it in the red area on your graph? I think that that sum is generally accounted for on a UK basis, although most of it is from Scotland. Are the other exports, besides the raw material, accounted for in Scotland's share?

Professor Gibson: Some of them are. Kit that goes abroad is included in the Scottish figures in almost all cases, but know-how is likely to go to the rest of the UK and then abroad.

Lewis Macdonald: So the chances are that it is accounted for in both.

Professor Gibson: Yes—it is a bit of both.

Christopher Harvie: I have a point about Scotland's relationships with Germany generally. I noticed a deterioration in regional representation in Germany in the time that I was there. When I went out, there were branches of the British Council and British consuls in practically every major German provincial city. However, British representation in Germany is now concentrated in about 1km^2 of Berlin, apart from an SDI branch, which does much good work, in Düsseldorf in the west. Its representatives told me that the orientation in Scottish Enterprise was very much transatlantic and that the then director had, at that stage, visited the European continent only once. Therefore, I am a wee bit worried that the consular element, which has always been a commercial element of the British presence abroad, does not seem to be being used in the ways that the Germans use their consulates.

The Deputy Convener: To clarify, when did you gather that information and have those discussions?

Christopher Harvie: That was about four or five years ago.

The Deputy Convener: We have a slightly changed circumstance now in SDI's structure.

Christopher Harvie: Yes, but things have narrowed even more. The last British commercial consulate in Germany, in Stuttgart, was closed down two years ago.

Professor Gibson: There are two parts to the question. One is about Scotland's links with the consular service, which can be direct or through UK Trade and Investment. In the focus markets, the service can be fairly good. For example, we have had marine energy developments that were very much to do with a consular link.

The second part is to do with the organisation's strategic focus and whether that should come from an industry or a market point of view. Some of the small firms that we came across felt that they had not been involved. They had not been rejected, but they had fallen outside decisions about what was the most important thing to do. I wonder whether some of the European markets might have been moved down a rank on that basis because of their slower growth. Whereas one might resist moving Germany down, one would certainly not resist moving Korea up, so there are difficult issues to consider.

Christopher Harvie: Yes. As far as the consular service and the British Council were concerned, the concentration was very much on countries outside Europe—on moving into the Muslim areas of the former Soviet Union and so on for political reasons. I do not really see how that approach benefits Scotland.

Professor Gibson: It is unlikely to have substantial trade benefits.

Christopher Harvie: We have missed out on better relationships with the four motors for Europe, whereas the Welsh have done rather well in comparison.

The Deputy Convener: I remind members that, if they have detailed points to raise with Professor Gibson, they can do so through the clerks. We have several questions to ask, but I ask members to bear in mind the fact that this will not be our only chance to ask questions.

Ms Alexander: I will suggest two points that might be included in the final report, and then I will make an observation about how the committee might take the issue forward.

First, I have a question: what is left for us to do? This is an impressive and helpful piece of analytical work that moves parliamentary committees towards the analysis of issues rather than just advocacy, for which I thank Hervey Gibson and his colleagues.

In that context, and like Lewis Macdonald, I think that it would be helpful to flesh out the oil and gas and continental shelf issues. I also note that, in the original remit, Hervey Gibson was asked to look at services, and I understand why the report makes it clear that there are simply no data on that issue. However, looking back over recent weeks at the significance of financial services in Scotland, one can see that it would be helpful if there was a way—even at the most speculative, aggregate level—to capture that in the final report. Therefore, the issues of oil and gas and services are prominent. That is my first point about the content of the report.

My second, more technical point, relates to a point that Jeremy Purvis has raised. I, too, was surprised to see a reduction in SDI's budget, but I had the impression that that happened as a result of the change in its joint venture structure—SDI having been previously a joint venture between the Scottish Government and Scottish Enterprise. It would be helpful if the clerks could check out that point before the submission of our budget report. Irrespective of what we do with Hervey Gibson's report as a whole, we want to establish whether the £1.7 million will really reduce to £0.7 million. It would be wonderful if the clerks could tackle that.

I come to my controversial point. Hervey Gibson hints at it, and I would welcome his candid response. In part 5 of the draft report, he does what consultants rarely do when he says, “Please don’t pay me more money to work on this; I don’t know whether you should do any more work on it, either.” I paraphrase, but he raises profound questions about whether the timing is right for the committee to dig up the roots and look at the strategic framework and direction again.

