ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 5 November 2008

Session 3

£5.00

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

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ECONOMY, ENERGY AND TOURISM COMMITTEE

21st 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:

Geoff Aitkenhead (Scottish Water)
David Anderson (Transport Scotland)
Sandy Brady (Highlands and Islands Enterprise)
Sandy Cumming (Highlands and Islands Enterprise)
Hugh Hall (Scottish Enterprise)
Guy Houston (Transport Scotland)
Ross Loveridge (Scottish Government Enterprise, Energy and Tourism Directorate)
Jim Mather (Minister for Enterprise, Energy and Tourism)
Mark McEwen (Scottish Water)
Maureen McGeown (Scottish Government Finance Directorate)
Jack Perry (Scottish Enterprise)
Neal Rafferty (Scottish Government Enterprise, Energy and Tourism Directorate)
Dr Malcolm Reed (Transport Scotland)
Philip Riddle (VisitScotland)
Fiona Robertson (Scottish Government Economic Strategy Directorate)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

Location

Committee Room 1

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 5 November 2008

[THE CONVENER *opened the meeting at 09:01*]

Decision on Taking Business in Private

The Convener (Iain Smith): Good morning colleagues. Welcome to the 21st meeting in 2008 of the Economy, Energy and Tourism Committee. Many of you will have been up a little bit late last night watching the events across the Atlantic, and I am sure that the committee will want to put on record our congratulations to President-elect Barack Obama.

Agenda item 1 is to consider whether to take in private item 6, which is consideration of issues for our draft report on the budget. Are members content to take that in private?

Members *indicated agreement*.

Budget Process 2009-10

09:01

The Convener: We have several panels to give evidence on the budget this morning. I remind members that, this year, we have chosen to focus on what measures the Scottish Government and others should take to help the Scottish economy through difficult times.

Our first panel—although the word panel might be a slight exaggeration—is Philip Riddle, the chief executive of VisitScotland. I ask him to give us some very brief comments as an introduction and then we will go to questions.

Philip Riddle (VisitScotland): Good morning, convener. It is a pleasure to be here. I thank you for the opportunity to address the committee once again.

I appreciate the amount of time and effort that the committee has put into tourism during the past 10 months. This is not VisitScotland's first time of talking to the committee, and we have found it to be a productive and enjoyable process.

Since the last time that we met, and since the committee produced its report on tourism, the world has turned on its axis and the global economy is showing all sorts of strain, which does not escape those of us who work for tourism in Scotland. However, the committee's recommendations are more pertinent than ever. We are not seeing a reversal in the kinds of things that need to be done in tourism.

Tourism demand has been coming under pressure this year. At the same time, costs are up, food and fuel prices are up—although they are oscillating—water and other utility prices are up, so we are under cost pressures. Businesses are caught in the traditional squeeze where demand is reducing while prices are increasing. Of course, at such times, if one has cash flow problems, one normally resorts to the bank to borrow some money, and that is the third element that is not so rosy for many businesses.

So, there are pressures out there. The committee's recommendations about the national investment plan and about helping investment in the industry are as important as ever. It is crucial to keep liquidity up. Scotland is not a low-cost destination and the industry requires constant investment. The work that has been done has even greater relevance in the current economic climate.

That said, I believe that VisitScotland is in very good shape. We have discussed many aspects of our restructuring with the committee already. Although the industry is under pressure, it is resilient; it has bounced back from hardships before. The picture is not uniformly gloomy. Many businesses are doing very well, and the point is to find out how they are doing well and to ensure that we are spreading good practice across the industry. Despite the current economic climate, I remain confident.

Marilyn Livingstone (Kirkcaldy) (Lab): When you gave evidence previously, you spoke about the local tourism market. As you said, we are now into the credit crunch and we have had lots of discussions about how that could have a positive effect. What support can VisitScotland give to local tourism industries so that they can take advantage of what we hope are opportunities?

Philip Riddle: Our primary role, above all else, is marketing and selling Scotland. We have adjusted our marketing significantly over the past few months to target the domestic market and Scots in particular. For example, we launched an adventure pass in August. Normally we do not do much in August; we tend to concentrate our activity outside the summer season. The adventure pass launch had newspaper support from the *Daily Mail* and *Daily Record*, aimed at Scotland. We particularly wanted to encourage Scots to get out and understand Scotland and do more in Scotland. That gives people relatively instant cash flow. It is not about long-haul breaks or people planning trips for the next year; it is about trying to get money into the coffers.

We have brought forward advertising for our autumn campaign in London and the south-east. We used a lot of new material in the early autumn to encourage people to come. We have also put extra effort into our winter campaign. That is aimed primarily at the United Kingdom market—at Scotland, and a bit into England. On top of that, we have been widely promoting the homecoming. We might return to that subject. Our advertising in Scotland for homecoming is just about to get under way. We have been talking about homecoming around the world for two years, but the advertising in Scotland is about to get under way and there will be a big push here. We are talking to the industry about the direction of our marketing and we are getting it engaged.

We have been offering free marketing opportunities. Usually, businesses have to contribute to a campaign to be allowed to engage in it, but we have been offering regular customers free participation in the more recent campaigns to help them save on costs and to stimulate demand. We can do things in that regard.

Together with the enterprise companies and the Government, we have been discussing a tourism response plan. The tourism action group is concentrating on three aspects. I have just spoken about marketing. Secondly, what can we do about investment to help liquidity? Thirdly—this is more for the local enterprise companies—how can we ensure that business advice is given in this time of difficulty, when there will be an unprecedented demand for basic advice and help? That will also involve local authorities, of course.

Marilyn Livingstone: The year of homecoming will be important, especially given the economic circumstances. Have you had discussions with Government or other agencies about trying to increase funding to maximise the impact of the year?

Philip Riddle: We have, and those discussions are on-going. We speak regularly with Government about what we can do. It is not just about putting in more money; it is about what we could do with additional funding. We have identified the things to which we could apply additional funding, particularly an extension of our advertising. The television advert for homecoming launches at the end of this month, and I am sure that it will be very powerful. We can use it more widely, although it is directed primarily at engaging people here in Britain.

One of the things that we can easily do with additional money is extend the reach of the campaign. We have made the advert, so that is a sunk cost. It is a very good advert, and you will find that it strikes a great chord. Now it is a matter of buying airtime, and it will be good if we can buy more. It is not just about money, however; it is about engaging a wide spread of interest. The engagement that we have seen from the Government throughout the process has been encouraging. Every Government ministry has incorporated the year of homecoming into its thinking, and every overseas trip by parliamentarians and ministers should, and usually does, carry a message about homecoming. The message is percolating everywhere. The year of homecoming is getting money from agencies such as the Scottish Arts Council, and we have secured some European money. The effort to engage that wide spectrum of interest is working well.

Rob Gibson (Highlands and Islands) (SNP): Can you give us any figures to show that the investment over the summer and the autumn is paying off?

Philip Riddle: Interest is high. Obviously, the actual results will be seen next year. We have to remember that the target for the year of homecoming is relatively modest. It is to produce net additional benefit of £40 million, which is an 8:1 leverage on the invested sum of £5 million. I cannot pinpoint exactly where that money will come from, but I can say that I am absolutely confident that that target will be met. Further, I would be disappointed if we did not go significantly above that, and I am pretty sure that we will.

From Scottish communities across the world, there is anecdotal evidence to support a belief that we will hit that target. Yesterday, I was talking to someone who had been at one of the regular gatherings of clan chiefs in Atlanta and had spoken to people who are tremendously enthused about coming to the gathering in Scotland next year—they have all booked their trips, got their programmes and planned where they will go and what they will do. We see that repeated across the world. There is genuine enthusiasm out there, and that will have an effect. However, we have to bear it in mind that that effect will take place in a general environment that will probably not be buoyant.

Rob Gibson: The reason why I asked what effects were being felt by tourism businesses now as a result of the investment over the summer and the autumn is that I want to know whether VisitScotland will be able to cope with the difficulties of the downturn. What are the things that are turning people away from coming to Scotland or, indeed, travelling anywhere?

Philip Riddle: Obviously, our contribution is on the marketing side. If I stand back from that and consider the issues that are affecting people and the possibilities for the future, I would say that, early in the season, we suffered disproportionately from the fuel price hikes. Because of the economic uncertainty, a lot of people were thinking about staying in the UK. However, the fact that oil prices climbed as high as $140 a barrel at one stage made people reconsider coming to Scotland. The good news for the future, of course, is that oil is now back down to around $60 a barrel.

Another factor was the exchange rates. For a while, there has been a good differential with the euro, which has helped with regard to UK and western European tourism. However, for a long time we have been suffering with regard to the dollar exchange rate, which has been as low as $2 to the pound. That has meant not only that people from America have not come here, but that people from Scotland have gone on a day trip to New York rather than a day trip to Pitlochry. I am not sure that the economics of that decision work out, but people were saying to themselves that it would work out at around the same price.

Of course, that situation has changed as well, and the dollar has strengthened against the pound. It might seem incidental from this side of the Atlantic, but just getting the American election over with is a good development. A lot of people in America do not travel during the election campaign because they want to see what is happening or because they are uncertain about what will happen after the election. That is another factor that has dampened demand but which will not affect us next year.

09:15

Overall, however, there remains an economic uncertainty and volatility. The effect of that can be seen in the increase in last-minute bookings and the fact that, when people book holidays, they are trading down a little bit. For example, our best accommodation occupancy this year has been in the caravan and camping sector, which can offer an extremely good experience these days. People are spending less in the shops—I know that from our own tourist information centres and from what the National Trust for Scotland tells me. A lot of people are going through the doors, but they are not lingering in the shop. Such difficulties will be with us for perhaps a year to 18 months. We just have to continue to market the country, get more people here and encourage them to spend more while they are here.

Gavin Brown (Lothians) (Con): I was interested to hear that there are on-going discussions with the Government about funding increases, although nothing definite has been decided so far.

The Government announced its six-point plan to deal with the challenges of the economic crisis. One of the lines in that plan involves maximising the opportunities that are presented to us by the year of homecoming. Has anything tangible come out of that six-point plan since it was published?

Philip Riddle: There has been an increase in support, although there has been no direct increase in money—as I said, some money has come into the programme from other sources. I have noticed that, particularly during international visits and so on, the year of homecoming is always talked about, no matter what the specific subject of the event is. That is quite a step forward. The fact that the First Minister was involved with the launch of the entire programme in June, as well as the homecoming cup, and will be launching the television advertisement helps to give the programme a higher profile. A lot of the success of the year of homecoming will be about energising the people of Scotland to be welcoming and to give visitors a good experience. I believe that there have been significant interventions that will help that to go ahead.

Gavin Brown: Your report on the budget seems to suggest that there was a reduction of £2.2 million under the visitor engagement heading, which was offset by an increase of £1.9 million under the strategic partners heading, £0.2 million under the corporate heading and £0.1 million under the business engagement heading.

My understanding is that the marketing budget falls under the visitor engagement heading. Does that reduction mean that the marketing budget has gone down, or are there other things under the visitor engagement heading that have been cut? If the marketing budget has gone down, are there tactical or strategic reasons for that?

Philip Riddle: Well spotted. There has been a simple transfer. The £2.2 million is tied to activity, which is, in turn, tied to European funding. We have to spend a certain amount of money to do certain things, and Europe matches that money. Given that those things mostly involve partnership work around Scotland, we decided to place that activity in the strategic partnerships directorate. The activity is the same; it is only the responsibility for it that has changed.

The work involves what you might call second-level marketing, as it involves partners who we have engaged to market Scotland rather than our own direct marketing work.

Gavin Brown: So, there has been no decrease in the marketing spend in places such as the United States of America, Europe or the south-east of England.

Philip Riddle: Absolutely not.

Dave Thompson (Highlands and Islands) (SNP): You mentioned the television advert that was ready to roll. Have you considered getting a version of the advert onto the web? I know that people have been encouraged to e-mail their friends and relatives all over the world about the year of homecoming. If there were a web-friendly version of the advert—perhaps a truncated version, as the full version might be too big for some systems—that could be circulated widely within Scotland so that people could forward it to their relatives, rather than simply sending an e-mail saying, "Please come home next year." That would be a little punchier.

Philip Riddle: I am pretty sure that that is in hand, but I will double check. We usually put our adverts or portions of the adverts up on the web. We try to get people to post them round and we even encourage people to use them on YouTube and sites such as that. I will double check, but it should be part of our strategy.

Dave Thompson: You mentioned the American election. I am sure that there must be a Scottish connection with President Obama. Have you thought about sending him an invitation to come home to Scotland, if we can find that Scottish connection?

Philip Riddle: We are already working on it. That is another good idea. Undoubtedly, amid the plethora of greetings that he will get, we will get one in there and highlight homecoming as a good time to come back to the roots that he never knew he had.

Dave Thompson: What is your view of the decision on the Trump development? Will it help to boost tourism? I know that the development has not been built yet, but will the fact that it has been approved encourage people to think more about Scotland?

Philip Riddle: It certainly gives us the profile. I am glad that the saga is over because, regardless of the rights and wrongs of the case, it was a bit damaging as it kept going on in the background. The fact that we have a decision is helpful. It is not so much that it will directly encourage tourists to come, but it will help in respect of people who are considering investing in Scotland. The decision puts the issue behind us and we can move on.

Although the capital markets look gloomy, this is exactly the right time for us to be getting together our thoughts about planning for future investment and about a national investment bank. We must be on the front foot and go out and say, "Here is the type of development that we want and here is where we want it," and encourage people to think about such investment. We want to be first out of the trap when the climate improves. Even now there is money around. We have seen some good investments in Scotland—in addition to the Trump development, Jumeirah has committed to a hotel in Glasgow. There is also Rutherford castle. Some businesses have gone the other way, so it is a difficult time, but it is a good time to highlight the potential for investment in Scotland, to ensure that we are at the front of people's minds when they have the money and are considering their options.

The Convener: Does VisitScotland have a budget for the national tourism investment plan? If not, is it expecting the Scottish Government to provide additional funding? Or will it receive funding from enterprise companies?

Philip Riddle: As we see it, the plan is not primarily dependent on public sector investment. It is more about our having an agreed menu of things that we want and getting that out to the market, so that we can be proactive rather than reactive. Rather than have developers drive the agenda, it is about saying, for example—I do not want to pre-empt the workshops that we have coming up on the matter—that we believe that over the next 10 years Scotland could support another three major resorts and two marinas. We believe, for example, that there should be encouragement of a building programme involving the renovation of country house hotels, because to be viable a country house hotel needs a minimum of 25 rooms. We would have a programme to support that, but it would not need to be a funding programme. It could be a programme that helps to direct investment, says what we want and helps with the processes; it would not short-circuit any processes, but it would help with them.

That said, I am still very much in favour of a tourism development bank, which the committee, in its tourism report, recommended be considered. We do not have a budget for that and it would probably require some Government money, but it is mostly about Government guarantees. If we could develop such a bank on the Austrian model, whereby we did not have to part with cash but had Government guarantees—they seem to be flying around rather freely just now—it would make a big difference.

The Convener: Even if you do not provide direct funding for investment, there is the cost of doing the work to which you refer, such as holding workshops. Where does that money come from within your budget?

Philip Riddle: We are picking that up internally. It is not a major cost. Our main contribution to the national investment plan is from the research side. Obviously, the enterprise companies, Scottish Development International and local authorities are also involved. I hold up my hand and say that, in the past, we have not made enough of the good consumer research that we have. We use it to guide our marketing, but we have never applied it to guide an investment plan. Given that the research exists, the trick is to translate it and find out which market segments are most interested in Scotland, what they want to see and do, where they want to stay, and what experiences they want.

We are in the process of asking what the research means in relation to bricks and mortar and infrastructure activities. However, the cost to us is not a major one.

Lewis Macdonald (Aberdeen Central) (Lab): You regard a tourism investment bank as critical to the national investment plan. What scale of financial cover would the Government require for such a bank to be a realistic option?

Philip Riddle: We have not set parameters for such a bank in Scotland, but in the Austrian model, if interest rates were about 4.5 per cent, the Government would meet about 2 per cent of that. Its loans average €1 million, which shows that the scheme is pitched neither at the multinational level nor at the bottom, but at middle-placed businesses. I think that some €300 million of loans were given in the past year.

To answer the question, we would have to calculate the figures for Scotland. We would have to consider the difference in interest rates and the cost of that level of lending plus the guarantee element, which is probably the most crucial part. The proposal has not been fully costed so we do not know exactly what it would mean for Scotland, but it is a good, solid financial option because it does not involve massive outlay.

A good aspect of the Austrian model is the fact that there is a lot of follow-up. It does not just involve handing over a loan. Businesses become engaged in the national strategy and there is a lot of discussion about how well the business is doing and a lot of sharing of experience. The bank examines the businesses' accounts and ensures that they are spending the money wisely and getting the right returns, so the bank has examples of best practice for the future.

Lewis Macdonald: There are some practical questions about that option. What scale of guarantee would be required, and therefore what level of Government support would be appropriate? Could a tourism investment bank be accommodated at Scottish Government level or would a Treasury guarantee be required?

Philip Riddle: I am afraid that I do not know.

Lewis Macdonald: Just in terms of scale, are we talking—

Philip Riddle: The beauty of the option is that the bank can be as big or small as you want it to be. We do not want to put all our eggs in one basket, but if the idea was trialled, the bank could start off small, certainly within budgets that we are comfortable talking about at present.

Lewis Macdonald: Do you envisage that it would link to the investment plan? Is there a link between the priorities that have been identified for future development and the availability of Government finance?

Philip Riddle: Absolutely—that is the key. We all face the issue of how to get our plans implemented. We can have a wonderful investment plan that says, "Here is the type of investment that we want and this is where we want it", but how will we get people to move in that direction? We cannot coerce them because we have to go with the market. A tourism development bank would be a useful instrument because I envisage that every loan that went through it would link directly to the plan.

I return to an example that I mentioned earlier. In Scotland we have a sleeping giant of a product, which is the country house hotel. It struggles because establishments have to be a certain size if they are to be viable. This is purely theoretical, but I envisage that a tourism investment bank would guarantee loans for the expansion of such hotels.

