ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 29 April 2009

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
13th Meeting 2009, 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)
*Stuart McMillan (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)
Alex Johnstone (North East Scotland) (Con)
Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
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*attended

THE FOLLOWING ALSO ATTENDED:

Nigel Don (North East Scotland) (SNP)

THE FOLLOWING GAVE EVIDENCE:

Dr Tony Axon (University and College Union)
Dr Barbara Blaney (BioIndustry Association Scotland)
Tricia Campbell (Skills Development Scotland)
Charlie Frize (Civil Engineering Contractors Association (Scotland))
Jackie Galbraith (Scottish Government Lifelong Learning Directorate)
Gary Gillespie (Scottish Government Strategy and Ministerial Support Directorate)
Dr Andrew Goudie (Scottish Government Director General Economy and Chief Economic Adviser)
Stuart Leitch (Scottish Training Federation)
Cliff Lockyer (Fraser of Allander Institute)
Ken Munro (Scottish Advisory Committee on Lifelong Learning in Engineering)
David Smith (Scottish Development International)
Chris Travis (Association of Scotland’s Colleges)
Alan Watt (Civil Engineering Contractors Association (Scotland))
Stephanie Young (Skills Development Scotland)

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SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

Location

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 29 April 2009

[THE CONVENER *opened the meeting at 09:30*]

State of the Economy

The Convener (Iain Smith): Good morning, everyone, and welcome to the 13th meeting in 2009 of the Economy, Energy and Tourism Committee. I hope that the meeting will not be unlucky for anyone.

We have a full house of MSPs. I welcome as a guest MSP Nigel Don, whose name escaped me for a half a second. I apologise for that.

Today, we are holding the latest in our series of hearings on the state of the Scottish economy. We agreed to hold a series of hearings so that we could keep up to date with developments and check whether the Scottish Government and others are doing all that they can to minimise the impacts of the recession on the Scottish economy. We have considered issues such as the availability of credit and the banking sector. Today, we are looking for an update on recent trends. We will focus on unemployment and innovation, and we will look forward to how Scotland will cope with the recession.

Obviously, we now know that we are officially in recession, but we hope that we will start to come out of it some day not too far in the future. Unemployment tends to lag behind when countries come out of a recession. We want to consider how bad the recession will get, how long it will take to get out of it, and what we are doing to respond and turn things round.

There are three panels of witnesses. As I mentioned to members earlier, we will try to keep our questioning as tight as possible in order to get through as much as we can with the three panels.

Our first panel will consider economic forecasts from the Government and the independent sector. I welcome Andrew Goudie, who is the chief economic adviser to the First Minister; Gary Gillespie, who is the head of the office of the chief economic adviser in the Scottish Government; and Cliff Lockyer, who is an honorary senior research fellow at the Fraser of Allander institute. I will give Andrew Goudie and Cliff Lockyer a few minutes each to give some background to where the economy is; members can then ask questions.

Dr Andrew Goudie (Scottish Government Director General Economy and Chief Economic Adviser): Thank you very much, convener.

I think that the committee has already had access to a paper entitled "State of the Economy", which we put on the Scottish Government website in early April. I thought that I would spend five or six minutes updating that information, if that would help. Gary Gillespie has a few pictures that I will talk about briefly. I know that members do not want a full-blooded presentation today, but it is worth giving an update, given that quite a lot has changed over the past few weeks, as members will know well.

The first couple of slides are fairly straightforward. The first slide, which is on page 2 of my presentation, is simply a reminder of the seriousness of the current recession. We always try to see Scotland in a global context, because its economy is so open. The first slide demonstrates that, to some extent, the major economies have tended to move together over the past 40 years, although their movements have not always been synchronised. The far right-hand side of the graph shows that the five major economies that are mentioned are moving closely in sync with one another this time around, which explains to some extent the seriousness of the global recession. A graph that looks rather messy on the whole looks unhelpfully clear in many ways on its far right-hand side.