I am happy to leave the issue to the convener—or the deputy convener—to consider, but I wanted to share it with my colleagues. I am a new member of the committee, which I think did an outstanding piece of work on tourism and VisitScotland—it looked at what should be done with one part of an agency. Looking at the committee’s work programme within the context of the four-year parliamentary session, I wonder whether there might be merit in completing the report, which is an excellent foundation, and letting some of the issues lie on the table for a year or so, given the newness of some of the structures that are under discussion. That would allow the structures to settle before the committee considers whether it wants to pursue its inquiry.

I make that suggestion because the world has obviously changed significantly since the research was commissioned, and there is no doubt that the committee is under pressure to consider what happens in the financial services sector.

I pray in aid our deputy convener in saying that it is clear that recent developments mean that our energy inquiry has taken on new significance in relation to not simply energy supply, on which much of our work programme focuses, but the implications for energy efficiency in housing, which Rob Gibson keeps raising—I share his interest in that. We are unlikely to be able to complete that inquiry and the work on the general financial climate and do the report justice. I will let Hervey Gibson respond, but I wonder whether the report might be completed but left to lie until towards the end of the parliamentary session, when it might be revisited. The deputy convener can take that forward, but I wanted to put those comments on the record.

The Deputy Convener: We are talking about coming back to the report in autumn next year at the earliest—if we come back to it. What does Professor Gibson have to say?

Professor Gibson: I will deal with two points that Wendy Alexander raised. You are the politicians, so it is up to you to decide what to do. However, we would be happy to do the work. If we completed the report, SDI would be willing to give you a response to it. That might move the situation forward without distracting SDI. From Scotland’s point of view, I care less about distracting you guys from your job than I do about distracting SDI, because lots of stuff is changing and SDI needs to be out there in the market, learning what it can, so that we are launched into the next phase of the world economy. That is my response to the point about the report being left to lie.

The measurement of services is really difficult. For example, a back-office part of Morgans in Glasgow produces fancy software that it puts into the Morgans pot. Perhaps that is used in New York or London, or perhaps the best value is got out of it in Hong Kong—who knows? The only financial credit that we get for that is the fact that Morgans pays the wages of those guys in Glasgow. That is an export, but measuring it is difficult.

Gavin Brown: I have two questions that I would be happy for Professor Gibson to answer now or in a final report—

Professor Gibson: I prefer to be called Hervey rather than Professor.

Gavin Brown: Okay—I am happy with that.

Your report talks about other models and how other countries operate. If you have the information to hand, it might be useful to hear your views about the relative success or otherwise of the models in the report, to give us a grounding in how good or bad they have proved to be in practice.

You say that world demand is shrinking, which is—sadly—probably true. In only the past few days, the International Monetary Fund has had to bail out countries including Ukraine and Hungary—Iceland was bailed out slightly earlier. Genuine concern is felt that the IMF could run out of fire-power in the next year or so. The issue is current, so I am interested to know the implications of that for world demand and trade for all countries.

Professor Gibson: The big uncertainty is about how the exceptional financing that many countries have advanced to their banks will be funded in the long run. If we say that that must come out of demand and that the taxpayer must stump up for it immediately, all that will happen is that the recession will turn up in a different way. Funding that from taxation immediately would be counterproductive. On the other hand, a lot of policy makers would also consider committing to printing the money in the long run to be difficult.

11:45

The IMF’s contribution is funding for a number of years with, in most cases, no immediate obligation to repay. That is positive as far as the recipient economy is concerned, but people are asking whether the funding will run out in August. The suggestion that surplus countries—particularly the far-east surplus countries—should contribute more seems to be the obvious way to resolve the issue, but there is a political price to pay. Although the IMF is partly run on the basis of one member, one vote, it has really always been heavily influenced by the paymasters, and if we say that we need new paymasters in it, we must live with the consequences. That would help to introduce a new world order in the world economy and a new channel of influence for the emerging economies that are in surplus at the moment. That is probably a reality that we have to wake up to, but we need to think about it.

Dave Thompson: Thank you very much for your presentation and report.

You mentioned Ireland. It is interesting to see from the final graph in your presentation how Ireland has overtaken us, but it would be good to have one or two examples of other similarly sized countries, not just Ireland.

Professor Gibson: In the report itself, there are some wee graphs with data from Scandinavian countries—I will get my colleagues to enlarge them to a size that I can at least read. We would be happy to provide a bit of comment on them, perhaps in an appendix.

Dave Thompson: You mentioned the possibility of a world investment strike in 2009-10. Will you briefly outline the consequences of such a strike?