Development would be directed and it would not always involve expansion. However, we have researched the products that we need and the people who want them and we would support such loans. We would not support things that did not fit with the investment plan.

Lewis Macdonald: So you would not envisage investment in, for example, the Trump development. What you have in mind are smaller enterprises that are less well capitalised and are trying to do something ambitious from a standing start.

09:30

Philip Riddle: Particularly in the current environment, the priority is to help smaller and medium-sized businesses to achieve the scale to ride out these difficult times and to obtain liquidity.

Lewis Macdonald: That answer is helpful.

When the committee produced its report on tourism, you said that several quality local projects that were potential candidates for involvement in the homecoming programme were well worth supporting but could not be supported because the finance was not available. Has that situation changed? Have some of those projects found support or been abandoned? What is the state of play?

Philip Riddle: In the main, the good projects have found support. I cannot quote the numbers, but I have been heartened by the fact that there were many good projects, most of which still exist. The programme has expanded significantly from the core that is receiving funding support through EventScotland.

Christopher Harvie (Mid Scotland and Fife) (SNP): Last summer, I found myself putting on gloves, scarves and tweeds for a trip up to Edinburgh. It was the worst that I have experienced for weather in Scotland. It seems to have led to a reduction of about 7 per cent in tourism income, when we hoped for a 7 per cent increase. It would be useful to have a history of how all the various elements—such as international instability, weather questions and the bankruptcy of air excursion companies—contributed to the tourism picture in the summer. We could take that almost as a year zero from which we must climb out. If the relationships between those factors were logged, that would be valuable for the future. Movements in currency rates were another factor. Only if we understand what the situation was like in those particularly awful circumstances can we have the flexible response that you envisage.

I would like you to consider what impact on a tourism investment bank the likely movement of interest rates would have. If interest rates fall, as everyone hopes that they will, conventional saving in a money market account will become less attractive. Could that be engineered in such a way that cash from savers went into a tourism investment bank? A large amount of investment could be waiting to go in that direction.

We have discussed transportation schemes frequently enough. Such schemes are mooted as a means of gearing up the economy when the housing market is likely to be down for a considerable time. Do you have priorities for such schemes? We can bear it in mind that railway lines that have been planned usually take only a matter of months to build. I can think of one or two—notably, the Waverley route—that are important to generating touristic income.

Philip Riddle: I will take those three points quickly. We are trying desperately to understand what happened in the summer. We are always doing analysis. Our feeling is that an unusual convergence of factors occurred. Normally, we do not set too much store by the weather. Our visitors know well that Scotland's climate is variable, which we talk about a lot. However, the bad weather hit us a bit this year, because it occurred just when people were under large influence and pressure to think about staying at home, and they suddenly remembered why they did not do that. A convergence of factors is often the situation, as we saw way back in our other year zero—2001. That analysis is undoubtedly taking place and we will take the lessons from it.

Bank interest rates are notionally reducing, but I am not sure whether liquidity is increasing yet. The issue is getting liquidity moving.

The tourism investment bank—the model in Austria—involves three private banks. The money comes from the banks, but the Government gives a bit of a top-up and a guarantee. There are undoubtedly vehicles that could securely take private investment income in through those banks for that purpose—it could work very well.

With regard to transport, we are having a separate session as part of the national investment plan on transportation. It is a key element: if you have a lot of ideas about the kinds of development you want, you also have to think about whether they will be well connected. We are considering in particular the possibilities of joined-up tickets to enable people to use public transport more easily. I was speaking yesterday about Culloden, which has a fantastic and iconic visitor centre that is not easy to reach by public transport. We are definitely seeking to provide more joined-up tickets there.

The motor car will undoubtedly still be very important for Scotland for a long time, so we are examining where the bottlenecks are in the road system and passing on the findings to those who can do something about it.

Christopher Harvie: About three weeks ago I initiated a debate in the Parliament on what we call the virtual kingdom in a virtual world, which was to get Scots, and people from communities that were founded by Scots, Googling one another. I discovered a Cupar, a Dysart and a

Markinch in Saskatchewan, for instance—I am referring to Fife at this stage. It struck me that that was an almost cost-free means of stimulating international interest.

On cue, the Chileans announced that they had discovered the camp of Alexander Selkirk in the Juan Fernández Islands, so Fife's most famous castaway was remembered in that way. That is the sort of thing with which a little money from your side could help a great deal—I will send you a memo on it. There should be something about it in *The Scotsman* later this week.

Dave Thompson: One of Scotland's greatest strengths is, of course, its diversity. Although it is a very small country, one can go a few miles and see totally different kinds of scenery and, equally, there are totally different kinds of weather. The doom and gloom about this year's weather was not reflected in the Highlands and Islands—we had a pretty good summer with lots of sunshine, so we should not say that Scotland had terrible weather this year.

Philip Riddle: I absolutely agree. We have to work on the weather forecasters who do not make a sufficient distinction, and who just slap a big grey cloud over the country, which puts people off.

The Convener: I think that you will find that the Met Office is reserved, so we will not go into that.

Gavin Brown: I think that Christopher Harvie referred—if I took down the figure correctly—to a 7 per cent reduction in tourism revenue. Based on the analysis that VisitScotland has carried out, does that figure chime with your understanding of the situation so far this year?

Philip Riddle: I would hazard a guess at between 5 and 10 per cent, so 7 per cent is probably not a bad middle figure. It is a bit early—as you know, we are barely getting half-year numbers at this stage.

The Convener: I have two quick questions. First, revenue from commercial and stakeholder sources makes up about 30 per cent of your income. Are you confident that that level of income can be maintained over the next couple of years? Secondly, how does VisitScotland envisage meeting the efficiency savings targets?

Philip Riddle: Those points are related. We expect an erosion of our income. It will not be massive, but the downturn in visitors over the summer means that certain elements, such as our TIC income, will naturally go down as well. There have been pressures in relation to funding from local authorities, which are struggling to meet all their commitments. Our income is not falling off a cliff by any means, but we do see an erosion.

We have been able to compensate for that to date through our cost savings. We are well on target: we saved £1.8 million last year against a target of £1 million. We are on course to meet the current target of 2 per cent recurring cost savings, which I am confident that we will make. We will be making savings around property, procurement, co-location—we have co-located successfully with Highlands and Islands Enterprise in Inverness, which has been a great move for both of us in terms of efficiency—and salaries. On the latter point, we have been through a restructuring process and, through voluntary severance, we have reduced the staff complement. We are on track to make the necessary savings.

The Convener: Thank you for coming to give evidence, Philip. I am sure that we could have gone into some areas in greater detail, but we are pressed for time this morning.

We will suspend briefly to allow the new witnesses to come to the table.

09:40

Meeting suspended.

09:41

On resuming—

The Convener: With us on our second panel we have Jack Perry and Hugh Hall from Scottish Enterprise, and Sandy Cumming and Sandy Brady from Highlands and Islands Enterprise—we must try not to confuse the Sandys when we ask our questions.

Does anyone wish to make some opening remarks?

Jack Perry (Scottish Enterprise): We are happy to discuss our budget proposals with you.

The world that we find ourselves in is quite different from the one that we faced when we saw you last May. Since then, we have successfully completed all aspects of our refocusing and restructuring as Scotland's principal enterprise, innovation and investment agency.

Our submission sets out a strong set of actions that we can do to play our part in helping to deliver greater sustainable economic growth. We understand the need for us to help our customers to respond to the short-term challenges that they face in the economic slow-down, so that they are in the best possible position when the markets recover. We have in place many of the tools that we need to help them to do that. During the next month, we will be carrying out business reviews for all of our account-managed customers.

We continue to work with Government to determine what more can be done, and we are having on-going discussions in that regard. Just as, six months ago, we could not have anticipated what has happened since then, anticipating what will happen in the next 18 months is challenging.

I will close by noting, in response to Dave Thompson's earlier question about the new American president, that the Irish might have beaten us to claiming his provenance—after all, his name is O'Bama.

The Convener: I tried to avoid making that joke earlier, but never mind.

Sandy Cumming (Highlands and Islands Enterprise): When we last appeared before you, in May, we had just undergone the biggest set of changes in the history of Highlands and Islands Enterprise. We discussed various organisational, budgetary and policy changes that HIE was making. I am pleased to report today that we are now delivering the Government's economic strategy in every part of the Highlands and Islands. We are working with our businesses, communities and partner organisations to deliver the strategy and are investing our resources to achieve maximum impact across the area.

Like Jack Perry, we acknowledge that we are operating in a fast-changing environment. The Highlands and Islands are, of course, not immune to the economic challenges that are affecting development activity across the world. Like Scottish Enterprise, we are actively assessing the regional impacts and working with businesses and social enterprises to help them to respond.

The overall picture is mixed across the Highlands—the story in Shetland is quite different from the stories in Moray or the Western Isles, for example. If you analyse the situation by sector, you will get different stories. There is still a lot of good news out there, and a lot of confidence in the future.

It is worth reporting that we might be slightly behind—there might be a lag effect. The most recent statistics for the Highlands and Islands show unemployment remaining low and stable at 1.7 per cent, which is only 0.1 per cent higher than the record low level of September 2007.

Like Scottish Enterprise, we are focused on a number of response tools. I apologise to the committee for the fact that we did not provide detail on them, but I am happy to take questions on specific points. Our focus is on areas such as planning, sales, efficiency, investor readiness and networking opportunities. I look forward to taking the committee's questions.

09:45

Marilyn Livingstone: My first question is for Scottish Enterprise. You stated in your written submission and told us today:

> "We are monitoring current economic conditions … and we are committed to adjusting our planned spend, where necessary."

Can you give us examples of where you plan to increase investment because of the economic downturn? What investment might you cease to make because of the economic downturn?

Jack Perry: I can give you some examples of things that we have initiated and are engaged in right now. As I said earlier, we are undertaking a business review of all 1,900 account-managed companies with which we operate. We are looking to work with them on improving their working capital management, cost reduction, lean management, lean manufacturing, workforce development, research and development, and innovation and product development. That is on-going.

We are ensuring that the business gateway website and inquiry service that we continue to operate on behalf of local authorities—which now manage the business gateway—provides up-to-date, relevant business information, including diagnostic tools to help address the very problems that are covered by the business reviews for account-managed customers.

We have agreed to increase support for the Scottish manufacturing advisory service—in fact, we will double it, which will double the number of company improvement projects that the service undertakes. We are currently recruiting the seasoned manufacturing professionals who will enable us to provide that. We are increasing our support for the investor ready scheme: our contribution is rising from 50 per cent to 75 per cent, which will enable companies to raise capital and secure loan finance.

We are refocusing Scottish Development International to increase support for existing inward investors and to attract new ones. We are shifting the balance when it comes to foreign direct investment to help more Scottish companies to internationalise, as existing domestic markets might prove stickier. The aim is to help companies to exploit overseas markets.

We are increasing our support for research and development, not just product innovation but process and service innovation. We are exploring the introduction in Scotland of the European Union's young innovative enterprise scheme. We are undertaking all those actions right now. In addition, we are discussing with the Government what we can do to accelerate physical projects and provide additional finance for companies. However, we need to discuss resources in order to do that.

Marilyn Livingstone: I accept your answer, and I am pleased about the work that is going on, but what support will be offered to people outwith the account-managed companies? What will the focus be, as far as they are concerned? Many constituencies have no companies within the six key sectors. I am keen to know what is going on in that respect. Also, what discussions have been held with representatives of the construction sector, particularly in house building? Much of your projected capital spend came from the sale of property. Have you had to examine your budget with respect to the downturn in people's ability to sell on property?

Jack Perry: You raise several issues. Non-account-managed companies are served by the business gateway. I have mentioned what we are doing to try to ensure that the inquiries service is up to date and provides the diagnostic tools that might be used.

Marilyn Livingstone: I am sorry to interrupt, but I am asking whether you will shift your budget away from high-growth companies. Will Scottish Enterprise provide extra support for companies that are not in the key sectors?

Jack Perry: The short answer is no—no major shift will be made away from the priority sectors. That is clear.

We have not had specific discussions about house building. We continue to support the construction skills action plan, which remains with Scottish Enterprise. Through SDI, we are working with the sector—not just builders, but professional practices—on the development of their businesses in new markets that are less affected, such as the middle east, India and the far east.

As for receipts from capital projects, we have ambitious targets for asset sales, which are contingent on market conditions. So far, we have been pleased. Most of our properties are for industrial and commercial development and have not suffered to the same extent as property for house building and domestic purposes has. Our realisations have been at the market rates that we expected. We will not sell assets at below market value in order to raise money, so if market conditions continue to deteriorate, we will have to adjust our spending accordingly.

The Convener: Does Highlands and Islands Enterprise wish to comment on property sales as part of its income stream?

Sandy Cumming: Yes. This year, we have a sales target for our property disposal programme of about £5.5 million, which is roughly double what we have achieved in previous years. I am happy to report that we are confident that we can make £5 million and that we might make £5.5 million. However, we have concerns about next year. As members will see, we have in our budget for next year £3.5 million for property sales. That target will be challenging but, like Scottish Enterprise, we think that we can achieve it. That is an important part of our income stream for next year, so it is in our interest to achieve that sales target. However, it is clear that the market is tightening. Like Scottish Enterprise, we absolutely will not sell property at below our asset valuation.

Dave Thompson: Good morning, gentlemen. I have two or three points, the first of which is for the two Sandys from HIE. There has been much comment—I call it misinformation—in Highlands and Islands media recently about the reduction in HIE's budget for investment in businesses. A headline figure of £50 million is consistently described as the reduction in HIE's budget.

Major changes were made to your organisation's budget when you were restructured. Other budget lines in the Government's budget, such as those for the road equivalent tariff, the small business bonus scheme and £22 million of extra spending on renewable energy, cover projects that I presume HIE funded in the past. Do you agree with the headlines about a £50 million reduction in your ability or in the overall ability in the Highlands and Islands to support businesses? If not, what is the real figure?

Sandy Cumming: Does Jack Perry want to take that? [*Laughter.*]

It is clear that our budget has reduced significantly in comparison with two or three years ago, but the reduction is not £50 million per annum—that is clearly incorrect. The media have misreported the situation.

At previous committee meetings, I reported that, for the previous two financial years, we were given additional funds, in excess of the grant in aid from the spending review settlement. We knew that that funding, which was of the order of £10 million, would not be carried forward under the current spending review, so we did not plan on the basis of that level of funding going forward.

The budget is less, so we have to get the best possible value for our investment resource this year and next year. Clearly, given the economic situation, the demand for high resources in terms of private sector-led projects is not as great as it was two or three years ago.

We still have a considerable budget, and we are driven by the concept of getting best value for the Highlands and Islands. Even compared with Scottish Enterprise, the Highlands, which has 8 to 9 per cent of the Scottish population, has a significant economic development budget, which is administered by its economic development agency in order to achieve sustainable economic growth.

To answer your point, we have a smaller budget, but the cut is not as big as £50 million.

Dave Thompson: How are you getting on with the creation of the business gateway in the Highlands and Islands? How are things going with the contracts and the councils?

Sandy Cumming: In May, I told the committee that the Government was about to make an important decision regarding procurement arrangements. That decision was taken a few days after I spoke to the committee, and it is quite clear that the Government is allowing the local authorities to deliver the business gateway through their own in-house services. There had been questions about whether there would be a single procurement contract, but that is clearly not going to happen in the Highlands and Islands. The individual local authorities have been given the option of delivering in-house or procuring external services.

Progress is good. The local authorities are giving strong leadership. We are supporting that and getting help from the Government and Scottish Enterprise. We believe that the business gateway service will be available in the Highlands and Islands around spring next year.

Lewis Macdonald: As Sandy Cumming mentioned, in the past, Highlands and Islands Enterprise has benefited from end-year flexibility in Scottish budgets. What will be the impact on HIE of the current Government's practice of over-committing budgets, which reduces the likelihood of end-year flexibility?

Sandy Cumming: We take a medium to long-term perspective. We have some clear investment ideas. When resources are made available towards the end of the year, we are in a strong position to take projects forward. However, if those projects have to be taken forward in the next financial year, that is what we do. In that sense, the current situation is more of the same. We also have to make full use of the new round of European money in order to lever in the European funding to stretch us, going forward. That is how we are handling the situation.

If you are asking whether I would like more money, the answer is yes. I am sure that I could invest in certain areas. However, we have a significant resource to invest in the Highlands and Islands.

Lewis Macdonald: You told Dave Thompson that you did not make plans based on having access to the £10 million that you received in the previous two years. You also mentioned that there was a further cut in your funding. What was it?

Sandy Cumming: The spending review figures are in our operating plan, and I am happy to quote them. This year, our budget is still considerable. In the current financial year, we are working with a total budget of about £99 million, £14 million of which is resource, which means that we have a budget of £85 million cash. Some of that will go on our operating costs, and the rest will go on investment in the Highlands and Islands.

Lewis Macdonald: How does that compare with previously?

Sandy Cumming: It is a lower amount than in previous years, for two reasons. First, the £10 million was not built in. Secondly, money has been netted off to meet the costs of Skills Development Scotland, which continues to operate in the Highlands and Islands. The investment is still made, although not at our hand—it is made by the new organisation, Skills Development Scotland.

10:00

Lewis Macdonald: Do you accept that once you have netted off those two elements of expenditure, there is a further reduction in what is available to you?

Sandy Cumming: Yes, indeed.

Lewis Macdonald: What is the scale of that further reduction?

Sandy Cumming: It is in the order of £5 million.

Lewis Macdonald: Thanks very much.

I have a question about property for Jack Perry. You said clearly that you would not sell assets at below their asset valuation, which, if I understood your previous answer correctly, is a different concept from market price. In other words, you were talking about your valuation rather than where the market ends up in six or 12 months' time.

Jack Perry: No. We have an annual valuation, which is at the market level. We will not sell below that valuation. I do not know whether there is any refinement on that—I will let Hugh Hall come in on that point.

Hugh Hall (Scottish Enterprise): That covers it. We would not sell at bargain-basement prices.