As members are aware, the recession is the first in that 40 year-period to be initiated by a serious financial crisis. Generally speaking, it is believed that that implies that it will be more serious and perhaps more protracted and deeper than other recessions have been. That is what the historical studies tend to show.

I will give a brief example of the seriousness of the recession. Members will have seen the growth figures from around the world for the last quarter of last year, all of which are very negative. The export numbers for many countries are quite shocking in some ways. The figures for the European Union, Germany, Japan and the United Kingdom show quarterly falls in exports of about 20 per cent, which is, of course, a massive amount. In Scotland, exports fell by almost 10 per cent in the fourth quarter.

Page 3 of my presentation shows the Scottish and United Kingdom growth performance over recent years. You can see a very sharp decline in quarter 4 of 2007 in the UK and in Scotland, with a very similar pattern between Scotland and the rest of the UK. You can also see that we have been formally in recession, according to the standard definition, since the middle of 2008.

To that we add the data that came out on Friday for the UK for Q1 of 2009. They showed a UK fall of -1.9 per cent, which is—as I am sure you are aware—the fastest decline for 30 years at UK level. That represents an increasing rate of decline compared with the previous quarters. In relation to those data, I am not suggesting that we are nearing the bottom of that decline at the moment.

The bottom picture on page 3 shows some of the data that we rely on to get a picture for Scotland. They are Royal Bank of Scotland data, and you can see the sharp falls in companies' responses to the survey that was undertaken. There is a little bit of a glimmer of hope in the last survey, which shows a bit of upward movement. Any number below 50 in the index that is used shows an expected decline in output, but you will see that the number bounced up a little bit in the final month. How much we can read into that figure is difficult to say—the level is still very low.

A question that no doubt interests the committee, and which is much spread across the newspapers, is whether and where there are green shoots. I would reflect that "green shoots" can mean different things to different people: sometimes it means a slower rate of decline, sometimes it means bumping along the bottom and sometimes it means signs of an actual upturn. As far as the second and third of those are concerned, I see few signs that we have hit the bottom or are bouncing along it, and I do not see any signs that we are near a recovery phase at the moment.

On the first question, which is whether the rate of decline has shown signs of easing, I suppose that a mixed picture is now emerging. The RBS survey offers a little bit of hope, as my presentation shows. The Lloyds TSB survey similarly offers a little bit of hope. To be frank, however, other surveys do not show a great deal of hope at the moment. Even on the question whether the rate of decline is easing, there is a bit of a mixed picture at the moment.

The forecasts on page 4 show the Treasury projection for 2009, as well as independent forecasters' and International Monetary Fund projections. Their projections for 2009 are not hugely dissimilar from one other, although the IMF one is a little bit more pessimistic. A bit more of a difference opens up in the forecasts for 2010. You will have seen the coverage of the Treasury's assumptions, which underlay the budget last week. Those are certainly a little bit more optimistic than the IMF forecast and than the projections of some independent forecasters.

Broadly speaking, the IMF suggests that there will be very big falls all around the world in 2009, and that most of the big, advanced global economies either will still be declining in 2010, or will be flat. There is very little that is positive except, perhaps, for France and Japan. That begs the question how far the Treasury's UK projection is in line with other global forecasts, particularly given the dependence on international trade.

I will not go through the other questions now, although they are flagged up in papers that the committee has seen. They concern the evidence around whether we think that we have reached the bottom in terms of stabilisation of the financial system, whether we think that the supply side of credit conditions is improving, and now—and perhaps more important—whether demand for credit is showing signs of weakness, and whether that will pick up.

Page 5 of the presentation shows the latest version of the data from the Bank of England credit conditions survey. The top diagram shows the availability of credit for mortgage lending, unsecured lending and corporate lending. There is perhaps a glimmer of hope on the corporate side: the net balance of companies being surveyed suggests some improvement in corporate lending over the past three months, with slightly more improvement over the next three months. On mortgage lending and unsecured lending, the picture is more mixed.