Professor Gibson: Yes. I said that there could be a world investment strike of the sort that we have had before, because we have had them before. A good friend of mine unfortunately became chief executive of Locate in Scotland in Japan during such a strike. Poor guy—it was not his fault, but nobody in Japan invested anything anywhere and his performance statistics looked terrible. He went on to a successful civil service career after that, I hasten to say.

If the strike is short lived, it will not necessarily be a complete disaster. It is likely to be in industries that are pretty cyclical in their investment behaviour anyway. It hit us last time because we were investing in investment goods industries. The semiconductor industry was the big-ticket item in world financial investment at the time. Scotland has a large shed in Dunfermline to show for that—it was going to be a Hyundai chip factory but it was completed just before an investment strike caused by the crisis at the time in south-east Asia.

If the strike is short lived, it will be unpleasant and irritating but not a disaster. If it goes on for more than a couple of years, it could be much more serious.

The Deputy Convener: We have had a good round of questions from the members. The draft report is a work in progress and some good suggestions have been made, which we can take on board. There is a lot of reading in the draft report as it is, and I am sure that it will be excellent homework for members after having heard the presentation. We should take on board the suggestion of submitting it to SDI for comment, giving a copy to ministers for their interest and then reconsidering it once we have gathered together questions to put to Hervey Gibson for the next stage.

I thank Hervey Gibson for his presentation.

Tourism Inquiry

11:50

The Deputy Convener: Item 3 is the tourism inquiry, and members should have received a copy of a further response from the Scottish Government. One suggested action is that we write to the Minister for Enterprise, Energy and Tourism to thank him for his new response, to ask to be kept up to date on the implementation of the agreed recommendations at suitable intervals over the coming months, and to ask for details of which organisations and individuals will be responsible for taking forward some of the committee's recommendations on the minister's behalf. That will make it easier for us to track progress.

Do members have any comments?

Lewis Macdonald: I am happy with that suggestion, but we should also consider in detail the responses in which the minister has declined to accept the committee's recommendations. I have concerns about them.

The response to paragraph 251 of the committee's report, on modern apprenticeships, is still unsatisfactory. It refers to

"the most appropriate training interventions, which may or may not be"

modern apprenticeships. The committee specifically asked the minister to consider the point on modern apprenticeships, and thus far he has declined to do that.

The minister gave the impression in the debate on the report that he was inclined to support the proposal that there should be a joint ticketing summit involving those involved in transport and tourist attractions. I am disappointed that in his response on paragraph 272 he appears not to indicate any intention to take that forward.

Finally, let me deal with paragraph 274, which is referred to on the last page of the minister's reply. I draw attention to a common feature in one or two of the responses, which is that the minister makes the judgment that some committee recommendations are not committee recommendations. As we discussed previously, I presume that that is because they were not indicated in bold type. However, they were nonetheless the views and recommendations of the committee, and I am a little surprised that, having been asked about them a second time, the minister does not agree. We should be clear in our response that all the recommendations that we made in the report were recommendations agreed by the committee.

The specific question relates to international visitors at Aberdeen airport. As the minister says, responsibility for recording their numbers lies with the Office for National Statistics. Our recommendations asked that the minister support the view that visitors to places other than Glasgow, Edinburgh and Prestwick should be counted, but his reply fails to indicate a willingness to work with us on that. Ministers sometimes appear to be keen to take up issues with UK-wide bodies, and this is one occasion on which a Scottish Parliament committee has asked the minister to do that. I hope that he will respond positively.

There is a purpose behind the recording of those visitors. We know from VisitScotland's evidence that it pays attention to the statistics in determining where to make investments and which sectors and markets should be given priority. Aberdeen airport, for example, receives a significant number of tourists from Scandinavia, and a concern was raised that some of them are undercounted because Aberdeen is undercounted. There may be similar issues now at Inverness and in other places that have an increasing number of international visitors. We should return to the minister to say that we would welcome his support in making that case to the Office for National Statistics.

Marilyn Livingstone: I support Lewis Macdonald in pushing the minister on the need for accurate statistics. In the evidence that we took, there was support for that throughout the industry.

On the issue of modern apprenticeships, as covered by paragraph 251, I am disappointed in the minister's response. I accept that

"SDS is consulting with training providers and People 1st to get the views of employers and training providers on the potential for improvements in training provision"

in the tourism industry, but why pick on the tourism industry by stopping the provision completely? That is what has happened with funding for adult modern apprenticeships in tourism. When a review is in progress, surely to goodness we should not stop a qualification that has been successful. Modern apprenticeships in all sectors have been deemed successful in getting young people who do not want to go to university into vocational training, with a structured, business-led, work-based approach that is supported by further and higher education.