Lewis Macdonald: I am pleased to hear that. As you will recall, one of the concerns that was raised in the committee and elsewhere at the time of the enterprise networks review was the impact on Scottish Enterprise's presence in areas such as Grampian, where Scottish Enterprise Grampian provided a strong regional presence. What are your plans for your future physical presence in Grampian, for example?

Jack Perry: We continue to follow through on all the projects that we have already initiated and to which we are legally committed. In addition, our strong pipeline of projects, such as energetica and the Aberdeen biomedical campus, will have to go through all the prioritisation processes that we employ with a finite budget.

Lewis Macdonald: My specific concern is the impact of property disposals on Scottish Enterprise in the Aberdeen area. What are the plans in that regard?

Hugh Hall: We do not transfer core assets. Our disposal programme, which we would be happy to share with the committee, is focused on the disposal of non-core assets.

Following the enterprise networks review, we are striving to work more closely with local authorities to identify whether we can be more imaginative in using our portfolio and their assets to get the best possible deal.

Lewis Macdonald: I suppose that one of the key concerns is to understand what you consider to be core assets. For example, Scottish Enterprise Grampian was extremely effective in engaging with the business community because of its location in Queens Road in Aberdeen. Do you intend to dispose of that property and replace it with one in another location? What is the intention as regards Scottish Enterprise's physical presence in the city of Aberdeen?

Jack Perry: The Queens Road office was a subsidiary office. We have consolidated into one office. We still have a strong presence in Aberdeen. Grampian is one of our most successful regions—many of our account-managed companies are based there, including some of our most prosperous ones. We have rationalised our property portfolio and got rid of surplus property.

If you recall, we were a 2,500-person organisation prior to our reorganisation. We now have 1,050 staff, so we must adjust our property portfolio accordingly, which involves co-location with other organisations. A number of our regional offices around the country have co-located successfully, and we will continue that policy. If you track our head count over the past five years on a like-for-like basis, ignoring the transfers out to Skills Development Scotland, it has gone from 2,000 to 1,050 people, and we must ensure that our overhead base reflects that.

Lewis Macdonald: I understand that, but there is concern about the impact that failing to realise the value of your assets—which you have described as a distinct possibility—would have on the budget priorities in your submission.

Hugh Hall: We are reasonably confident that we will meet the very challenging target for disposals. We monitor the target closely, particularly as we get to the year end, because we have to make a number of other adjustments. We intend to slow down in some other areas so that we can create our own end-year flexibility: that will perhaps involve slowing down some of the capital spend projects to help us over the year end.

As Sandy Cumming mentioned, we have taken a medium to long-term view, but we also have to cope with the Treasury's annuality rules. It is a fine balancing act, but we take a long-term perspective. We also examine our disposal programme over a two to three-year period, so that we are able to pull other disposals forward in the event that we have to push some back.

Ms Wendy Alexander (Paisley North) (Lab): It is obvious, given that £33 million is programmed for this year, that the property disposals are more significant than they used to be. That is more than 10 per cent of the grant in aid, so it is not inconsequential. Given that we are quite far through the financial year, can you give an order of magnitude in relation to the receipts so far, what is in the market, and what is required?

I say that in the context of a helpful article that appeared in *The Sunday Times* in September. I would hate to assume that it is necessarily gospel, but it said:

> "The agency is thought to be hoping to raise as much as £60m from the sale of at least 11 sites across Scotland … Money from the sales has been included in SE's budget for the coming year".

The article reiterated Jack Perry's point that Scottish Enterprise will not sell property below market value.

That implies that Scottish Enterprise has in the market more than double what it actually needs to receipt this year, that is, £33 million. Perhaps Hugh Hall or Jack Perry can give us a bit of clarity. What percentage of the £33 million is already in-house? Is it true that you have £60 million in the marketplace at the moment, and therefore you only need to get half of that away to meet the target for this year?

Hugh Hall: We could send you details of the actual listing—

Ms Alexander: No, I am after the order of magnitude.

Hugh Hall: We are actively pursuing in the market an amount that is closer to around £45 million. As I said, we examine the programme of disposals over a two to three-year period, so we have already earmarked the properties that we will retain and the non-core properties that will be part of the disposal programme. Perhaps that is where the figure of £60 million has come from. However, we are considering the programme over a two to three-year time horizon.

We are trying to place the potential disposals in the market so that when we have a no-go situation—either because of the valuation or because a deal falls through at the 11th hour—we are able to pull some disposals forward. That is typical asset management, and we have been doing it for years around the year end—the scale is now just a bit bigger than usual. I cannot give you a precise figure for the disposals to date, but I know that we are on target with the disposals that we have made, and that they have been made at a price with which we are happy.

Ms Alexander: All things being equal, and given the market conditions, do you still anticipate meeting the £33 million programme for this financial year?

Hugh Hall: Yes.

Rob Gibson: My first question is for HIE. We are currently facing straitened economic circumstances. How will HIE's unique role in strengthening communities contribute to the development of the Highlands?

Sandy Cumming: Our role in that is hugely important. We were delighted when, at the time of the enterprise networks review in September last year, the Government decided that we would retain that important aspect of our work. We are planning on the basis of a significant investment under the strengthening communities programme.

We have refreshed our policy, and we are now focusing on social enterprises, and on fragile areas in particular, that is, those parts of the Highlands and Islands that have not enjoyed the advances that have been achieved in other parts. That is challenging, but it is hugely important, and it is part of the overall mix. Sandy Brady can add to my comments.

Sandy Brady (Highlands and Islands Enterprise): We have always seen strengthening communities not as a little sideshow that we do or as something that is at the side of our main activities but, rather, as part and parcel of how we approach economic development more generally. It is connected with our business activity and our attempts to prove that the region is an attractive place to live and work. We are putting something like £12.5 million into strengthening communities next year. As Sandy Cumming said, the focus is on the fragile parts of the area, which is where we believe that social enterprise, community enterprise and community activity have to step up to fill the gap, because the private sector is thin and the population is sparse. Strengthening communities will remain part and parcel of what we do.

Rob Gibson: What sort of job-equivalent figures are we talking about maintaining or creating?

Sandy Cumming: Our performance measurement framework does not go into that sort of detail. It is about the number of social enterprises that we are targeting. We use a figure of working with 500 businesses in the Highlands and Islands under our account management over the next two to three years. We are really trying to target a group of 100 social enterprises with growth potential.

In the fragile areas, we have a population base of about 56,000 people, who are a critical part of the Highlands and Islands community. We are trying to use our strengthening communities activities, policies and resources to create real opportunities for those people. Under our strengthening communities activities, we can go into asset management. Occasionally, we work to ensure that telecommunications in remote areas are as good as they are in other parts of the mainland Highlands. It is about levelling the playing field and allowing people to realise the potential that we know exists. We do not specifically target jobs in our measurement framework.

Rob Gibson: I will leave the issue of broadband for another time. I have received evidence that suggests that that is a huge problem, although it was not created by you, so we should return to it.

In a letter to Peter Peacock, as reported in the *West Highland Free Press*, you suggest that the volume of projects supported by HIE this year will be lower. We are talking about community grants and issues related to strengthening communities. Is what you suggested true?

Sandy Cumming: Yes. It is a policy that we have been working on for some time. In fact, it predates the enterprise networks review. We are determined to get best value going forward. We considered our approach and designed a framework for investment according to whether we are investing in fragile areas or non-fragile areas and in traditional commercial businesses or social enterprises. The model is now in place and we are taking it forward.

We are carrying out fewer transactions. The value of those transactions is probably £1 million a year, so that is £1 million that will not be invested by us in those sorts of activities. We acted in the knowledge that other sources of funding are emerging that can help those communities, whether the lottery funds in the Highlands and Islands or new initiatives from the Government. Although we will not be investing in that scale of projects, we are confident that other sources of funding will enable such projects still to come forward.

Rob Gibson: Will you give us some examples of that? Perhaps you cannot do so now, but it would be useful if you explained your thinking so that we can reassure communities on those matters.

The pension scheme recovery element is coming out of the project spend for this year. Why is that necessary?

Sandy Cumming: I will ask Sandy Brady to add to my answer. It is necessary, because the pensions regulator took a view on the valuation that we had at the time and decided that the deficit of about £10.2 million in 2006 was such that it wanted HIE to take action on it. It instructed us to pay the sum of £2.5 million into the pension fund. As we speak, we are undertaking a fundamental, externally commissioned review of our pension scheme to try to find a way of making it less expensive for the taxpayer and to find a solution. It is a pretty hot issue.

One of the issues for me is whether our pension scheme could be defined as a public scheme. At the moment, it is regarded as a private scheme rather than a public scheme, despite the fact that we get most of our money from the Scottish Government. If it were a public scheme, we would not be in the current position.

10:15

Sandy Brady: Sandy Cumming is correct. I am the chair of the superannuation scheme. As Sandy said, the requirement to put extra funds into the scheme stemmed from the pensions regulator's view that the deficit of approximately £10 million that we face needed to be made good. That is being done through the lump sum injection to which Sandy referred and an increase in the subscription that HIE has to make over an approximately 10-year period to bring the fund back into balance.

The recovery plan that we put to the pensions regulator predates much of what has happened in the past three or four months, so we are keeping the area under close review. A group of trustees in the organisation looks after the pension fund. The trustees are advised by professional actuaries on how they should execute their duties. The funds are invested with two separate fund managers, and that investment is managed under the direction of the actuaries. The scheme is run as a private sector scheme. It has been in existence for a very long time—the Highlands and Islands Development Board set it up in the late 1960s. It is probably one of the longest-running schemes in the public sector in Scotland.

Rob Gibson: Are the arrangements that you have described different from those in Scottish Enterprise?

Hugh Hall: We have a similar fund arrangement, but we do not have a deficit, so we are not in the same position as HIE.

Rob Gibson: Is the scheme treated as a private sector pension scheme?

Hugh Hall: It is probably best described as a scheme outside the public sector. It is not covered by the public guarantee.

Rob Gibson: That is extraordinary.

Christopher Harvie: We have been discussing matters for some time, but the elephant in the front garden has not yet been recognised. In the past few weeks, the Scottish banking sector has stopped being Scots. I am given to sensational literature and get the *Financial Times* every day. At the very least, the implications of the change for employment and the financing of enterprise in Scotland are redundancies running into five figures. Are any contingency plans in being for coping with the situation and recovering what we can from it?

Jack Perry: We are very cognisant of what is happening. We are full participants in and were instrumental in setting up the Financial Services Advisory Board. We continue to work with the industry on this matter and believe that financial services remain a key industry. We have stepped up our work and have talked to existing financial services investors in Scotland—both domestic Scottish businesses and the international businesses that provide a huge amount of employment in the sector. Recently I was in New York, where I talked to a number of the American financial institutions that are big employers.

We believe that there will be two kinds of consolidation in the industry. The first is consolidation of financial institutions. The process of consolidating businesses will produce winners and losers. We believe that Scotland has a great deal to offer to international investors as a base for consolidation. Scotland is highly regarded because of the operating metrics that institutions have experienced in their Scottish operations. The second kind of consolidation is consolidation of operations within financial institutions, many of which have a number of European centres. There are opportunities for and threats to Scotland in that process. We will work with existing investors to ensure that we maximise the potential opportunities. We will also continue to work with other industries such as life sciences and energy, in which there may be better opportunities, to ensure that we create employment growth in those areas.

Gavin Brown: Jack Perry mentioned a number of specific things that Scottish Enterprise is already doing in response to the economic downturn. Are there any specific decreases, or are there things that Scottish Enterprise is focusing less on, in terms of money or of people?

Both a narrative and a budget have been submitted to the committee. The narrative was clearly written quite recently as it responds specifically to the downturn. Was the budget behind it the original budget, as planned at the same time as the Government's draft budget came out, or has the budget that you have given us already been changed to reflect the economic downturn and the points that are raised in the narrative?

Jack Perry: I will deal with your first point, then I will hand over to Hugh Hall on the budget figures. The question was what we might do less of. There are two areas. We have put great focus on the generation of intellectual property through initiatives such as the intermediary technology institutes, the proof of concept fund and the Translational Medical Research Institute. They are generating some really interesting intellectual property. Now, we will be shifting the balance of some of that work towards the commercialisation, commercial application and development of high-growth companies rather than the generation of new intellectual property. We must keep the pipeline flowing, of course, but we want to shift some of the emphasis from the generation of new intellectual property to the commercialisation of the intellectual property that has been generated.

Secondly, there is a bit of slippage on some capital projects, as partner finance becomes a little bit stickier. Some headroom has been created, not so much through cancellation as through deferral and postponement. That little bit of headroom has allowed us to do some of the additional things that I was discussing earlier.

I invite Hugh Hall to say something about your second point, which was about the presentation of the figures and a recasting of the budget.

Hugh Hall: There has been some downward movement in R and D, which is demand led. Companies have been taking decisions to stall or come out of that activity, and our funding will clearly not follow through. That, too, creates a bit of headroom to allow us to do those other things.

On our submission, the 2009-10 figures are very much indicative. We are going through our business planning round as we speak, with the intention to finalise it by the end of the calendar year. There will potentially be further adjustments to the figures as we move towards the end of the year. I imagine that that will be at the margins. A lot of the issues that we are discussing, including our response to the economic downturn, are not to do with large sums of money being shifted between budget heads. We usually prioritise within areas.

This year, we are coming under pressure in the area of equity investment, and we have already made some adjustments to our projections. We have a successful set of investment funds, including the venture fund, the co-investment fund and the seed funds. Just last week, our board agreed to put some additional resourcing into the venture fund and the seed fund because of the increased demand that has been coming through. That is fuelled partly by the economic downturn and partly through the momentum that has now built up and the success of the funds.

There is also pressure on the co-investment fund. That fund is financed separately from our main budget. We invested about £40 million towards the end of last year, which has been matched by £27 million, and potentially a further £8 million from Europe. That money is banked, as it were, and we can draw on it at our own hand. It is not subject to annuality rules.

Gavin Brown: You have already answered many questions about the sale of properties and so on. I want clarification on one particular point, however. I refer to the £33 million figure that was mentioned earlier—my understanding is that it comes from the 2009-10 budget. What was your target for property sales in the 2008-09 budget? I have only level 3 figures to hand.

Jack Perry: The £33 million figure is in fact for the current year.

Hugh Hall: It is for the current year, yes.

Gavin Brown: So it is £33 million for each year.

Hugh Hall: We have probably made that assumption for year 2 as well. There is a target set through the Government. This year, we asked the Government for approval of an additional £12 million in increased sales proceeds. That approval was granted. We have the ability to make some adjustments, subject to approval from the Scottish Government. The figure is of that order, anyway.

The Convener: I have a couple of questions, but I think that Dave Thompson wants to come back in.

Dave Thompson: I have a further question. You will not be surprised to hear that, again, it is for Highlands and Islands Enterprise.

Thank you for the information that you gave Lewis Macdonald earlier. I think you said that your budget was £5 million less per annum. When I spoke earlier, I mentioned RET, the small business bonus, and the renewable energy budget that is now available Scotland-wide. HIE's share of the renewable energy budget will be more than our population share because—we hope—a lot of the developments will take place in the Highlands and Islands.

I know that those things do not happen at your hand, but I would appreciate your views. Do you agree that the extra investment in development through the small business bonus and the extra investment in RET for the Western Isles more than compensate for any reduction in HIE's ability to invest in development? Do you agree that, overall, there is an increase in development investment in the Highlands and Islands?

Sandy Cumming: I am sure that that is the case. We are excited by the opportunities for marine renewables in the Highlands and Islands, which the committee have discussed regularly. I will give an example. One of the best news stories in the north in recent weeks was Morgan Stanley's announcement that it might be prepared to invest in a secure data centre in Thurso. That is only a proposal, but the company would invest in the project in the next two to three years and it would eventually make use of the marine renewable energy resource of the Pentland Firth. To me, that is what the modern Highlands and Islands should be about, and we are excited about that proposal.

There are still excellent investment opportunities out there and economic development continues in the Highlands and Islands.

Sandy Brady: We are interested in the RET pilot that is being undertaken in the Western Isles. The RET concept was first put forward by our predecessor organisation in 1973, no less, in a seminal document called "Roads to the Isles", so we are delighted that the pilot is proceeding. However, we do not regard it as just a transport experiment. It is much more about trying to stimulate the economy of the Western Isles, so we are working with the Scottish Government to try to ensure that the full benefits of the lower tariffs feed through to businesses and communities there.

Dave Thompson: I welcome your concentration on social enterprises. That is really good. However, some organisations are losing out because they are not getting access to funding that they had in the past. In your answer to Rob Gibson, you mentioned that there are other sources of funding, and I reiterate the point that he made. I presume that, when sports clubs and other organisations do not get as much funding from you as they had in the past, you point them in the direction of alternative funding sources. I presume that you do not just say no to them and that you let them know that there are alternatives. I would appreciate receiving a note from you in due course on the alternative sources of funding to which such bodies can go, so that when they come to me as an MSP and say, "Look, I didn't get the funding I expected from HIE," I can at least say to them, "Here you are—these are the alternatives."

Sandy Cumming: Absolutely. I make the obvious but important point that we are not sportscotland but Highlands and Islands Enterprise. We have a clear, distinctive role to play and we intend to do that. However, I would be happy to furnish the committee with additional information on other sources of funding. I would be hugely disappointed and certainly annoyed if HIE staff did not make positive referrals. That is entirely what we should be doing under our account management focus.

The Convener: You mentioned earlier the headroom that is being created because of the reduction in R and D. That is not a comfortable position to be in, given that a key point in your submission is that low investment in R and D is one of the problems with the Scottish economy. Are HIE or Scottish Enterprise doing anything to try to reverse that unfortunate trend?

10:30

Jack Perry: Hugh Hall's point was that we have a number of offers outstanding under what was the R and D plus scheme. The offers are contingent on companies making a spend, in which case we follow through with our offer. The scheme works similarly to regional selective assistance. If a company defers its plans, we do not provide the match funding.

To help to compensate for that, we are trying to make a better connection between Scottish companies and the research that is coming out of many of our R and D programmes in order to take advantage of and try to get more rapid commercialisation of some of the intellectual property to which I referred in answer to a question from Mr Brown. We are also looking at greater flexibility in the R and D grant programme. We are asking whether we can flex the amounts and the timings to act as a greater incentive to help companies to follow through on programmes that have been approved thus far.