Perhaps a little bit more worrying, as we get into the recession, is the bottom diagram on the same page, which shows the demand for credit. At the moment, the signs are not very optimistic there. Demand currently looks pretty weak across the board. That is at UK level; unfortunately, the information is not disaggregated to Scotland.

On page 6, there is a brief summary about the labour market. You will be aware that we came into the recession in quite a strong position in Scotland, peaking in the second quarter of 2008.

Over the past year, employment has fallen slightly more quickly in Scotland than in the UK as a whole—in Scotland, it has fallen by 1.3 per cent, whereas in the UK it has fallen by 1.1 per cent. Interestingly, so far there has been quite a difference between the experience north of the border and the experience south of the border. North of the border, a lot of the fall has been attributable to the shake-out of female labour, particularly in the early part of the recession. Now, the situation is slightly more balanced—the difference between the position north of the border and the position south of the border is less marked—but in the final six months of 2008, there was certainly quite a difference in performance as regards to what the shake-out was attributable.

The diagram at the bottom of page 6, which shows the inactivity rates, provides some of the explanation for that. In general, it stands out reasonably well that during that period, the female part of the workforce that was losing employment was, to a large extent, going into inactivity rather than unemployment. The diagram shows that Scottish inactivity rates have risen quite sharply over the past year, whereas inactivity in the rest of the UK has fallen slightly over the same period. There is quite a difference between the positions north and south of the border, although they have closed up somewhat.

The diagram at the top of page 7 illustrates the unemployment rate, which the committee is familiar with, and bears out the story that I have just told. North of the border, females moved heavily into inactivity, whereas the employment situation south of the border was much more to do with males moving into unemployment.

The diagram at the bottom of page 7 reflects the claimant count. We tend to use the claimant count numbers less than the International Labour Organization numbers, because the ILO numbers give a better picture of the number of people who seek employment, but the claimant count numbers give us a slightly more up-to-date picture. Members will see that until October 2008, we were very much in step with the rest of the UK. Since then, a bit of a gap has opened up. Over the year, the claimant count has increased by about 74 per cent in Scotland and by about 85 per cent in the UK. There is a bit of a difference in that regard, but I warn members that with the claimant count, the entitlement rules change a bit, so it is not quite as easy to provide consistency over time.

The final page of slides offers a few quick reflections on the future. The diagram at the top of the page shows what the independent forecasters are saying. Broadly speaking, they think that unemployment will rise for three years, until around 2011, when they forecast that the unemployment rate will be between 7.5 and 8.5 per cent. That reflects the presumption that growth will be between -1 and -2 per cent in 2009-10, which I discussed earlier.

The diagram at the bottom of the page offers a quick reflection on history. As I said, in recessions that were not initiated by a financial crisis, it took the UK between three and four years to go from a trough in unemployment to a peak during the downturn phase, whereas it took about seven years from the start of a recession for unemployment to recover and to return to the level that it had been at before. We need to be careful because the diagram does not provide a strict guide to the present recession, but it indicates that the labour market can take quite a while to recover once the economy enters a recessionary phase.

To summarise, the economy has undoubtedly been in recession since the middle of 2008 and will almost certainly show a fall in Q1, reflecting what we know of the UK. Future growth expectations across the world continue to be revised down—unfortunately, the data that the IMF has provided this week for 2009 and 2010 are a good example of that. I anticipate that the decline in output in Scotland will continue throughout 2009 and well into 2010. The IMF suggests that positive growth will resume somewhere in the middle of 2010.

As one would expect, there has been a bit of a lag—of about six months, probably—in the decrease in employment after production turnaround, but employment is now falling steadily. The external forecasters expect it to fall for about three years or so. As an important footnote, it is worth saying that there are huge uncertainties involved, as the committee is well aware, particularly around whether the financial system is stable yet, but also around how quickly the significant stimulus packages that have been implemented across the world will kick in. That represents a quick update on the 9 April version of my presentation, which is on the website.