I cannot understand why the Government has taken that approach, and we should ask about it. Why, before we have any results, are we significantly cutting spending on tourism training? I am worried by that. We are not training any adults in modern apprenticeships, and I do not think that the Government's arguments add up.

Christopher Harvie: I have two points to make, one on paragraph 236 and another on paragraph

269. Paragraph 236 is about the relationships between Historic Scotland and the tourism industry. I have received a letter from the historiographer royal in Scotland, Christopher Smout, expressing some concern and arguing for the retention of the Royal Commission on the Ancient and Historical Monuments of Scotland, which is threatened with being absorbed by Historic Scotland. The remits of the two bodies are quite different. In a tourism sense, the RCAHMS—unwieldy as it might sound—represents the cutting edge of archaeology in Scotland and of historical research, which is in itself a substantial tourist attraction. I would be very worried if that body, which is led by experts, were to become absorbed into an organisation whose activities might come to be determined by commercial goals.

The Deputy Convener: We are perhaps straying as far as this committee's remit is concerned.

Christopher Harvie: We are straying; on the other hand, I think that archaeology and the frontier of the past, which Scotland represents, is a huge selling point for the country.

My other point is that the railway system continues to give grave cause for concern. I was travelling down to London last weekend, and I found myself confronted by two journeys of more than six hours, because of diversions caused by work to improve the rail infrastructure. The trouble is that that has been the case for the past 13 years. A journey back and forth on either the east coast main line or the west coast main line is still marked by huge delays practically every weekend, and it is not getting any better. A lot of people using runabout tickets and so on will simply not come to Scotland, or they will fly—and even that is subject to mounting expense.

The Deputy Convener: Without reopening the debate on all the detail, I point out that the Minister for Enterprise, Energy and Tourism will be with us next week, and it would be possible, under our consideration of the budget, to ask him some questions directly on those matters.

Gavin Brown: It is clear that the minister has made decisions on certain matters, and I am conscious that we might just end up batting things back and forth: we say what we think the minister should do, and the minister writes back and says, "No, this is what we are doing."

I would like us to follow up on two issues. One is covered by paragraph 248, and relates to a task group bringing together employers and training organisations to consider levels of skills and qualifications. We had a stark evidence-taking session on that. Everyone on the committee was struck by the disconnect between those employers who provide training and courses and those who need to do that. That was possibly the best evidence session that we had.

In our letter to the minister, we suggested that the industry should be represented on the task group. The minister responded by listing the organisations that have been invited. Other than the Scottish Tourism Forum, the industry is not represented by any employers, despite the minister's statement that:

> "The industry will be well represented on the Group".

12:00

The Government has made up its mind about who should be included in the group. However, it would be legitimate for us to ask for a list of those in the industry who gave or submitted evidence to the group. I request that we do so, because unless we get the two sides together there will be no change.

My second point relates to paragraph 254 of the report, on free software. The committee's view was that web in a box software should be given to all tourism companies that want it, but the minister is not minded to do that. About halfway down the paragraph in which he responds to the suggestion, he states:

> "Suitable software for website establishment and web-booking is available from several sources at no cost."

It would be hugely helpful if the minister could identify those sources for us, so that we can tell tourism companies in our constituencies and areas where they are. Let us tell the industry about the service, so that they can access it. I request that we write to the minister seeking further details on the two issues that I have raised.

Dave Thompson: My comments are on similar lines to those of Gavin Brown. It is not useful for us to return to the issue once in every couple of meetings—we should not knock things back and forth for ever more, which we could easily do.

Lewis Macdonald made the point that some recommendations have not been treated as recommendations, but if we had wanted them to be treated as recommendations, we would have used the phrase "We recommend" and put them in bold. It is not helpful for the member to focus on such issues. The minister responded to the points that we made, although he said that they were not recommendations.

A task group on qualifications is to be set up. I agree with Gavin Brown that the committee identified a lack of real leadership in the industry, because it is diverse and scattered. The Scottish Tourism Forum is the only body that comes anywhere near to being a voice for the industry. We recommended that the industry get its act together to develop the forum, so that it has a proper voice. It would be good for a number of people from the industry, not just one representative of the Scottish Tourism Forum, to be included in the task group, as the industry's voice needs to be a bit louder. I am not exactly sure how to make that happen, because of the way in which the industry is dispersed.