Sandy Cumming: I have nothing to add other than to say that I am very mindful that R and D is a real challenge—certainly it is in the northern part of Scotland. That said, a couple of our leading-edge companies have no public sector assistance and are still making massive investment in R and D. I refer to Lifescan Scotland in Inverness and SGL Technic north of Inverness, both of which are going through massive R and D programmes. We welcome that. We would like to see some of our small and medium-sized businesses being encouraged to do likewise.

The Convener: In some of the evidence that has been put to the committee on the budget, it has been suggested that one positive thing for the Government to do would be to accelerate infrastructure investment. In the Scottish Enterprise submission, you talk of perhaps delaying some infrastructure development. Is that not contradictory in terms of the benefit to the economy? Also, what is the Scottish Enterprise view of the Ravenscraig project?

Jack Perry: If I may, I will take the last point first before handing over to Hugh Hall to address the question on the juggling act that we have to perform.

Ravenscraig is a tricky one. It is a major project and the world has changed quite dramatically since its inception, both in terms of demand for the developments that were envisaged at the site and the partner funding and finance that are required. That should come as no surprise to the committee. We were the initiators of the project and are full shareholders and participants in Ravenscraig Ltd. We are getting together with all the partners in the company and are funding a recast of the business plan and business model for the financing of the project. We are actively working on the project. To date, we have invested £24 million and committed to complete that next year with £4 million of further investment.

However, we have to ensure that there is demand for what comes out of that and that partner funding is there. We simply cannot do it on our own. It is a challenging project for us, but we will work with partners to try to get the best possible solution. Hugh Hall will say something on the juggling of the timing of infrastructure projects and those that can be accelerated.

Hugh Hall: As I said earlier, this relates less to what happens on the ground in delivering these capital projects and more to accounting niceties and the use of end-year flexibility. Increasingly, our capital infrastructure projects are done on a co-investment basis with a range of partners. Sometimes we cannot accelerate a development project or we find that its delivery is delayed because our partners have difficulty in providing their source of finance. We need to work through that.

In looking across our entire portfolio, we have made suggestions on how to bring forward our capital spend. As I said, this relates partly to accounting adjustments and partly to the challenges that our partners face in providing their source of finance—their contribution to projects.

The Convener: One of the business community's big concerns in relation to the credit crunch is about the availability of working capital—short-term loans and overdrafts. The banks have whacked up interest rates to ridiculous levels for some overdrafts and are now charging companies for arranging overdrafts that companies had previously arranged. Can Scottish Enterprise, Highlands and Islands Enterprise or the Government do anything more to assist companies that have difficulties in getting their hands on short-term working capital to see them through even just the month-end wage round while they are waiting for bills to be paid, for example?

Jack Perry: The issue has two aspects. I mentioned the business reviews that we are undertaking with all our account-managed customers. A big element of those reviews is working-capital management. Several young companies have never experienced an economic downturn. The necessary skills to manage during a downturn are often different from those that are needed when times are good.

We have embarked on a programme of retraining and educating our account managers. They can use diagnostic tools to help companies to reduce the days of inventory that they hold, to accelerate the receipt of receivables and to manage their creditors better. That is practical help and advice to support improvement in working-capital management in businesses.

We are also discussing with Europe and the Scottish Government the development of a loan fund to sit alongside our equity investments, so that we could offer a structured finance package to our customers. At present, we do not offer that.

We are approaching the issue from two angles: achieving better management and considering whether we can help with the availability of loan finance, which would be provided on a co-investment basis—that is a fundamental principle of everything that we do.

Sandy Cumming: I echo what Jack Perry said. As I said, business gateway does not yet operate in the Highlands and Islands, so we still deliver much business advice directly as Highlands and Islands Enterprise. Next week, we will increase our advertising of the availability of business advisory services throughout the Highlands and Islands, to try to get alongside businesses to help them with financial planning for the current situation, as Jack Perry said.

We can also consider loans. However, we need to tease out the rules and regulations on state aid, which are considerable and which affect our ability to inject working-capital assistance. That is not easy. When an opportunity exists, we will take it, but it is by no means universally easy to do that.

The Convener: My final question is about your efficiency savings targets. Given the increased demands on Scottish Enterprise and Highlands and Islands Enterprise because of the economic downturn, is it realistic to expect you to achieve your efficiency savings targets? If they are achieved, will that money go back into your other services?

Jack Perry: We believe that the targets are achievable.

Hugh Hall: We have already achieved our efficiency savings target for the current year. We are well on the way to achieving next year's efficiency savings target. That money goes to mainstream business activity. We are comfortable with the 2 per cent compound.

Sandy Cumming: We will meet our efficiency savings target this year. Next year, we have set ourselves a significant target that is beyond 2 per cent. We are trying to make the organisation even more efficient. Members will find that in the block B costs, we have put it on the record that we are trying to take another £1 million out of the cost of delivering the public service in the Highlands and Islands. That will be challenging, but we have a plan in place, which we remain confident that we can deliver.

The Convener: Members have no more questions, so I thank the two Sandys from Highlands and Islands Enterprise and Jack Perry and Hugh Hall from Scottish Enterprise for giving evidence.

We will have a short suspension to change the panel of witnesses.

10:39

Meeting suspended.

10:42

On resuming—

The Convener: I welcome to the public gallery a group of advanced modern studies pupils from the best school in Scotland, Bell Baxter high school, which is in my constituency and is my old school. I hope that you enjoy this morning's proceedings.

I welcome our third panel of witnesses, who are from Transport Scotland: Malcolm Reed, Guy Houston and David Anderson. I ask Malcolm Reed to make any opening remarks before we open up to questions.

Dr Malcolm Reed (Transport Scotland): Thank you, convener. I propose not to make an opening statement, but I will elaborate on who my colleagues are. Guy Houston is the director of finance and corporate services for Transport Scotland, and David Anderson is head of transport economics, analysis and research—or TEAR, as it is known in the trade. I am the chief executive, and I am happy to take questions from the committee.

The Convener: The committee is considering the overall budget of the Scottish Government in the context of the economic downturn, and the extent to which the budget can be recast to address that. A big issue that has come up is the possibility of bringing forward or rephasing infrastructure projects. Does Transport Scotland see any opportunities for rephasing infrastructure projects or bringing forward additional projects, if the money is available to do so?

Dr Reed: I would not want to mislead the committee. It is important to understand that major transport projects have a long lead time—typically 10 years. The procurement process can take us two years. There are things that we could do, but they would be very much at the margin. With any significant reordering of our programme, it would take at least two years before we could see the results on the ground.

Gavin Brown: My question is along related lines. We have had a Scottish Government response to the economic downturn, which was called the six-point plan. We heard earlier from VisitScotland about the tourism plan in response to the downturn, and then from Scottish Enterprise and Highlands and Islands Enterprise about their responses to the downturn. I heard what you said about some of the larger long-term capital projects that you are involved in, but is there such a thing as a Transport Scotland plan or response to the economic downturn?

10:45

Dr Reed: We have provided input to what has been announced by ministers. I should point out that, unlike the previous witnesses, we are not part of an arm's-length organisation; we are very much part of the Government machine. My colleagues and I are civil servants and interact directly with ministers and the Scottish Government's core policy departments. To that extent, we are—or would like to think that we are—corporate and take our place alongside other parts of the Government.

We need to understand that transport is a derived demand. Although we support economic activity, we do not lead on such matters; instead, our schemes are designed to respond to the needs of society and the economy. That said, we can do certain things at the margin, such as looking at ways of advancing maintenance spend. However, because we have to work through statutory processes and because our schemes tend to be capital intensive, it takes us a while to stand alongside other parts of Government and offer tangible measures on the ground. The programme that we are developing plays a major part in supporting the Government's purpose and Scotland's economic development.

Lewis Macdonald: Are you able to tell us a little more about the Government's review of strategic transport projects? When do you expect that report to be published? I do not expect you to go into any detail about its contents, but will it, for example, seek to reorder the priority of the strategic projects to which the Government has already committed itself? How much information will it contain on the future financing of major capital projects undertaken by Government?

Dr Reed: Some of that is a matter for ministers, who have received the document and will announce the outcome in due course.

The STPR has not really been designed to reorder existing priorities; it is about setting the agenda for the 10 to 20 years from 2012. Our programme for the next two or three years is very full and the intention was to provide an evidence base and a prioritised list of interventions—I use that word deliberately—that will help to improve Scotland's transport services.

As for the detail of and the rationale behind the document, I hand the question over to my colleague Dave Anderson, who has been leading much of this work.

David Anderson (Transport Scotland): It is important to build on Malcolm Reed's point about the evidence base. We have taken as a baseline the projects that are currently in the pipeline for development, and have used the evidence base to project forward to 2017 and 2022, find out how the transport infrastructure would respond to various changes and consider where the pressures and opportunities might lie. The work is very much about looking at future opportunities and thinking about how they might benefit Scotland.

With regard to the detail, Malcolm Reed was quite correct to stress the word "intervention". As part of the process, a series of recommended interventions, which would take the form of smaller projects, would be taken forward, subject of course to funding and approval processes. We have sought to ensure that the full range of questions about and the key objectives for Scotland's road and rail network have been addressed in a way that allows us to set out some detail about whether projects will be phased, whether there will be different programming stages and so on.

Lewis Macdonald: So the detail would include funding mechanisms as well as information about phasing and timing of projects.

David Anderson: Funding will obviously depend on future funding allocations, but we have included indications of the cost of the broad schemes that make up the interventions.

Lewis Macdonald: The convener highlighted the difference that strategic projects can make not just to future economic development but in helping the Scottish economy through the credit crunch. The decision to develop the Aberdeen western peripheral route, for example, was taken five years ago but, as things stand, there is little detail on cost and funding mechanisms, and we still await the detail on the start date and construction programme. Is that the sort of information that we could expect to see in the report?

Dr Reed: The STPR report will not deal with the Aberdeen western peripheral route, which is an existing commitment of Government that is being taken forward through due process. I expect that when ministers announce the outcome of the STPR, they will refer to what is currently being delivered. As you know, the AWPR is the subject of a public local inquiry, and we cannot anticipate what the report of that inquiry will say. We believe that the economic case for the road has been made and that it will bring significant economic benefits to the north-east. We are planning on the basis that it will go ahead.

Lewis Macdonald: Whether or not the AWPR is in the STPR, can you give us any encouragement to believe that there is potential to bring forward strategic transport projects from their planned start dates to earlier start dates, in order to respond to the economic pressures and to benefit the construction and civil engineering industries?

Dr Reed: The AWPR provides a good example of why we cannot be as positive as the committee would like us to be. The road is before a public local inquiry because there are statutory objectors. People have a right to be heard. As part of the democratic process, we have to go through a road order and compulsory purchase order process, which is governed by statute. Until that process is complete, we have no way of bringing forward the start of a scheme.

Where there are no objections to a scheme, or where a scheme can be carried out within the existing road line, we will, along with ministers, consider—within our budgetary constraints—the potential for bringing such schemes forward. By and large, a big scheme will attract some form of objection or opposition. The processes require us to exhaust the objections to such schemes before we can let a contract.

Lewis Macdonald: That point is well understood. Moving away from the example of Aberdeen, do you think that there are projects that you can bring forward without encountering the kind of obstacles that you have indicated?

Dr Reed: Yes, but they would tend to be smaller-scale schemes, and more about improving a junction or a sightline than creating new infrastructure on the ground. That is the difference. Such improvements may be beneficial and may produce an economic benefit, but they will not have the big impact that a new scheme could have.

The Convener: What is happening with the Borders railway line? I understand that it has been delayed. It has statutory approval, so why is it not being brought forward?

Dr Reed: It has not been delayed. Ministers are keen to be seen to take the project forward. We are doing market testing, and we hope to issue a notice in the *Official Journal of the European Union* in a matter of months, with a view to making a start on site within the next two to three years.

The Convener: My colleague Jeremy Purvis would consider that to be a delay, but never mind.

Christopher Harvie: There are various schemes for high-speed rail links with England. I travel to London practically every weekend, and I suffer journey times of more than six hours. It seems much worse than it was, even in the days of steam. On the west coast main line, one comes across closures for engineering improvements that seem to me just to be putting the track back to where it was a fortnight before because of the varying types of wear exerted by heavy freight trains and Pendolinos. From the Scottish point of view, and in the context of the Waverley route, is there not a strong case for a dedicated freight line south from Scotland? It would seem to me that heavy freight and fast passenger traffic are incompatible.

Dr Reed: The business case for the Borders railway line was extensively tested by the promoter and through the parliamentary processes. We take the view that there is no business case for extending the line south of the existing terminus, and we are not aware of any significant change in the nature of freight demand that would change that assessment. If there is new evidence, we will look at it but, at the moment, the scheme is based on a relatively attractive cost benefit ratio for taking the line as far as Tweedbank. I am afraid that the moment the line goes further south, the business case does not exist.

Christopher Harvie: Whenever I have spoken with potential users of freight services—in Fife, for instance—they have said that their great inhibition is the unpredictability of freight transport times, given the level of occupation of the existing east and west coast main lines.

Dr Reed: I agree. We are in touch with the freight industry, and we are engaged in discussions with Network Rail about the need to ensure that at least one route south is kept open at all times. That was part of the Scottish ministers' submission to the Office of Rail Regulation through the high-level outputs statement, and we will have to wait and see to what extent Network Rail can deliver on it. We share your frustration, and we understand why industrial users are concerned about the availability of freight paths at the weekend.

Christopher Harvie: The point is that a single-track line from Carlisle, with the possibility of centring the rails so that they could carry Berne gauge trucks, would make the notion of a core freight line running up through England attractive, especially as the likely upgrades of the west and east coast lines will cause even greater delays on those two routes.

The Convener: You have gone beyond the budget and gone into too much detail on that particular project. Malcolm Reed can respond briefly if he wishes, and then we will move on.

Dr Reed: I do not think that that would be our first port of call if we were considering that sort of proposition. There are other ways to address the issue.

Dave Thompson: You spoke about business cases—I am interested in the criteria that will be used in the transport projects review. I have a document here that lists a number of major projects for which you are currently responsible: the M74 completion, the Forth replacement crossing, the Airdrie to Bathgate rail link, the Aberdeen western peripheral route, the Glasgow airport rail link, the Stirling-Alloa-Kincardine railway, the Waverley railway project, and the upper Forth crossing. You will notice that all of those projects are in the central belt. I represent the Highlands and Islands—

Lewis Macdonald: Aberdeen is not in the central belt.

Dave Thompson: Apart from Aberdeen—sorry, Lewis. My point is that none of the projects is in the Highlands and Islands.

What criteria will be used to decide which projects will go into the next phase of strategic transport projects? There has been virtually no development in the past 10 years in the Highlands and Islands and, given the current economic situation, it is important that we in the north get some major projects out of the review. Does the business case relate to economic or social reasons? Is there a population-based aspect? Can I be hopeful that the Highlands and Islands might fit some of the criteria, whatever those are?

Dr Reed: I think that you can, but I will ask David Anderson to give a bit more detail about the evaluation criteria and, in particular, how we test schemes for the advantages that they will deliver to the Scottish economy.

David Anderson: There are two aspects, the first of which is the approach that we have used in developing the strategic transport projects review. We consider the strategic road and rail links in Scotland on a corridor basis, to assess how they work, and we then examine a series of nodes—for example, Inverness is a key node in the Highlands and Islands. We have looked at how the transport networks perhaps centre on Inverness and fan out across the wider area into more remote areas. That has given us a clearer understanding of the issues that those communities and routes face. The routes are different in the amount of traffic that they attract and in the way in which they operate in terms of factors such as the road equivalent tariff and seasonality caused by tourism. On the basis of the evidence, we have considered the objectives for those corridors. They are different across the country. We have 80-odd objectives within the STPR, which is quite convoluted and difficult to put together.

11:00

In coming forward with ideas, we have used the mechanisms in the Scottish transport appraisal guidance—the acronym STAG might be well known to you, as it is often quoted. The guidance takes together the advantages to the economy, the environment, accessibility, social inclusion, integration and safety. In developing the recommendations, we have sought to assess the contribution that projects make against each of those criteria; we have used them all together. There is no one overriding factor; it is a multicriteria approach.

One of the instructions for the strategic transport projects review was to look at the contribution to the outcomes of the national transport strategy and the purpose of sustainable economic growth. We have sought to bring those together and to describe how projects can contribute to all that. The national transport strategy has the three outcomes of improving safety, reducing emissions and improving reliability. We have sought to work out the contribution to each of those outcomes in making recommendations. That becomes quite a complicated and difficult process. The reports that will be published will set out the various contributions that are made. That is what we put to ministers to allow them to come to decisions.

Dave Thompson: Thank you for that comprehensive and interesting report. When you are looking at a route, you would obviously take into account the length of the route and the amount of traffic on it to work out—

The Convener: I remind you that this is an evidence session on the budget and its impact on the economy and the economic downturn, rather than a discussion about transport policy, which is for another committee.

Dave Thompson: You are quite right, convener. I just want to focus on a little point. I just wonder whether the fact that routes in the Highlands have lower traffic levels but are of a greater length will help or hinder us in getting the economic benefit of development. Will we ever get development?

Dr Reed: One of ministers' stated objectives for the STPR is to improve connections between the different parts of Scotland. On the issue of connectivity, we fully recognise the relative distances that people have to travel to access Inverness or Wick. Such factors are taken into account fully in the evaluations.

Ms Alexander: I want to explore the stage of development of the major infrastructure projects for which Transport Scotland is responsible. I return to the possibility of accelerating any aspect of that pipeline in the context of the current economic circumstances. The briefing that was provided to us states that Transport Scotland is responsible for eight major infrastructure projects. I do not want to waste the committee's time by reading them out, but is that a complete list? Is eight the correct number? I will run through them quickly and you can tell me if there are any more: M74 completion, the Forth replacement crossing, the Airdrie to Bathgate rail link, the Aberdeen western peripheral route, the Glasgow airport rail link, the Stirling-Alloa-Kincardine railway, the Waverley railway project and the upper Forth crossing. Are there any more?