The Convener: I ask Cliff Lockyer to give the Fraser of Allander institute’s perspective.

09:45

Cliff Lockyer (Fraser of Allander Institute): I echo and support the comments that have been made. Our starting point is that the only common feature in the current recession is uncertainty about its pace, ferocity and duration. In our economic forecasts in November and February, that led us to offer not one central forecast but a fan—a range of forecasts that were entitled optimistic, central and worst-case scenario. We have yet to decide whether our next forecast, which is due in June, will follow that pattern, but it almost certainly will.

It is unfortunate that, in each case, the uncertainty has been such that the worst scenario has tended to prove to be the actual case. Our forecast in February for the year’s gross value added growth ranged from 0.65 per cent down to our worst case of 0.51 per cent. On that basis, our forecast echoed what Andrew Goudie said—that the recession will continue through 2009 and 2010, that the situation will pick up in 2011, which will be relatively flat, and that we will return to substantial growth only in 2012. Equally, we do not expect our net job growth to return to positive figures until 2012.

My main role in the institute is to manage several business surveys, so I will comment on more recent survey evidence and shed light on whether green shoots are appearing—or, rather, whether the economy is sinking more slowly than previously. In considering the composition of the business surveys, we need to distinguish the effects of the recession from longer-term influences. Largely on the basis of Government data, a recent survey on the oil and gas services sector—Deloitte's "North West Europe Review" in April—commented on a significant downturn in exploration activity. That was to be expected, because the business models of independent operators and consolidation by larger companies were likely to lead to that. Concerns about that have been reflected in changes in the budget.

It is interesting that business surveys in manufacturing fall into two groups. The Lloyds TSB survey, the purchasing managers index that the Royal Bank of Scotland produces and the Scottish Chambers of Commerce's business survey all spoke of some signs of improvement, but they related largely to a general slowing in the rates of decline in optimism, activity and orders. The signs of recovery in the Scottish Chambers of Commerce business survey related largely to improvements in export activity in Q1 in 2010.

Notwithstanding those few comments, the overall impression was of considerable decline. According to the Scottish Chambers of Commerce business survey, average capacity in manufacturing declined by more than 12 percentage points. The surveys by the Confederation of British Industry Scotland and Scottish Engineering were much more pessimistic, although it is significant that the Scottish Engineering survey was the last to report a downturn in manufacturing—a lagging factor might apply. Of equal concern is the continued migration of work to lower-cost economies, which will be a feature this year.

In construction, the only regular survey is by the Scottish Chambers of Commerce. It gives a gloomy picture, with few—if any—signs of improvement. The latest survey suggests that average construction activity is down by almost 20 percentage points. The only sign of any improvement is a slight easing in the rate of decline in public sector orders—private, commercial and domestic house-building contracts remain very depressed.

The decline in work confidence and employment in professional services that are allied to construction has not been well covered. The additional concerns in the sector—which relate mainly to chartered services—are about the likely long-term impact of liberalisation of the market, which will allow more overseas architects and engineers to practise in Scotland.

Retail is probably the one positive sign. The Scottish retail sales monitor gave a marginal improvement in like-for-like figures in its March report. Peculiar factors might have contributed to the results. Easter was in April this year, unlike last year, and the weather in March this year was much better than it was last year, so seasonality might be a factor.

In contrast, the Scottish Chambers of Commerce business survey was much more depressing. The reason for the difference is that the survey measures sentiment by type of retailer and continually echoes concerns in the sectors about the pressure that the major retailers put on independent stores. That theme has been picked up by the Federation of Small Businesses Scotland.

In tourism, there was a marked difference between the latest purchasing managers' index report and the Scottish Chambers of Commerce survey and VisitScotland's accommodation occupancy survey. The occupancy statistics for February suggest that occupancy is down by about 2 per cent compared with last year. Those results were echoed in the Scottish Chambers of Commerce survey. However, 2009 was not expected to be as good as 2007 and 2008, which were good years. Occupancy has been sustained by extensive cutting of room rates, and there has been some deterioration in business tourism, but there is anecdotal evidence that the position is much worse in the south than it is in Scotland, and particularly in Scottish city centres.