The Deputy Convener: The clerks have made a note of members' points. We need to get one or two matters clarified and will try to do so. I have suggested one means of doing that—asking the minister directly. If we bat the report back and forward, it may become a constant item on our agenda, which would not be very practical. With members' permission, we will use the points that they have made to make an approach to the minister, through the clerks.

Lewis Macdonald: Dave Thompson suggested that some of the recommendations that we made were not recommendations, because they did not appear in bold. Paragraph 274 of the report states:

> "Furthermore, the Committee wishes to see key data, such as the international passenger survey, record all the relevant international visitors to Scotland through all major ports of entry, specifically including Aberdeen airport."

When other members and I assented to that form of words, it was the clear view of all of us that the statement was a conclusion of the committee and that we were recommending that it be taken forward. I do not want to get into a discussion of semantics, but we passed a clear proposition to ministers, who did not respond to it in the first instance. In the second instance, they have rebutted the proposal. When a committee reaches a view and passes that on to ministers, it is entitled to expect that the points, recommendations and proposals that it makes will be responded to explicitly. It is important that we record that and make clear to Mr Mather how the committee's recommendations should be interpreted.

Dave Thompson: In paragraph 274 we did not use the phrase "We recommend". This is a silly argument. Lewis Macdonald is unhappy that the minister rebutted the point, but it is not true to say that he did not respond to it—eventually, although not initially.

The Deputy Convener: We will allow the clerks to draft a letter, based on what has been said. After members have viewed and agreed the letter, it will be sent to the minister. Is that agreed?

Members *indicated agreement*.

Local Income Tax

12:05

The Deputy Convener: Item 4 is consideration of research from the Scottish Parliament information centre on the proposals for a local income tax. As members know, the Scottish Government has not yet published the responses to the consultation, so the report is slightly limited. I suggest that we note the report and thank the SPICe researchers for their work so far. Suggestions have been made recently about how the local income tax proposals might be changed, so the report is already out of date, in a sense, and we will need SPICe to update us.

Jeremy Purvis: It struck me that no consideration was given to countries that have local taxation based on income, which is fairly commonplace. I am here as a committee substitute, so I do not know whether SPICe was asked to do such comparative work. Perhaps further work could be done.

The Deputy Convener: That is an interesting point.

Marilyn Livingstone: I think that every witness who gave evidence today mentioned local income tax and its economic effects, although that was not the subject that we were discussing. It is incumbent on the committee somehow to tell the Government that in evidence on the impact of the current situation on our country, business—in the person of today's witness from Scottish Chambers of Commerce—said, "Please. Local income tax would further destabilise our economy." We should take that evidence forward.

The Deputy Convener: Government must weigh things up. Many people would rather have PPP than the Scottish Futures Trust, but Government must make decisions about the way forward on that and many other issues. Of course we can ask the Government about its approach. It is up to committee members to do that.

Lewis Macdonald: The remit that we gave to SPICe was to consider the effect of local income tax on the economy. As Marilyn Livingstone said, consideration has been given to the economic impact. SPICe made the fair point that it cannot fully address the issue until the responses to the consultation—and, I hope, the Government response—are available. It would be useful if we agreed that SPICe should take forward such work as soon as that information is available.

The Deputy Convener: I agree.

Dave Thompson: The witnesses were not being political when they made their remarks, of course. Local income tax is important, but we should not be getting into the issue in huge detail—it is just one thing among a host of things that have an impact on the economy. We need to be careful about how we take the matter forward.

Marilyn Livingstone: We have been asked to be consensual and to put party politics aside, for the good of Scotland. That is what I am trying to do. Witnesses have said that at this stage they do not think that the local income tax, which the Parliament will consider, would be a good way forward for the country. I am saying that we should feed in that view, not that we should do major work on the subject. The point that was made in evidence today was sufficiently significant to merit our saying to ministers, "There seems to be significant concern in the business community about the timing of the policy." That is all. I do not think that that creates a big issue or requires us to consider the matter in depth.

The Deputy Convener: We need SPICe to do more work for us, as Lewis Macdonald said. I suggest that we ask SPICe to summarise the responses to the consultation. We should not ask for more than that. The committee's approach from the outset has been to consider the impact of local income tax on the economy. We should leave our remarks at that and allow SPICe to produce its work. If examples from other countries fit into SPICe's remit, their inclusion might address Jeremy Purvis's point.

Do members agree to proceed on that basis?

Members *indicated agreement*.

Meeting closed at 12:10.

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