Dr Reed: It is a moveable feast. Ministers have made a public commitment to improving the railway connection between Edinburgh and Glasgow, which is one of our major projects. I am not sure whether the Edinburgh tram project was on your list.

Ms Alexander: It was not. I thought that the number was 10, including the railway connection between Edinburgh and Glasgow and the tram project.

Dr Reed: There are projects outside the list. We hope that the STPR will add to the list of projects that we are taking forward.

Ms Alexander: Let us confine ourselves to that helpful list of 10 projects. In how many of those cases has the contract been let over the past few years or do you anticipate it being let in the next 24 months?

Dr Reed: That is a good question. A number of those projects are not at the contract-letting stage. We are closing the contract on the M80—we are in active discussions with a preferred bidder—but we have still to complete the statutory processes for the M8; the contract will follow. On the Forth replacement crossing, we are a long way off committing, but we anticipate that we will be in a position to let a contract in 2010 or 2011. The Edinburgh to Glasgow improvement programme—EGIP—is being progressed jointly with Network Rail and First ScotRail. Each of us is leading on different parts of it. Network Rail goes through quite an extensive pre-contract process, so we are well short of the contract-letting stage, but I will be disappointed if we do not proceed to let some of the contracts for that scheme in the next two years.

Guy Houston (Transport Scotland): I will quickly list the projects that have gone to contract award. The contracts have been let for the Airdrie to Bathgate project, which is already half finished. The upper Forth crossing, the contract for which was let a few years ago, is nearly complete. The contract for the M74 was let in March this year and the project is in the process of being completed. The Edinburgh tram contract has been let and the scheme is in the middle of being completed, as one can see if one wanders down Leith Walk. Waverley station and the Stirling to Alloa line have both been completed. There is a mixture—some projects have been completed, some are going to contract at the moment and some are in the middle of construction.

Ms Alexander: I am mindful of how busy our timetable is today, so it would be extremely helpful—forgive us, but we have to provide our comments on the budget by a week today, so there is a degree of urgency to my request—if you could provide us with a table that itemises when the contract was let, or when it is anticipated that it will be let, on the eight projects that we have listed, together with the M8, the M80 and the improvements to the Glasgow to Edinburgh line, which I think takes us to a total of 11, and what form of procurement was used or is anticipated will be used.

As you will understand, the issue that I am hinting at is the extent to which public-private partnership is the established model for contracts that were let prior to 2007, the extent to which it has continued to be used and the extent to which that choice is available to us for projects that will be let in the next two years. Some projects, such as the Forth replacement crossing, might not be let until 2010-11. Itemising the date on which those 11 projects were or will be let and what procurement method was or will be used would help the committee to reach a judgment about whether the use of more familiar procurement approaches might be helpful for projects that are let in the next two years. It would also reveal the extent to which tried and tested methods continue to be used for transport projects, which is an issue that has been missing from the debate so far. Such a table would allow us to reflect on such matters.

The Convener: It would be helpful if you could provide such information, but the timescale is extremely short—the clerks would require it by tomorrow.

Dr Reed: We can do that very quickly.

I would like to provide some context. As you are probably aware, Governments across the United Kingdom are exercised by the new international financial reporting standards, which are raising issues about the traditional method of private finance initiative or PPP procurement. Big changes in the procurement environment are exercising not just us in Scotland but our colleagues in Wales and London as well.

Ms Alexander: We would be happy to receive comments about that, which, for the sake of accuracy, we would want to reflect in our report. That would be helpful.

The Convener: Time is running short, so I ask Rob Gibson to ask a final question.

Rob Gibson: The difficult economic situation requires clearer thinking about different ways to proceed. Two things come to mind. Are you working on the relationship between infrastructure development and the national planning framework? If, as you indicated, that is the case, must the STAG system not be scrapped and spending be directed towards opening up the developments that will be identified as the major programme? You outlined why STAG is used at present. However, STAG appraisals are considered quite separately from other development indicators—they are done at a particular point in time. STAG has to change.

Dr Reed: The important thing to say about STAG is that it provides a robust and well-tried method of evaluating the use of Government money. Much of the national planning framework is about facilitating development by other people—in essence, it is not Government money that is at risk. As accountable officer—and as a part of the Government—we have to be very sure that we are spending our money effectively and efficiently. In many ways, STAG is one of the most robust and well-tried evaluation tools that is available to Government.

David Anderson: That is right. STAG comes in for a rather bad press because of the misconception that it is a mechanism by which to give an answer, which it is not. STAG is a mechanism by which to take available information and present it in a form that allows whomever to make decisions.

The important point that we are making in the recently relaunched document is that effort should be proportional to outcome; people should look across the range of information to ensure that all opportunities are considered. In a sense, STAG is a dumb tool; it takes available information, works with it and presents it in a form that is common across all interventions and opportunities. The interpretation is left to whoever makes the decision.

Rob Gibson: I will leave it at that.

The Convener: I am afraid that time has run away with us. I thank Guy Houston, Malcolm Reed and David Anderson for their helpful evidence this morning. We will have a brief suspension to allow for the changeover of panels. I ask members not to leave the room, as we need to move quickly to the next session.

11:12

Meeting suspended.

11:13

On resuming—

The Convener: I welcome our final panel, Mark McEwen and Geoff Aitkenhead from Scottish Water. We have received your written submission, but you may make some brief opening remarks before we move to questioning.

Geoff Aitkenhead (Scottish Water): As I am sure the committee is aware, Scottish Water's capital investment programme, the delivery of which I am responsible for, is set through ministerial objectives under the quality and standards investment programme. At the moment, we are in the Q and S III period, which spans the eight years from 2002 to 2010. We are therefore in the second half of that period. We are also in the third year of a four-year regulatory price-setting period. That is the backcloth to what we are about.

The Convener: Thank you.

As you may be aware, the committee is considering the Scottish budget in the context of the economic downturn. We are looking to see whether anything can be done by way of the budget to address the downturn. One issue that has been raised is that of infrastructure investment and whether it can be rephased or recast to boost the economic situation, particularly in the construction industry.

In addition to what you have set out in your submission, is there any prospect that Scottish Water can recast or rephase its infrastructure budget to contribute towards tackling the wider economic situation?

11:15

Geoff Aitkenhead: As I said in my introductory remarks, we are currently in the third year of four in the regulatory period and have hit the peak in delivering our capital programme—we anticipate delivering £670 million-worth of work this year—so it would not be easy to accommodate additional work. We are at an advanced stage on the ministerial objectives for this quality and standards period. Circa 80 per cent of the four-year programme is beyond the setting of target costs and the award of contracts, so there is a heavy level of commitment in the programme at the moment and, therefore, a diminishing opportunity to make changes.

Nevertheless, there is a change mechanism and the opportunity to vary Scottish Water's regulatory contract through the outputs monitoring group, which the Scottish Government chairs and which gathers the regulatory stakeholders around the table. However, to be frank, we are going flat out at £670 million a year on the projects with which we are currently running; we will do something similar next year—£650 million or thereabout—in our delivery plan. Therefore, any rephasing opportunity would involve considering different projects rather than piling more on top.

I will make two other observations that are relevant to whether we can accommodate further work within our programme in the remainder of this year and next. Scottish Water, supported by the Government and all our regulators, has embarked on what we call a break-the-cycle initiative. Historically, regulated businesses such as ours that implement a capital programme over four years have gone through periods of relatively high and relatively low levels of capital investment—a sort of boom-and-bust economy—with the first year of the regulatory period being when they do the planning and investigation and years two to four being when they get into the serious construction activities. That is pretty much what has happened in this regulatory period.

However, we have embarked on the early design and investigation of projects for 2010 to 2014 so, in a sense, we are already addressing the question that the committee has posed, particularly for the professional engineering skill base in Scotland, in that we have engaged design engineers to carry out feasibility and design work for our programme post-April 2010.

The second point is that, because many of our projects are carried out on live infrastructure—maintaining existing treatment works or adding additional stages to treatment works—there is an operational limit to how much work can be accommodated without disrupting the quality of our product and the level of service that we provide to our customers.

Rob Gibson: There has been discussion about the overlap between Q and S II and Q and S III. Is there likely to be an overlap of projects again at the end of Q and S III?

Geoff Aitkenhead: Yes, there will be. The reason is that the programme that we are running at the moment includes a small number of large schemes and it has not been possible to conduct the investigation and feasibility work, design work and construction within the four years that are available to us. The project for the new water treatment works at Glencorse in Midlothian, which will serve Midlothian and the Edinburgh area, will run on beyond the end of the regulatory period. There are also some environmental projects on intermittent discharges—overflows—from the sewerage network that were recognised as carrying a high degree of uncertainty when the regulatory contract and ministerial objectives were set. A mechanism was put in place with the economic regulator for going through a staged approval process on those projects. They have involved extensive network modelling and a lot of detailed design work. They are big schemes and, again, will run on beyond the end of the period. They concern the Ayrshire coast, the Meadowhead and Stevenson area, some parts of Glasgow and, particularly, Airdrie and Coatbridge, where we have projects to improve the local environment.

Rob Gibson: Have lessons been learned from the sewage treatment plant problems at Seafield in Edinburgh, which have not yet been solved? The plant is a PPP project and there has been a failure to deal with or provide funding to deal with the smell. You did not mention that, but can we expect that to be a priority for you?

Geoff Aitkenhead: That is a priority for us. We have recently undertaken a public communication and consultation exercise on our proposals for Edinburgh. It has taken time to arrive at appropriate commercial arrangements with the PPP partner that operates the Seafield plant, but those arrangements are in place. A programme is mapped out to address the odour issues in the next three years.

Rob Gibson: I think that the spending involved is about £40 million—is it as much as that?

Geoff Aitkenhead: The first phase will cost less than that, but I cannot recall the figure off the top of my head. I think that we are looking at something of the order of £15 million to £20 million.

Rob Gibson: The figure to deal with the odour is much higher than was originally budgeted for.

Geoff Aitkenhead: Indeed.

Rob Gibson: We need to examine how you can deliver such measures as quickly as possible. Is the cycle in which you work beneficial to keeping engineering staff and so on available, in comparison with the cycles in England and Wales for such work on water treatment and water infrastructure development? We have a four-year cycle. In relation to the budget, should we say, "Wait a minute—we can get better value by changing the cycle"?

Geoff Aitkenhead: Operating over a longer cycle than four years would have a benefit. The regulatory review period in England and Wales is five years. We are endeavouring to address the limitations of the four-year period through the break-the-cycle initiative, to which I referred. The intention of that initiative is to invest money in the current regulatory period in conducting investigations and feasibility work into whatever the problems are that we need to address, with a view to having at least outline designs in place by the end of this regulatory period, for delivery of the new assets in the next regulatory period.

That is not a one-off; that is how we want to conduct business in the future. In the next regulatory period—between 2010 and 2014—we will undertake investigation and feasibility work for delivery between 2014 and 2018. We would like this period to be the last in which we are asked to do the investigations, the design and the build in four years, because that is quite a stretch.

Ms Alexander: I have one small point. I will explore the ease with which you can bring forward elements of the investment programme. You have made it pretty clear in your submission, as you have today, that

"operational risks … arise from further increases in the level of activity on live sites"

and that

"Further workload could bring with it the risk of disrupting customer service, drinking water quality, waste water"

treatment and so on.

You offer three opportunities for additional investment, two of which you dismiss as having negative consequences. You suggest only one realistic option, which is:

"Provision of further funding to allow progress on schemes currently subject to deferral, to deliver a greater level of water and waste water maintenance".

Could you find any of that further funding in-house, or do you mean further funding direct from the Government to allow progress on those schemes? Would you have headroom in-house to support those schemes, or would you require external support?

Geoff Aitkenhead: External Government support would be required. We are using all the resources that are at our disposal to deliver the regulatory contract that is before us.

Ms Alexander: You want to avoid the problem of overheating. Without running into internal constraints, what order of magnitude of further money might need to be accommodated for deferred projects?

Geoff Aitkenhead: It is difficult to put a figure on it. You are right: we wish to avoid the overheating scenario, not just in the supply chain and in the civil engineering sector, but—as I pointed out in the submission—in our own operational sphere of activity. To put that into context, in the current regulatory period—Q and S IIIA—Scottish Water is delivering more than 4,500 projects throughout Scotland. Those range in size from a £20,000 job to replace some pumps to £130 million for a new water treatment works in Edinburgh.

In each of those projects, there are some risks associated with operational disruption, and it would therefore be difficult to ladle more work into the pot at the moment.

Ms Alexander: Perhaps you will reflect on this and talk to the clerks about it, but, with respect, your submission says that with further funding, you could bring forward deferred projects. As we are a committee that is concerned with finance, it is not unreasonable for us to ask you to put a figure in your budget submission for the amount of further funding that you want in order to progress schemes that are currently subject to deferral, although we accept what you say about current live sites.

It may be uncomfortable for you to provide such a figure, but if you say that you could bring forward further projects, it would be helpful to have some sense of the order of magnitude of the further money and the timescales involved, because an issue for the committee is identifying whether certain infrastructure projects could be brought forward with an adjustment. It is helpful to know that those resources are not available to you from underspend, which has historically been an issue in the Scottish Water budget.

Geoff Aitkenhead: The order of magnitude in the arena of capital maintenance and pipeline replacement work is around £20 million or £30 million within a £700 million programme. It is not massive, but it would involve a large number of small projects, with management effort and energy required on all of them and the potential for the operational risks that I have flagged up.

Lewis Macdonald: My question is on the break-the-cycle proposal, which is manifestly sensible if it proves possible to achieve. What do you expect the funding consequences of that to be? For example, without that initiative, the funding for the next cycle would begin in 2010-11, and in order to break the cycle, you presumably have to think about quite significant funding in 2009-10. If so, what quantity of early funding would be required, and how far have discussions with ministers taken you in identifying how you will access that funding?

Geoff Aitkenhead: We have already embarked on the break-the-cycle initiative, so we have engaged engineering design resource to conduct the modelling and feasibility work that is involved in the advanced stages of the projects. In terms of quantum, we will spend of the order of £20 million in the current year, and we anticipate spending around a further £40 million in 2009-10. That will certainly help the retention of skilled resource in Scotland.

At the end of a regulatory period—typically, in the final 18 months—we find that we dispense with the design capacity, so the engineering consultants have no more work to do and disappear to other parts of the UK. We then have to scramble around in the first year of the next regulatory period to try to bring them back—that is exactly what we were doing in 2006 to get the current contract under way.

We are succeeding this time in retaining skilled resources in the engineering sector in Scotland with, as I indicated, investment of up to £60 million in the current regulatory period.

Lewis Macdonald: Have you been able to obtain that £60 million from your existing resource, or is it from additional resources?

Geoff Aitkenhead: We can accommodate that within the funding that is available to us in the current period.

Lewis Macdonald: For the current cycle?

Geoff Aitkenhead: Yes.

Dave Thompson: Scottish Water is at its maximum capacity at the moment, in terms of the developments that are going ahead. How long do you need to go at that full-speed-ahead rate to bring your entire infrastructure up to a good standard? Is it four years, five years, 10 years or 20 years—or will it never stop? Will you continue at that level forever?

11:30

Geoff Aitkenhead: That is an interesting question, and I will ask Mark McEwen to express his views on it in a moment. I expect that at some point in time our programme will become more dominated by capital maintenance—by which I mean the replacement of assets, rather than the creation of new ones to meet new standards.

When the water authorities in England and Wales were privatised in 1989, the expectation was that they would be cash negative for five to 10 years, after which they would be on a capital maintenance treadmill, so to speak. As a result of the sequence of new directives on drinking water quality and environmental requirements, that has not happened. In the UK, those directives and requirements are delivered through the water companies. The situation in Scotland is no different from that in the rest of the UK.

As we go into the next period, we are still in a position in which capital maintenance accounts for less than half our investment. The remainder relates to the enhancement of drinking water quality, environmental factors and the service levels that we provide to our customers.

At the moment, I can see no end to the level of investment that we incur in Scotland. There is the water framework directive, which has recently arrived, and the prospect of a revised bathing water directive and, all the while, there is a growing capital maintenance need. We are putting in place facilities to provide fresher, clearer drinking water and better protection against cryptosporidium and other things that exist in the natural environment. The works to enhance the quality of our product will need more maintenance in future. The full replacement value of our asset stock is in excess of £30 billion. If we attribute a 100-year life to that asset stock, we need £300 million a year just to stand still.

Dave Thompson: So, given that you are working to maximum capacity, there is little that you can do in the short term within your budgets to help improve things. Is it easier to accelerate things at the capital maintenance stage than at the new capital projects stage? Would accelerating things help in this recessionary period? If the recession lasts two to four years, will you not be at the stage of doing the majority of your capital maintenance by then?

Geoff Aitkenhead: The business plan for the next regulatory period—2010 to 2014—includes a level of capital maintenance that is less than half the total. I ask Mark McEwan to address the issue of our ability to accelerate projects.

Mark McEwen (Scottish Water): By their nature, capital maintenance projects tend to be smaller. For example, in the current programme, around 2,600 of the 3,500 projects are capital maintenance in nature. The time that it takes to construct those projects does not tend to go beyond the regulatory period. We could therefore be talking about a 12 to 18-month period to get a capital maintenance project from the table to completion. With shorter intervention projects, it is much easier to respond to what is happening in the network and with our assets. We will see a greater proportion of capital maintenance in the next period, albeit that project numbers may reduce slightly.

Dave Thompson: You said that your public relations were getting a bit better and that clustering projects on a regional or community basis is bringing benefit. Is there not a danger that that might distort investment decisions? For example, you might consider an area where you can do a number of things at the one time and therefore gain better PR, although you would not have considered such work previously.

Mark McEwen: The emphasis is on delivering projects more efficiently. In relation to smaller capital maintenance projects in particular, it is far more efficient for us to cluster and package them and take them to market. If we do that, local contractors can often be found to deliver the projects far more effectively than would have been the case if they had been handled separately. We are talking about thousands of disparate projects. As Geoff Aitkenhead said, if each project is handled separately, it needs to be managed, reported and monitored separately. Clustering projects is a far more efficient process. We are not trying to bias where we do the work; we are ensuring that communities and customers get the most efficient and effective service.