I will make two final points. First, the general survey evidence is that cost pressures—apart from finance costs—are easing across all sectors and are reaching historic lows. Indeed, a number of surveys reported decreases in manufacturing prices for the first time. Pressures on margins were widely reported in construction and are evident in tourism and certain sectors of retailing.

Secondly, the overriding feature from all surveys is the decline in labour market activity. On recruiting, percentages have dropped substantially in all sectors, which suggests that, as we all anticipate, there is relatively little recruitment and a degree of shedding. The feature to note is that most sectors are reporting no change in their employment levels. The main changes have been in reductions in hours.

The Convener: I thank Andrew Goudie and Cliff Lockyer for their introductory remarks.

Gavin Brown (Lothians) (Con): There is a slight difference between the Chancellor of the Exchequer's gross domestic product forecasts for the United Kingdom and the Fraser of Allander institute's GDP predictions for Scotland for the next three years. The chancellor predicted a drop of 3.5 per cent this year, growth of 1.25 per cent next year and growth of 3.5 per cent in the following year, whereas I think that the Fraser of Allander institute predicted that Scotland's GDP will drop by 2.6 per cent this year and 1.2 per cent next year and will grow by 0.5 per cent in 2011.

The figures indicate that during the most recent three quarters the downturn in Scotland has broadly matched what has happened in the UK, so there is no massive discrepancy in that regard. What are the reasons for the discrepancies between the Fraser of Allander institute's predictions for Scotland and the chancellor's predictions for the UK?

Cliff Lockyer: It is difficult to answer that question. I will return to being the two-handed economist, who says, "On the one hand … and on the other".

This is the first global synchronised recession. It is inevitable that we compare events in this recession with patterns in previous recessions, which will give an indication of the expected duration, curve and pattern of the current recession. However, we must make a judgment call on a number of uncertain events, to which Andrew Goudie alluded.

Given the uncertainty and the degree of unknownness, we could not feel comfortable with a single forecast. That is why we have a fan forecast. The optimistic forecast is for a shallow recession with most probably part of 2010 in growth. We also have the worst-case scenario. We reached a balance based on our interpretation of events. However, others might have far better data than we have and we may differ on that.

Gavin Brown: Does the Fraser of Allander institute make predictions for the UK economy as a whole, or do you purely do Scottish predictions?

Cliff Lockyer: We publish purely Scottish forecasts. Obviously, we take a view of events in the UK as the two issues cannot be disentangled. However, our public forecasts are for Scotland.

Gavin Brown: You might not want to say this on the record, but if you had predictions for the UK for the next three years, how would they compare to the chancellor's predictions?

Cliff Lockyer: I think that we would have to leave that unsaid at the moment.

Gavin Brown: Fair enough.

Dr Goudie: The only small point that I would add is that, in the past 18 months, and particularly the past 12 months, the rate of revision in forecasts has been astounding. Cliff Lockyer will correct me if I am wrong, but I think that the Fraser of Allander forecasts were put together in February. The difference between February and April is important, as the IMF figures have come down in that period. I do not want to put words into Cliff's mouth, but it would not surprise me if the forecasters were considering what they said a few months ago, as they have being doing that in the past 12 months.

Cliff Lockyer: In November, we had a fan forecast and our worst-case scenario became our central case. That has happened again this time.

The Convener: The initial projections on the recession were that it would be relatively short term and that we would start to come out of it after a couple or maybe three quarters. Is that your position now? Are you more pessimistic or more optimistic? Will the recession be deeper and longer or less severe and quicker?

Cliff Lockyer: As Andrew Goudie pointed out, all forecasters have been revising their forecasts downwards, largely on a monthly basis. I return to the point that, although there is always comfort in comparing the recession to past events and using those to colour our ideas, the present recession is fundamentally different in several respects. We are finding out more about some of the features and the multiplicity of factors. That is leading to considerable uncertainty at every stage and to periodic downward revisions.