Geoff Aitkenhead: It is also fair to say that we recognise that we spend an awful lot of money on behalf of our customers. In doing that, our clear intention is to improve the quality of the product and level of service that customers receive. That story tends to go untold. We are trying to redress that. We want to help people understand what we do to improve the Scottish environment and protect public health better.

Christopher Harvie: About two or three months ago, the Rural Affairs and Environment Committee reported that the thawing of the Arctic ice cap would lead to rising sea levels. Have you factored into your not-too-long-term plans the possibility of having to cope with that?

Geoff Aitkenhead: We are looking closely at two reports that were written in the aftermath of the flooding events in England and Wales in the summer of 2007. One is the Pitt review, which the Department for Environment, Food and Rural Affairs commissioned, and the other is a report that a chap called Baker prepared for Water UK, which is the water companies association.

Resilience of assets is a significant issue. Indeed, all utilities are being asked to address it under the Pitt review. We are doing some investigative work in that area. We are looking at our vulnerable assets in Scotland and will make proposals on hardening their resilience. By doing that, I hope that we can avoid circumstances like those that hit Tewkesbury in the summer of 2007.

The Convener: I have one final question on the income side of the business. Given the economic downturn, a number of businesses are closing down, some of which are intensive water users, such as paper mills, including one in my constituency and one in Aberdeenshire. Fewer houses are being built, although you may have already put in the infrastructure. If your income stream is cut, will that have an impact on your ability to deliver your programme in future?

Geoff Aitkenhead: That is clearly a risk, but it will depend how severe the downturn becomes. Such a cut would impact in particular on the capital maintenance side of our programme, which is funded from customer revenue. Under Treasury rules, the capital maintenance side has to be funded from income received and not from the borrowing route. If our revenue were to take a significant hit, we would have to reshape the capital maintenance part of the programme.

The Convener: Has Scottish Water done any analysis of such an impact on the revenue stream?

Geoff Aitkenhead: Some financial modelling is going on, as I am sure you can imagine. We are putting together our second draft business plan, which is due for submission to the economic regulator in May 2009. Between now and then, we will run a number of financial scenarios before we finalise it.

The Convener: I am sure that the committee will be interested in keeping up to date with that work. Thank you for coming to committee and for your evidence.

We will take a short break of about five minutes—but no more—to allow the Minister for Enterprise, Energy and Tourism and his team to come to the table.

11:37

Meeting suspended.

11:41

On resuming—

The Convener: Okay, colleagues, we will recommence the meeting. Just for a change, item 3 is the budget process for 2009-10. Rather than taking evidence from witnesses, we have the Minister for Enterprise, Energy and Tourism before us. I welcome Jim Mather and his team to the meeting and invite him to make some opening remarks.

The Minister for Enterprise, Energy and Tourism (Jim Mather): I am accompanied by Wilson Malone from the enterprise side, and by Fiona Robertson and Maureen McGeown. I thank the committee for this opportunity to engage with it. I will not be quite as eloquent as the President-elect, Barack Obama, was in the early hours of this morning, but I will nevertheless focus on the issues that will help us to progress matters in Scotland.

I recognise the committee's constructive contribution in working jointly with the Government to consider where the budget can be used to make most impact. It is especially valuable to be able to have this discussion in the current economic conditions, given the fact that much of the work that my officials and I have done with communities, community planning partnerships, industrial sectors and the strategic forum over the past 17 months will benefit from the committee's further attention and involvement. I am keen to expand on that as we move forward. It is important that we maintain and reinforce the national effort to deliver the Government's economic strategy, working towards the Government's purpose of creating a more successful country with opportunities for all to flourish through increasing sustainable economic growth and ensuring that we are in the best possible shape to move on as we emerge from this global recessionary phase.

In the meantime, the committee will be aware of the Government's six-point plan to do everything in its powers to encourage investment in and development of the Scottish economy to help businesses and individuals. You will be aware of the plans to reshape capital spending plans and ensure that all Government activity, including planning and regulation, supports economic development, and of the planning summit that took place on 28 October. We are intensifying our activity to support the homecoming 2009 events and our work around energy efficiency and fuel poverty. We are also increasing our advice to businesses and individuals and improving the financial advice that is given to vulnerable individuals. That is all entirely consistent with the Government's economic strategy.

We recognise that a time of change also throws up opportunities, and we stand ready to help businesses capitalise on such opportunities as they arise. Additional action by the UK Government will enhance our efforts.

A major part of the enterprise, energy and tourism budget goes directly to support for Scottish Enterprise, HIE and VisitScotland. You have already heard from Jack Perry, Sandy Cumming and Philip Riddle this morning and will know how much those organisations have changed over the year since the reforms were announced. I am confident that that has allowed them to focus on the areas in which they will have the greatest economic impact, freeing them up to play a vital role in delivering the Government's economic strategy. It has also allowed them to play a core role, in co-operation with the Government, local government, the business community, other public bodies, the voluntary sector and wider civic Scotland, in achieving increased sustainable growth. It now remains to ensure that we work closely with them and with others to help them deliver on the commitments that they have made in their operating plans.

I am happy to answer any questions that the committee may have.

11:45

The Convener: Thank you for those opening remarks.

What is the Scottish Government's assessment of the likely impact of the current economic situation on the Scottish economy? Which sectors do you expect to be most affected? Will a significant number of redundancies result from the economic downturn?

Jim Mather: I am always loth to focus on the negatives, but we must face reality. The Scottish economy is not immune from what is clearly a global recession, although other countries have been able to make themselves more immune to its effects over the period—notably Norway, Denmark and Finland. We must play the ball as it lies and move forward.

We are seeing a clear impact on the construction industry and the banking and financial services sector but, equally, there are optimistic signs for the energy industry—for oil and gas as well as for renewables. There is also an opportunity to bring home some of the jobs that have been outsourced abroad. Scotland is a good home for populated data centres where people can deliver those services. Not only do we have the renewable energy resources that will persuade data centres to come here; we have a climate that means that it will not be necessary to use energy to cool those centres. We are also close to major centres, so there is no issue around data latency, and we have people who are skilled in the use of the English language. Many businesses that have outsourced business to foreign parts are finding that quite a lot gets lost in translation, especially in making a sale and empathising with customers. That can prevent the job from being done properly. We must therefore face the reality of the current situation with a degree of positivity.

The Convener: The current economic situation is very different from the economic situation last year, when the spending review was published, and from earlier this year, when the draft budget was published. In reassessing its budget, what has the Government done to address the current economic situation? What changes have you made?

Jim Mather: I have spelled out what we are doing with the six-point plan. We are bringing forward £100 million into the affordable housing investment programme, and we are working with the Scottish manufacturing advisory service to gear up and organise a better knowledge transfer with businesses. It was fortuitous that the small business bonus was in train, which has now come through and has benefited 120,000 businesses very materially and a further 30,000 marginally less so. There is also the prospect of 120,000 businesses paying no business rates in the next financial year. All those factors are coming together.

In addition, over the past 17 months, we have engaged with and brought together 37 different industrial sectors, including textiles, aerospace and defence, engineering, electronics, life sciences, chemical sciences, the construction industry and, yesterday, the Law Society of Scotland. We are getting them to think about how they can work together to get better results and be more cohesive, collaborative and co-operative at home in order to be more competitive abroad. My ambition is to see them come together in a kind of Noah's ark configuration, with people from the different sectors doing more business with each other. I am piloting that in my constituency by bringing together the 20-odd industrial sectors—including health care and education—so that they have a clearer awareness of who is in it with them, what issues they face and how they can address those issues together.

My cunning ploy is to keep the Argyll and Bute pound within Argyll and Bute a bit longer, and I am keen to share that approach. East Lothian Council, with the chief executive of the local authority leading it, has bought the idea and is trying to bring people from the different sectors and communities together to discuss planning, regulation, transport, tourism, climate change and the role of the third sector.

Activating people, communities and sectors is exciting. I encourage members to consider it as an extramural activity in their constituency, because it works well.

The Convener: You mentioned the £100 million affordable housing investment programme. When do you expect that to result in the building of affordable housing? The changes to the housing association grant system make it more difficult for housing associations to find investment because they need to find more private investment at a time when less private money is available. Is there not a contradiction between those two policies that you should address?

Jim Mather: That is an interesting debate. Stewart Maxwell and I did a double act on 28 August with the construction sector. We got involved with the debate and considered what will happen. The £100 million is significant, with £30 million in this financial year and £70 million in the next one. However, even more can be done. On 28 November, I will run a session in Kilmun hall on the Holy Loch that will bring together players in the construction sector in Argyll and Bute, including registered social landlords, the council and local builders. We will begin to put forward ideas about how people such as landowners, builders, lawyers, quantity surveyors and architects might take some of their fees in cash and have a carried interest so that we spur more building of houses and make the cash element go that little bit further. Open debate such as that, locally and nationally, could help us make progress.

The Convener: How many houses will be built and when will they be built?

Jim Mather: With due respect, convener, that is not my specialty. We are releasing £9 million to accelerate the spend, which will help in the short to medium term in various areas, including mine, but there is undoubtedly a degree of latency in projects crystallising and buildings being built, so I am loth to give you a specific time.

Rob Gibson: At this time of difficulty in the economy, there are two key areas for development—infrastructure and energy, for which you are responsible. If we are looking for quick hits, we should seek to accelerate energy generation projects and retrofitting of energy efficiency measures in housing. There has been a strong call from different departments and committees on those matters. Are there ways of adjusting your budget to encourage those two aims?

Jim Mather: Much of the benefit that accrues in those areas is essentially in the private sector. About £1 billion-worth of major renewables projects have been approved in the past two and a half months. That will have a significant economic impact in Scotland. Energy efficiency is of great interest. There is a correlation between construction, energy efficiency and microgeneration. We have had extensive conversations with the Scottish Building Federation and others on those matters over fairly protracted periods. The Scottish Building Federation has a guy called David MacKenzie who is driving that agenda forward. We are in close dialogue with the federation. We will give key consideration to any proposals for support that we can give that will further accelerate that.

There is recognition in the Scottish Renewables forum that we need to reach the point at which the proposition of installing microgeneration and energy efficiency measures becomes so compelling in its own right that the market does not need Government support.

Rob Gibson: But to kick-start retrofitting now, have you analysed the number of apprentices in the construction industry who need to be retrained in that area? Can that be done quite quickly? Is it a task for which the workforce could be readjusted in this budget period?

Jim Mather: You have identified the dialogue that we are having with the Scottish Building Federation and David MacKenzie. While talking to various groups, we have discovered that bringing together the energy suppliers, the builders and local colleges creates a climate in which we can do more in that area. An element of the homeowner community is becoming increasingly conscious about the cost of energy and the energy inefficiency of their homes, particularly older homes. They are conscious that it would be in their best interests to move forward on this.

Rob Gibson: But is funding available? The Scottish Building Federation has said that retrofitting needs public grants. Is that kind of funding available in the budget or is it part of what we would expect to get from the Treasury in London?

Jim Mather: That is mainly related to Stewart Maxwell's communities budget, and will be the subject of energised debate between the Government, the Scottish Building Federation and those involved in energy efficiency.

Dave Thompson: In the Government's six-point plan, improvements to the planning system are mentioned. Time after time, the committee has heard that there is a desperate need to improve the planning system. I know that improvements are in hand and that there have been other announcements in that regard. Will you elaborate on those improvements, such as the improvement in local decision making so that planning decisions will not be called in as much as they were in the past? How will it help to speed things up and gain us greater economic and development investment over the next couple of years, as we go through a difficult recession?

Jim Mather: Those points duplicate the ones that have been made at almost every session that we have had with the sectoral interest. In August, John Swinney, Stewart Stevenson and I, Jim Mackinnon, the chief planner, my energy consents team and others involved in major development projects throughout Scotland, met all 32 local authorities to consider that issue. The Convention of Scottish Local Authorities had already come to the conclusion that things had to change, and that the process had to be swifter and less bureaucratic. John Seddon had given the local authorities a presentation on the continuous improvement processes that have happened down south. He pointed out that West Lothian Council was following that method, which is essentially to consider how to make planning more consistent, principled and forecastable. It also involves getting a clear understanding that the role of planning is to approve good projects, and measuring that over time so that planning happens in a faster timeframe, with a commensurate reduction in the number of appeals.

That led on to the session that we had on 28 October, in which we widened the membership of what we call the planning summit to bring in the statutory consultees, developers and so on. Early indications from the likes of the Scottish Environment Protection Agency and Transport Scotland are that there is increased alignment. COSLA has shown the way on that. I am confident that we are on the right track. It is derivative, and it has gained traction from Russel Griggs's work with the regulatory review group to consider a move towards better regulation and to achieve a real consensus in Scotland. Russel has involved the Scottish Trades Union Congress, the Scottish Council for Voluntary Organisations, the Institute of Directors, the chambers of commerce, the Confederation of British Industry Scotland, the Federation of Small Businesses and so on in working to inform that agenda.

12:00

Dave Thompson: Last week, we spoke to witnesses from business who said that there had been a spend of around £1 billion under PPP/PFI a year or so ago and that the figure had dropped to around £200 million, but the guy from the Scottish Chambers of Commerce confirmed that Government capital investment and spend came to at least £1.5 billion—perhaps much more—in any case, and that only PPP/PFI spend had been reduced. They claimed that that was because of the delay in implementing the Scottish Futures Trust. Will you comment on the SFT, the total amount of Government investment and the fact that the Government does not rely purely on PFI-type projects?

Jim Mather: First and foremost, retrospective audits of PPP and PFI projects are exposing the fact that they are very expensive. We have paid excessively for taking such an approach in a climate in which the transfers of risks that were mooted as the rationale for it have not happened. The Scottish Futures Trust represents a much more open way of proceeding that is much more compatible with the times we are in. We need a much more fundamental way of ensuring that we get openness, transparency and better value. The fact that someone with the impeccable, stellar credentials of Angus Grossart is chairing the trust gives me immense confidence that it will be robust, that it will deliver as we expect it to deliver, and that it will be a role model that could inform debates in other countries over time.

Dave Thompson: Highland Council has built a number of schools under PFI. Its cost projections were based on a perpetual inflation rate of 2.5 per cent, but inflation is now 5 per cent and its costs will increase hugely. It made various other presumptions about its costs that will not come to fruition; they will be well over what it expected and will hit its revenue budget. Highland Council will not be alone in that respect; many councils will be hamstrung in their fight through the recession because their revenue budgets will have to be transferred from spending on services to fund PFI schemes at substantial rates. What is your view on that?

Jim Mather: We are undoubtedly entering a really challenging phase. I hope that, in the timeframe that you have given, energy prices will stabilise and come down to provide some latitude, but what is happening makes the case for increasing our focus not only on public sector reform but on a continuous improvement agenda in the public sector.

I have been greatly influenced by a book by W Edwards Deming—he wrote it pretty much on his deathbed—entitled "The New Economics for Industry, Government, Education". W Edwards Deming transformed manufacturing and the service sector—he certainly transformed the views of the survivors in those sectors. His deathbed view was that there was no reason why the same approach could not be taken in the public sector. Getting that ethos in play and developing a worthy purpose that will drive it are fantastically exciting ideas. In Argyll and Bute and other communities that I have been to, such as East Lothian, West Lothian, North Ayrshire, South Ayrshire, Caithness and Orkney, I have found that when one talks to people about increased sustainable growth at the local level, they will translate what has been said as having more people in their area in compelling, sustainable and rewarding work. If we can get our local authorities, education service, health service, private sector, voluntary sector and the civic community working together to reach that goal, amazing efficiencies can be achieved and released that can overcome the financial difficulties that we see in front of us.

The Convener: Does any other member want to ask about the Scottish Futures Trust?

Lewis Macdonald: When will the Scottish Futures Trust be fully established? When will the first project go to market?

Jim Mather: It will be established as soon as possible. It has attracted enormous attention from the committee, in the chamber and in the media, and we are pressing on hard with it. Absolutely stellar people are involved in it, and they are conscious of the need to get it to an operational level as soon as possible. However, it is important that we get it to operate on the most solid basis and principles. I am loth to see the process rushed.

Lewis Macdonald: Do you expect contracts to be let in this financial year?

Jim Mather: I have a folk memory that that will happen.

Lewis Macdonald: Are you confident that it will happen?

Jim Mather: I have been told that it will.

Lewis Macdonald: Are you aware of the concern that witnesses have expressed to the committee about the delay in bringing investment forward? Michael Levack from the Scottish Building Federation, which you quoted a moment ago, said that as a result of that delay the construction industry is losing

"significant capacity in the industry by the week."—[*Official Report*, *Economy, Energy and Tourism Committee*, 29 October 2008; c 1127.]

Is there urgent action that the Government can take to bring investment forward, given that in your six-point plan you recognise the need to reprofile capital expenditure?

Jim Mather: We are doing everything we can. Rather than have the Scottish Building Federation adopt a position that involves polarising opinion and levelling accusations against the Government, I would be happy to engage with it on the issue. The building trade includes the Scottish Building Federation, the Scottish construction forum and many other organisations—it is not one entity. I would welcome engagement between the industry and the Scottish Futures Trust through the vehicle that we have set up. When reasonable people get into the room and start having a dialogue about what we are trying to achieve—the worthy goal of increased sustainable growth—we get much better results than when a hand grenade is thrown over the wall, which polarises matters.

Lewis Macdonald: Nowhere in the evidence that it gave to us did the Scottish Building Federation level accusations or attempt to polarise debate—it simply asked for urgency from Government. I would like to hear a bit more about that. In its evidence, the federation said that, without urgent action to bring forward infrastructure development, Scotland would face "rampant construction inflation". Those were carefully chosen words.

Jim Mather: The first point in the six-point plan is "reshaping capital expenditure". The issue is at the forefront of our minds—we are seeking the best possible pace, trajectory and outcome.

Lewis Macdonald: You will understand the point that the Scottish Building Federation has made.

Jim Mather: Absolutely, but I make the point back that we are all in this together. The key point is that we want to optimise the situation in Scotland. That is why we have spent so much time engaging with the construction industry, both back on 28 August and—admittedly, in my constituency of Argyll and Bute—on 28 November. I hope that that will become a contagious phenomenon—it would be useful to have such engagement in other areas, at local as well as at national level.

Lewis Macdonald: I understand that ministers envisage that when the Scottish Futures Trust is fully established it will follow the non-profit-distributing model that has been followed in Argyll, Aberdeen and elsewhere. Are ministers conscious of the difficulties that the current non-profit-distributing model scheme for renewing schools in the city of Aberdeen faces? Could the difficulties in that case pose a risk to completion of the trust's establishment?

Jim Mather: We are trying to be a learning Government. We want to learn from what happens elsewhere, so I am sure that any experience from elsewhere will be factored into the process. We want the Scottish Futures Trust to be a success and are working to make that the outcome. The involvement of Sir Angus Grossart is a great advantage as throughout his career he has been the personification of success and attention to detail.

Lewis Macdonald: Correct me if I am wrong, but the critical difference between the non-profit-distributing model and other PPP schemes is that the return to the private investor—the banking and financial sector—is capped. We have heard evidence that in the current climate the banking and financial sector may be much less interested in capped schemes such as those that are proposed under the Scottish Futures Trust than in existing arrangements elsewhere. Does that cause you concern?

Jim Mather: That will focus our minds but, on the other side of the coin, the banking and finance sector is looking for AAA-rated, copper-bottomed deals from Government in the current climate. That is what they will get here.

Lewis Macdonald: But with a lower return.

Jim Mather: Yes.

Marilyn Livingstone: I wish to explore the matter slightly further. The minister will know that I chair the cross-party group on construction.

Jim Mather: Yes.

Marilyn Livingstone: I have been having discussions with representatives of the construction sector. Judging from the evidence that the committee has received and the questions that have been put to the construction industry, the financial industry and chambers of commerce, the crisis is here today, and construction sector representatives are saying that they need the new projects today.

I am concerned about issues around skills. We are being told that, if we do not stop the flow of expertise out of the sector, there will be no one to train the apprentices. That is how serious the situation has become. Every day when we pick up the newspapers we see that we are losing people. That loss has mainly been from the house-building sector until now, but the situation is starting to hit construction itself. Representatives in the industry are telling us that the situation is very serious. There is a feeling that we will not get many of the people who leave the industry back again, particularly those in their 50s.

The rampant construction inflation that my colleague Lewis Macdonald has been discussing is only one issue. The main issue is the flight of expertise from the sector. I am extremely concerned about it.

I will return to what the convener asked me to address—I have tried to lay the foundation for it. If we do not get some good news about the Scottish Futures Trust, or whatever, in relation to funding of infrastructure projects—schools, hospitals or other projects—we could be in serious trouble. I am very concerned about the state of the construction industry, and all my colleagues around the table feel the same, so I say that in a non-partisan way. We are asking for something now—this week, or this year. If the Government and local government do not step in to help, we will not in the future have a construction industry that is in any way recognisable to us.

Forgive me—I might have got it wrong—but that was the clear message that came over to the committee. I ask in good faith: What can the Government and local government do to stem the flow of expertise from our construction industry and to get people back to work?

Jim Mather: I repeat that that issue is number 1 on the six-point plan, and it is getting fulsome attention. That which can be drawn forward will be drawn forward. Our engagement with the Scottish construction forum and the Scottish Building Federation is complete and comprehensive, and it will continue. We are—

Marilyn Livingstone: Can you please address my point? All the witnesses we have mentioned believe that the Scottish Government and local government have a huge role to play in bringing forward capital projects. I do not think anybody disagrees with that. How are those projects going to be funded? When will we know? We were told by Michael Levack that a project can take two to four years from the initial planning stages. If the industry is running out of work now, we do not have time to wait. When will funding be available to support local and national building projects?

Jim Mather: Money will be available as soon as possible. We are pressing on with the same sense of urgency and the same drivers and concerns that you are articulating. We will press forward to achieve better results. We are trying to achieve a joined-up approach that involves ourselves, local authorities, the Scottish Futures Trust and the construction sector. We will seek to do everything we possibly can.

You will be aware that I said to David Thompson that we are taking real and tangible steps to streamline the planning process in order to bring a new sense of confidence to developers across Scotland.

12:15

The Convener: You said that capital expenditure is the number 1 priority in your economic recovery plan and in the context of the budget. However, in evidence this morning, witnesses from two of the largest public sector capital developers, Transport Scotland and Scottish Water, said that they do not have the capacity to bring forward capital programmes in the short term, given the nature of the schemes. The £100 million accelerated funding for affordable housing comes largely from other capital sources and the only question is whether the £20 million from local government this year and next year will come from capital or revenue. In essence, existing capital money is simply being diverted to different types of capital projects. No spade will dig the ground as a result of the establishment of the Scottish Futures Trust for at least two years—perhaps for three or four years. Where exactly is the accelerated capital programme coming from? What additional money will there be for capital projects from April next year, to help the Scottish economy?

Jim Mather: Those questions highlight the fact that Scotland is still living on a housekeeping allowance from another place. We are in a difficult part of the economic cycle, but the cause is not decisions that were taken in Scotland. Our limited economic powers, which many members of the committee advocated and voted for, give us a lack of resilience that I regret. I look with some jealousy at what is happening in Denmark, Finland and Norway, which have the resilience to manage their way through the current situation and to achieve more than we can achieve. In the meantime, we will do everything we can within the resources at our disposal.

Through the Scottish Futures Trust we will ensure that Scotland is seen to be the bankable proposition that it is—a copper-bottomed, AAA-rated economy that will converge with other, higher-performing economies over the piece and, hence, that it is seen to be a rewarding place to invest.

Christopher Harvie: Everything that we are trying to cope with comes from the collapse of the tremendously inflated housing sector boom. We must regard the current situation in that context. The outlook is not particularly bright, but we must be realistic: we have to diversify.

The 2009 homecoming project could provide us with an onshoring project. At the end of the oil boom, many people found themselves servicing offshore oil installations worldwide. Those people represent an enormous body of expertise, which can be brought back as a mentor in the creation of the technological cadres that are thin in Scotland—the people who translate the undoubted advances that are happening in the universities into mass production.

There is potential for good collaboration with European regional governments that have a strong interest in new energy technology. For example, links have been developed with Baden-Württemberg. Can we develop high-definition communications, so that we can be in on the laboratories of places such as the Karlsruhe Institute of Technology, where there are experts in the transition from basic research to innovatory programmes? We must catch up soon in that regard.

Jim Mather: Homecoming could explode as a bill of materials—so much could come from that. It is very much about activating the diaspora and bringing home skills, capital and a bit of passion in order to change Scotland. That is why I am encouraging everyone in Scotland—all 5.1 million people—to reach for the phone and the e-mail. Any Christmas card that goes furth of our houses should mention homecoming—I am talking even about people coming back to Edinburgh from Inverness or wherever. The ability to access skilled people exists. According to a statistic that I found recently, there are 38,000 first-generation Scots in Houston, Texas who have expertise, mainly in oil and gas, who could be brought back to Scotland.

Collaboration with European regional government and other European national Governments has immense potential. When we were in Norway recently, we were looking to collaborate with the Norwegians on oil and gas, renewables—particularly offshore wind—clean coal technologies and carbon capture. The Norwegians were very keen to run open-book with us. When it comes to R and D and the Baden-Württemberg connection, one of the nice things that also applies in Norway is that Scotland is non-threatening; we can do business in a collaborative way with such people. Coming from behind as we do in some ways—although not in the context of R and D, our expertise or universities—we can afford to be somewhat generous and open-book with them in the knowledge that dealing with a higher-net-worth economy is likely, by osmosis, to help bring us up to a better level.

One of the things that I am keen to do on the research and development front is to make an absolute asset of some of our liabilities or negatives. The negative that I have in mind is our lack of head offices, given that companies do most R and D close to head office and the cheque book. That might allow us to be more collaborative with European regions and their companies and say, “Come and do your R and D here; keep these bright young Scots in situ where they are happy and have them work in harness with you.” That would give us the possibility of those bright young Scots spinning out, starting their own businesses and doing R and D in their own right. Again, that is similar to what I am trying to do with the industrial sectors; it is about getting more interaction. The more people talk, the more the solutions emerge.

Ms Alexander: Tempting as it is to return to the SFT, I will leave it for another day. I want to focus on some of the financial aspects of the budget. The minister will be aware that we have only a week to finalise the report, which is perhaps an even shorter timescale than usual. Some of my questions are probably for officials, but I want to put them on the record so that officials might clarify a couple of facts to our clerks and adviser over the next week to ensure that the committee does not get any details wrong in its submissions to the Finance Committee.

It is clear that there are two stages to the budget process: what was possible prior to publication of the budget in mid September and the fall-out of the extent of the credit crunch thereafter. As I said, I ask for factual clarification and do not want an answer from the minister, so perhaps the officials will clarify thereafter. The Scottish Parliament information centre briefing suggests that if you compare the spending review documentation from last year and the enterprise, energy and tourism budget for this year, beyond the removal of skills spending there is no change of any kind in the budget that was published in September compared to last year's. It would be helpful to have that clarified offline.

In the light of that, I note in the SPICe briefing that the introduction to the budget by the cabinet secretary says:

> "This budget will accelerate capital spending that supports growth."

It would be helpful to know what capital spending was accelerated by 16 September. I understand that it refers to the £100 million for affordable housing, but if we have missed anything in addition to that, it would be helpful to know.

I turn my attention to what has happened since September. I note that it is hugely unfortunate that the six-point plan has not been debated by Parliament in any shape, manner or form, nor has it been the subject of a statement to Parliament. Therefore, the kind of scrutiny that we are trying to carry out here is made immensely more difficult because Parliament has had no opportunity to debate the centrepiece of the economic strategy. I make that observation simply because it is right to do so.

I have a question on a technical point. The first point in the six-point plan is to accelerate or reprofile capital spend. It would be helpful if officials could clarify whether there has been any acceleration or reprofiling beyond the £100 million for affordable housing—if there has been I am unaware of it.

My next point is technical, but it will not be beyond Fiona Robertson and Maureen McGeown. My recollection is that, in July 2007 in the run-up to the spending review, the Scottish Government asked the UK Government to draw down almost all the end-year flexibility that was held in its reserve. I think the sum was about £800 million to £900 million. I understand that, at that point, the Scottish Government asked to make a change in the capital and revenue split of the sum, with a move towards revenue spending and away from capital spending. Clarity on that would be helpful. I am trying to draw out whether we made a decision in the summer of 2007 to shift from capital to revenue and we are now reversing that. Was there a shift in the capital to revenue balance when the draw-down took place?

Another point that I was slightly confused about and which the minister might clarify or which could again be clarified offline, is whether we can anticipate another announcement on acceleration or reprofiling of capital spend. The process is made immensely more difficult because the six-point plan has never been brought before the Parliament in any shape, manner or form, which I find extraordinary. The implication of some of the comments that we have heard today is that further reprofiling is to come. If so, will that be part of the budget process, or will it be done independently of that? Will the Parliament or the media be told first about that? Is reprofiling anticipated in this financial year or the next one? We have an incredibly complex and extended budgetary process and none of us has been recited of whether any more profiling is intended this year or next year. If it is, through what mechanism will we become aware of that?

I have two final questions. On the simplification of the planning system, I am aware that a seminar is taking place, but if we are not at the seminar, it will be difficult to establish the details. I am told that, in practice, the planning system today remains unchanged from the system that was in place prior to the passage of the Planning etc (Scotland) Act 2006 and that the reason for that is that most of the 2006 act has not been implemented. It might be helpful to have an indication of the timetable for implementation of the 2006 act and of whether there has been any acceleration of that.

My final point could again be clarified offline. Bullet point 5 in the six-point plan—although I notice that there are seven bullet points: perhaps someone can clarify that—is on

> "Promoting … domestic energy efficiency and financial advice to households."

SPICe informs us that the energy and telecommunications budget, which includes funds for providing energy advice to householders, encouraging the development and adaptation of renewable and microgeneration technologies, introducing the energy efficiency design awards and contributing to the cost of the United Kingdom committee on climate change, will undergo a real-terms reduction of 4.2 per cent next year and 2.8 per cent in the following year. That seems to be a cumulative real-terms reduction over the next two years of 8 per cent, in the context of a budget that is rising in total by about 2 per cent. I find it difficult to reconcile that with bullet point 5, which is about promoting energy efficiency and financial advice to households. Do you have any comments on that?

I am aware that those are immensely detailed points, but I simply wanted to put them on the record to allow either the clerks, SPICe or our budget adviser to touch base with officials on them. We do not need to detain the minister today, unless he wishes to comment on whether we can anticipate, after the extensive consultation that we are having on the budget, a further statement on some elements of the six-point plan in, shall we say, the next six weeks.

The Convener: Minister, I would be grateful if you could respond to what you can of that. You should bear in mind that if you wish to respond in writing you will have to do so by tomorrow because of the tight timescale for our report.

12:30

Jim Mather: That comprehensive array of questions, particularly those on the proposed changes to the planning system and Jim Mackinnon's guidance document, deserves and should receive a written response, so we will get back to the committee on those matters. What is the timeframe?

The Convener: The clerks need to receive a written response by tomorrow.

Ms Alexander: In fairness, I am not necessarily seeking a written response. I put the points on record in order to legitimise any discussion that might take place over the next week between our officials and the minister's officials to clarify the issues.

The Convener: We do not have a week—our clerks have to get the information by tomorrow in order to draft the report; if that does not happen, we will not be able to meet the Finance Committee's timetable and turn the report round by next week.

Jim Mather: Understood.

The Convener: The timescale is very tight. If discussions are to take place, they should happen soon.

Gavin Brown: Planning is part of the Government's six-point plan. However, in the draft budget, the budget line for planning decreases from £8.9 million in the current year to £2.2 million in the next financial year. Some of that might be to do with the end of the e-planning project, but given the importance of planning to the six-point plan, are you able to explain what makes up the rest of that cut?

Jim Mather: Tempted as I am to be Stewart Stevenson's spokesman on that point, I will defer the opportunity.

However, I can tell the committee about the ethos that Jim Mackinnon has brought to this work. In a structured and gradual way, he has built up good contacts and relationships with local government and COSLA. He has got them on side and been able to bank all that as progress. His engagement with statutory consultees and the private sector developers augurs well.

That process has been aided materially by Russel Griggs's work with the regulatory review group, which is pressing for better regulation, an altogether better methodology and the buy-in of those at the top of the food chain in COSLA, individual local authorities and the statutory consultees. I am keen to labour the point and broadcast it more widely to ensure that it gets through to the coalface and that large and small developers can expect this different approach to be taken when they engage with planners at a local level.

I cannot give you a detailed explanation about what is happening in the budget; however, I can tell the committee that we expect material efficiencies from planning. In that respect, I am particularly interested in seeing how West Lothian Council moves forward with all this. Under the approach that has been advocated by John Seddon of polling around to find out what is working well—in this case, the West Lothian approach—and broadcasting that without needing some mandatory push, we will be able to ask people whether the situation of more consistent, forecastable and principled decisions and fewer appeals that West Lothian has been able to achieve might be pertinent to them.

Gavin Brown: A budget for homecoming 2009, which is another aspect of the six-point plan, was set before the economic downturn. This morning, we heard that discussions on the issue are on-going but, as of today, no additional resources are going into the event. Are you able to expand on that or tell us anything different?

Jim Mather: In these fraught and frugal times, we need to look at the dynamic of what is going on and to see whether the homecoming budget is matched by what is being spent by local authorities. Moreover, Historic Scotland, Scottish Natural Heritage and others are stepping up to the plate, and to a marked extent the private sector—for example, the whisky industry and companies such as Walkers Shortbread—is beginning to see the opportunities in this market and in bringing people home year after year.

Probably the highest volume of e-mail traffic that I receive concerns good ideas for homecoming, which I then hardwire to Marie Christie in EventScotland.

There is a touch of the two fish and five loaves here. The approach may look frugal, but it is now beginning to produce other dividends, right down to individual families inviting people back home. I think that what will happen is that we will get a substantial afterglow from homecoming. Homecoming could become an annual event. I do not say that to diminish homecoming 2009, but 2010 might be somebody's wedding anniversary or the year that they retire or the year that the family trust opens up to them. We can work on that.

Gavin Brown: I will refrain from asking what John Seddon would do with two fish and five loaves, minister.

In previous evidence sessions, as well as highlighting problems in the construction sector and issues with the SFT, several heavyweight business organisations have highlighted local income tax as an issue. I raise that not to get into a debate but because the draft budget contains a specific line of £20 million for local income tax. The Scottish Chambers of Commerce and the Scottish Council for Development and Industry are on record—I have heard the CBI make a similar point, although not to the committee—as stating in no uncertain terms that local income tax is a terrible idea at this time of economic downturn and uncertainty. They were pretty forthright and strong in their views. Will the minister guarantee that he will take on board the business community's strong views on the subject?

Jim Mather: We listen to the business community daily—there is an absolute on-going dialogue—but we differ on that point. We want businesses to see the local income tax in the broader sphere of things and in terms of the totality of our aspirations for Scotland. A signal that we want Scotland to be genuinely wealthier and fairer is that we would collect local taxes on the basis of the ability to pay. The long-term push here is about making Scotland more competitive. The long-term plan for tax powers in Scotland is to learn the lesson from elsewhere by sharpening the pencil on corporate taxes, as we have done with that other signal—the small business bonus scheme—which has benefited many companies. My plea across the board is that people should look at what we are doing in totality rather than at one narrow aspect.

I am trying to ask people to look at all Scotland as a system that we can all optimise. Our firm belief is that the local income tax will play a part in doing that by motivating more people into the world of work, by rewarding those on lower pay to a greater extent and by creating a climate in which there is a more collegiate feel. George Soros has recently been heard suggesting that there is a better way forward for managing finances in the financial sector and for creating the open society that we need that generates trust and confidence. In many of those companies that currently have an issue with our proposal, the local income tax could play a big role in generating trust and confidence, in as much as it will, essentially, make their staff feel that there is a fairer deal available in Scotland.

Lewis Macdonald: On the six-point plan, I understand that the affordable housing initiative involves central Government bringing forward £10 million of capital into the current financial year and £50 million into the next financial year as well as £40 million of local government capital being brought forward into those two years. Besides that, and further to Wendy Alexander's question on whether any other capital spending will be accelerated or reprofiled, will any of the other five points in the six-point plan involve changes to central Government's budget or any additional spending in the forthcoming financial year?

Jim Mather: Analysing that, I know that £10 million more is being given to the central heating programme and more money is being spent on the Scottish skills utilisation group and the Scottish manufacturing advisory service.

I am not sure that I agree with the numbers that Lewis Macdonald gave on affordable housing. Perhaps one of my officials can verify those.

Maureen McGeown (Scottish Government Finance Directorate): Yes, it is £10 million, and £50 million from the Scottish Government.

Lewis Macdonald: That is accurate. You mentioned £10 million on the central heating programme. Are you able to quantify the other two items that you mentioned as additional expenditure?

Jim Mather: I will retract on the basis that that expenditure might be additional or it might simply be better use of existing budgets. We are bringing forward some of the remaining £385 million of European structural funding to support projects that will stimulate the economy.

Lewis Macdonald: Were those changes made in preparing the draft budget or since John Swinney's introduction of the six-point plan on 22 October?

Jim Mather: They coincided with the six-point plan, as far as I understand.

The Convener: Are you able to supply a bit more detail on the European structural funding?

Jim Mather: Sure. We have that detail here and will submit it to you.

Ms Alexander: So that we do not misrepresent the Government's position, it would be incredibly valuable to have a note of the spending shifts that are associated with the six-point plan. I realise that we cannot have that today, but a meaningful budget submission needs clarity on what changes took place prior to 16 September and what changes were implicit or announced on 22 October. We have largely got there but, as things stand at the moment, that information would be helpful.

The Convener: There seems to be some confusion about where responsibility for the Ravenscraig development now lies. Scottish Enterprise is still a partner in the project but does not seem keen to provide money. Where does the Scottish Government responsibility for the project now lie? It is an important regeneration project in Lanarkshire.

Jim Mather: Circumstances are clearly different from those one year, two years or three years ago. At the moment, we plan a major review of where we are on Ravenscraig. In planning that review, I listened to concerns expressed by Jim Fitzsimons, who runs the private sector aspect of the project. I had a meeting with him on 28 October, in which we reviewed where we are. I got a clear understanding of his perceptions of the current market conditions and where they could lead and heard conciliatory and consensual noises from him about what he is keen to do to try to reach a better accommodation. On the back of that meeting, we have arranged that he, Scottish Enterprise, the local authority and other stakeholders will come together to undertake a proper, considered review of the current position before we press ahead and commission the formal review as suggested. The project is getting severe and current scrutiny.

The Convener: Why has the Government decided to cut the £500,000 of support to Scottish companies for the expo in China in 2010—which seemed to fit neatly with the Scotland-China strategy and other strategies to promote Scottish business abroad—but added £1 million to SDI's budget for more Scotland houses?

Jim Mather: That is an operational issue for SDI. Globally, we are working extremely closely with the agency. My immediate superior, the Cabinet Secretary for Finance and Sustainable Growth, was over in China with it recently; I have been to Canada once and the US three times with it, as well as to Norway and Russia. In those visits, we are elevating the team Scotland concept by embedding SDI, Scottish Enterprise, EventScotland and VisitScotland with ministers. They are making intelligent use of our time and getting us into places that elevate their professionals in terms of the connections that are made with people in other countries who can do business with Scotland.

What is happening is reminiscent of what I used to do back in my IBM days. As a salesman, I would struggle to get beyond the data processing manager at Standard Life or at Scottish and Newcastle brewers on the site that we are now on, but I would always be able to get to the chairman or the chief executive if I brought along IBM's chairman or chief executive. To its enormous credit, SDI is now using the Scottish ministers to get high-level sales calls. We are working closely with it and will help it in any way that we possibly can.

12:45

The Convener: That does not answer the question why you cut the £500,000 that was previously allocated to support Scottish companies in the Scottish pavilion at expo 2010.

Jim Mather: The Government believes in autonomy. We trust our professionals and allow them to reach decisions about optimal returns for Scotland.

The Convener: I presume that those professionals previously recommended spending £500,000, but you are now saying that they do not want to spend it.

Jim Mather: You might have noticed that there has been a change of Government and that a totally different approach has been taken to the enterprise side of things. Essentially, we have created a new focus, a new collegiate approach and a new understanding of what the real priorities are, and I am confident that decisions are taken in a balanced way to achieve the best results for Scotland.

The Convener: We will judge what opportunities have been missed as a result of that decision at a later date.

The committee has attempted to get the Council of Economic Advisers to give evidence to us during the budget process and to tell us what advice it is giving the Government on how to respond to the economic downturn. Can you give us any information about what advice the Council of Economic Advisers has given the Government?

Jim Mather: Sadly, that happens above my pay grade in the Government. I do not sit in on meetings of the Council of Economic Advisers, although I hear about their outcomes. However, I welcome its involvement, as there is absolutely stellar talent in it. The basic fact that it exists, let alone the fact that we receive advice and guidance from it, does Scotland great credit.

Given the difficulties of getting members of the council to synchronise their diary management so that they turn up to one event, my advice to the committee is to keep asking—

The Convener: We have done so.

Jim Mather: Perhaps the committee could consider asking one or two members of the council to give evidence. Professor Christopher Harvie—I am sorry; that was a Freudian slip. I meant to say Professor John Kay, who is an equally talented man. Professor John Kay provided a fantastic session at a business in the Parliament conference that he turned up to. He got many ideas flowing during and after his speech.

The Convener: I assure the minister that the committee asked the chair of the council whether he could send another member of the council along if he could not attend, and that we asked whether the First Minister could come along if that was not possible, to tell us what the council was telling him. I do not think that doing that would be above his pay grade.

Fiona Robertson (Scottish Government Economic Strategy Directorate): I understand that there has been correspondence between the chair of the Council of Economic Advisers and the committee. I think that the chair clarified issues relating to his attendance and some discussions that the council has had.

The Convener: With the deepest respect, the committee wished to have the council at the Parliament to talk about the budget. The chair of the council will come to a meeting to talk about his annual report, but that will be too late for us to include his words of wisdom—the minister suggests that he would give those—in our budget consideration. That is a missed opportunity for the Parliament, the Government and the Council of Economic Advisers, but I will leave things at that.

As members have no more questions, I thank the minister and his team for giving evidence on the budget. There will be a short suspension while the minister changes his supporting cast for the next agenda item.

12:49

Meeting suspended.

12:50

On resuming—

Energy Bill

The Convener: We welcome back the Minister for Enterprise, Energy and Tourism and his new team of supporting officials: Neal Rafferty and Christine McKay, senior renewables policy advisers; Ross Loveridge, senior energy policy adviser; and Linda Hamilton, principal legal officer. They are here for item 4, on United Kingdom Parliament legislation. The minister will make opening remarks, then members can ask questions.

Jim Mather: I am grateful for the opportunity to present the legislative consent memorandum on the Energy Bill. This Government is unequivocal in its commitment to renewable energy. We all know that Scotland can deliver more than its fair share when compared with the rest of the UK. That is why I am here today to ask for the Parliament's consent to provisions in the UK Energy Bill that will deliver a renewable heat incentive and enable the introduction of a banded renewables obligation in Scotland.

Members will be aware that, earlier this year, as part of a UK framework agreed between the Secretary of State for Energy and Climate Change and the Scottish ministers, the Scottish Parliament gave its consent to Westminster legislating on our behalf to permit carbon storage in Scottish territorial waters. That was the right decision for Scotland and it rightly received the endorsement of the Scottish Parliament.

The UK Government has introduced some last-minute amendments to the Energy Bill that have been designed specifically to ensure that the House of Lords passes the bill. The LCM before you today is the result of those amendments. Their late submission by the UK Government has meant that the timescale is tight, but I am convinced that the measures that are subject to the LCM are vital for our renewables sector and good for Scotland.

The committee will recall that, when the Energy Bill was introduced, we agreed with the UK Government that the new renewables obligation banding powers should be transferred to the Scottish ministers. The intention was that the transfer of powers would be given effect, as in the past, through the laying of an order before the UK and Scottish Parliaments under section 63 of the Scotland Act 1998.

The delays to the Energy Bill mean that there is insufficient time to lay and make the section 63 order and introduce a revised renewable obligation order before 1 April next year, which prevents us from introducing an amended obligation containing banding next April. Such a delay would mean damaging delays to the vital additional support that we have promised for wave and tidal power, and other technologies, which the industry is expecting and on which we are consulting—the Energy Bill contains the banding powers that we need to deliver that additional support. The LCM seeks the Scottish Parliament's consent to those powers being conferred directly on the Scottish ministers rather than subsequently by dint of a section 63 order. As such, the LCM offers a means of ensuring that those powers are available in good time.

I can assure the committee that if the LCM is agreed and the powers for the Scottish ministers are thus enacted, the Scottish Parliament will be able to scrutinise in detail a suitably amended and detailed renewables obligation order, which we would plan to lay early in 2009. Consequently, I urge members to support the LCM on the renewables obligation.

The LCM also seeks members' consent to allow the UK to legislate on our behalf to create a UK-wide renewable heat incentive. As the committee will be aware, heat counts for around 50 per cent of emissions, which is something that will have to be tackled strongly if we are to meet our 80 per cent CO_2 reduction commitments in the Climate Change Bill. Renewable heat sources such as biomass offer us one of the greatest opportunities for reducing such emissions, particularly in rural areas that are not connected to the gas grid. The Government is already supporting renewable heat through programmes such as the Scottish biomass support scheme and the Scottish community and householder renewables initiative. It is important to note that a UK-wide renewable heat initiative would not prevent that work from continuing.

As the committee will know, the generation of heat from renewable sources is a devolved matter. The renewable heat incentive that the UK is considering would operate on a UK-wide basis through regulations made on behalf of the UK Government by the Secretary of State for Energy and Climate Change, Ed Miliband. Those regulations would empower the secretary of state to impose levies on fossil fuel heat suppliers and direct Ofgem on its regulation of that process. That is important because although renewable heat is generally devolved, the Scottish Parliament does not have the power to introduce levies on fossil fuel suppliers or to direct Ofgem. We believe that the proposed measures could be of tremendous value in supporting renewable heat in Scotland. The LCM therefore seeks members' agreement to the UK Government being empowered to deliver those measures across Scotland.

Of course, the key objective influencing our discussions with the UK on this issue has been the need to ensure that Scotland benefits fully from the introduction of a UK-wide renewable heat incentive. I am therefore pleased to inform the committee that we have agreed with the secretary of state that the relevant renewable heat functions, to be inserted into the bill, will be exercised only by the secretary of state, subject to agreement with the Scottish ministers in the case of devolved areas, or in consultation with the Scottish ministers in the case of reserved areas. That means that the Scottish ministers will be fully involved in the introduction of any new regulations or renewable heat incentive, thus ensuring that it is appropriate to the needs of Scotland.

The alternative, of restricting any scheme to England and Wales only, would have penalised Scotland. For instance, fossil fuel heat suppliers would pass the cost of the levy on to consumers across the UK because they operate in a UK market, which would mean that Scottish fossil fuel heat consumers would pay the cost of the levy without being able to benefit from any of the incentives to switch to renewable heat. Members will be aware that the Scottish Government is consulting in our renewable energy framework, as is the UK in its renewable energy strategy, on how to meet the European Union's 2020 renewable energy targets, including those on heat.

Although recent developments on the Energy Bill in London mean that the powers to create a renewable heat incentive are being taken before the consultations have concluded, they are simply enabling powers; the detail of any scheme will still depend on the outcomes of those consultation processes and, crucially, as I advised earlier, on the agreement of the Scottish ministers. In addition, the proposals do not curtail the Scottish Parliament's power to support renewable heat. Scottish legislation can continue to use devolved powers to, for example, enable the award of grants for renewable heat, which we are considering for the Scottish climate change bill. Such powers would operate alongside and complement any UK-wide renewable heat initiative.

I am confident that the amendments that are the subject of the LCM will deliver vital and positive outcomes for Scotland. I am happy to take members' questions.

Lewis Macdonald: Can you confirm that the outcome of the LCM will be that the renewable obligation certificate banding and the terms of the renewable heat incentives in Scotland will be identical with those elsewhere in the UK?

Jim Mather: I am not sure that they will be entirely identical.

Neal Rafferty (Scottish Government Enterprise, Energy and Tourism Directorate): We certainly propose to do some aspects of ROC banding differently, as the committee will be aware from the current consultation but, in the main, the mechanisms will be identical because that is how they function most effectively.

Lewis Macdonald: So it is an agreed mechanism that is shared across the jurisdictions in question, but which has the flexibility for the Scottish ministers to vary the level of incentive or the scale of the banding, as suggested in the consultation. Is that what has been agreed between the Scottish and UK ministers?

Ross Loveridge (Scottish Government Enterprise, Energy and Tourism Directorate): That is correct as far as the renewable obligation is concerned. As far as we understand the UK's initial thinking on the renewable heat incentive, the intention would be that it would operate on a UK-wide basis and the powers would be the same across the UK because the levy would have to be the same across the UK, although how it would operate in Scotland would be subject to the agreement of the Scottish ministers.

Rob Gibson: Scottish and Southern Energy raised a question with us on the 3MW cap for the feed-in tariff. If that is intended to help us promote domestic home renewables, it is unlikely that people will be able to develop anything above 500kW. If we are talking about having commercial development up to 3MW, that may inhibit microgeneration. What is your response to that?

Jim Mather: The information that came from George Baxter on that issue was copied to me. The feed-in tariff is a reserved matter and not subject to the LCM that is before the committee. However, I agree strongly that the proposed feed-in tariff for microgeneration should be focused strongly on small-scale and domestic microgenerators. It is vital that there is a well-managed transition process for very small generators.

At this stage, details are still to emerge on precisely how any feed-in tariff would work and on its interaction with the renewables obligation. Indeed, the UK Government has said that the proposed cap of 3MW will be subject to further analysis and consultation with the sector. I am pleased to inform the committee that the UK Government has undertaken to consult the Scottish ministers formally when working up the details prior to the scheme's introduction. We will endeavour to facilitate a proper dialogue on the issue to get to a good outcome.

Rob Gibson: Are you suggesting that you want support to be concentrated on the lower end of production in Scotland, which is the home energy one? Is it possible to do that at the moment?

13:00

Jim Mather: That is the intention. It is our belief that we will end up with something that will encourage that.

Neal Rafferty: The 3MW cap in the Energy Bill is almost an opening gambit. It is designed to reassure that feed-in tariffs will not apply above a particular limit and therefore to preserve confidence in the renewable obligation mechanism. The UK Government has acknowledged that a great deal of work still needs to be done to refine the mechanism and ensure that it is pitched at the right level and that there are no unintended consequences for domestic microgeneration, which a feed-in tariff is intended to support.

Rob Gibson: I hope that the minister will make those points strongly on our behalf because we want families to undertake those renewables developments, not commercial groups.

Jim Mather: Absolutely. One of the highlights of a recent energy conference was comments from the floor, when what could be done locally in microgeneration and energy storage in people's homes, and just reconfiguring the whole landscape, was considered. We are keen to encourage that.

Ms Alexander: I am not familiar with this area, but I have seen media lobbying in the other direction from commercial organisations that want to see the cap higher than 3MW. I am keen therefore to understand what, from first principles, the Scottish Government's position is. As I understand it from the minister, the Scottish Government's position is that, in principle, it is in favour of the cap being lower. I just want to establish that that is the case, rather than to have an open-ended discussion about whether the cap is too high or too low.

Jim Mather: We are keen to encourage some balance on this matter, so we will listen to all sides of the argument and act as an honest broker.

Ms Alexander: With respect, that answer is different from the one that you gave Rob Gibson. Is the Scottish Government's position that we need to discuss arguments for the cap being higher than 3MW and for it being lower? Or is it the Scottish Government's position that it wants the cap to be below 3MW, which is the lobbying position of Scottish and Southern Energy? Its position does not make the Government wrong; I am just trying to establish what the Scottish Government's position is on a debate that will be taking place over the next few months. Is it the

Government's position that the cap could be up or down from 3MW, or is it only that it should be down from 3MW?

Jim Mather: We are undertaking a consultation process and listening to the voices that are coming in. The e-mail from George Baxter yesterday had a persuasive argument and perhaps the same point could be doubled up in different language. Nevertheless, we must listen to all responses and try to get an optimal outcome. My view is that, when opinion is as polarised as it is in this case, the two parties are usually not far away from having a worthy goal that they can jointly sign up to. We are keen to facilitate dialogue and ensure that our inputs to the UK Government are informed by that.

The Convener: There are no further questions, so we will move on to agenda item 5, which is to consider the LCM. I ask the clerk whether we have had any comments on it from the Subordinate Legislation Committee.

Stephen Imrie (Clerk): Because of the tight timescales at Westminster, the Subordinate Legislation Committee was able to consider the report only recently. It has given me a copy of its findings, which I understand should have been published by now. Generally, the Subordinate Legislation Committee raised no points of substantive interest for this committee on the LCM. In detail, it found that the delegation of the powers to the Scottish ministers is acceptable in principle, that the affirmative procedure for future scrutiny is the appropriate level and that the scope of the powers to make renewable obligation orders is satisfactory. Those are the points that the Subordinate Legislation Committee has raised for this committee.

The Convener: Before I put the question, I should say that we should not allow ourselves to be influenced by the fact that the statutory instrument to which the minister referred will come to this committee.

The question is, that the committee is content to recommend to Parliament that it agrees to allow the UK Parliament to legislate on our behalf as set out in the legislative consent memorandum. Is that agreed?

Members *indicated agreement*.

The Convener: We have to produce a report to the Parliament on that by tomorrow. Are members content to leave the drafting of a short factual report on the matter to the clerk and me, in order to get it published in the required timescale?

Members *indicated agreement*.

The Convener: That concludes the public part of our business. I thank the minister and his team and ask any members of the public who have not already died to leave—I think they have all gone.

13:06

Meeting continued in private until 13:39.

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