Dr Goudie: In the state of the economy reports that I have put on the Scottish Government website for the past three or four months, I have included the Bank of England's fan diagram for anticipated GDP in future years, which is published in the bank's *Quarterly Bulletin*. The November diagram, which broadly speaking coincided with the pre-budget report, showed a sharp drop and a relatively sharp recovery in 2010. My view has always been that that verged heavily on the optimistic side, even back in November.

The key question is about the fundamental issues that will lead to recovery. That drives us back to the fundamental questions about how well we are doing on restoring equilibrium to the banking system and whether balance sheets in the financial sector are getting to a position that will allow the sector to undertake commercial activities in what we might regard as a normal way again. Increasingly, there has also been the question of whether the demand for credit—let alone the supply—will pick up, given the serious falls throughout the world. To be frank, since November I have sensed that those expectations were very optimistic. The forecasts that are now coming from the IMF are much closer to what the evidence suggests about those fundamental drivers of the recovery.

Ms Wendy Alexander (Paisley North) (Lab): I have a follow-on question for Andrew Goudie. It has always been true that we have impressive data on the performance of the labour market in Scotland. In that respect, Andrew Goudie highlighted the interesting issue of rising inactivity in Scotland. I was not aware that the driver for that is that women are exiting the Scottish labour market earlier. However, I was struck by the fact that, although we obviously have a significant amount of data on Scottish growth—at least, in terms of historical data; we will not revisit the issue of growth forecasts today because we have dwelt on it before—we have no Scottish data on the issue with which Andrew Goudie ended: credit supply and demand and its cost and availability.

10:00

One of the consequences of the recession has been the challenge to some fundamental assumptions—I am thinking of politically created golden rules. However, I presume that some questions are now being raised for you, as chief economist in Scotland, about what sort of longer-term data we might want to collect in Scotland. I am struck by the fact that the political debate—no doubt we will see evidence of it on Thursday in the chamber—is dominated by anecdotes about the consequences of the financial services sector in Scotland now having a quite different structure from that in the rest of the UK. Similarly, there will be a lot of speculation about the construction industry.

Wrapped up in what I have said are three questions. First, has one of the consequences of the recession been that you want to reconsider what data we collect because there is a need for Scottish data, which we do not currently have, on the supply of, and demand for, credit? Secondly, in the absence of data, can you comment on where you think financial services in Scotland are vis-à-vis the rest of the UK in terms of credit supply and demand? Thirdly, if we had the data, would we see a different pattern in the construction sector in Scotland vis-à-vis the rest of the UK?

There are therefore three questions. First, do we need to collect some different data because of the recession? Secondly, what are the consequences for credit supply and demand of the financial services structure in Scotland now? Thirdly, are you willing to speculate on the relative performance of the construction sector in Scotland? As I said, I am aware that those issues dominate public debate. The tragedy is that we simply do not have sufficient data on which to base the speculation.

Dr Goudie: Let me offer some comments on the first two questions. Gary Gillespie will probably pick up on the third question. On the data issue, it is easy for me to agree that our data in the financial sector have not been as good as I would wish. That has not been for the want of trying. Indeed, we put quite a lot of resource into doing what we can, working with the financial sector and the Committee of Scottish Clearing Bankers up here and with the Bank of England to try to make progress.

Fundamental issues are involved that are not restricted to the financial sector and which cut right across the board. One of them is to do with the fact that companies operating in Scotland and which have their headquarters here do not necessarily need to produce data for Scotland. When they do produce such data, it is often difficult to get hold of the data because of the confidentiality to which companies adhere. However, the fundamental point is that companies are not legally required to produce data on a Scottish basis. We often rely on their good will to produce such data.

I share Wendy Alexander’s frustration that we do not have more success in getting data across the board for all our companies, but that is particularly the case for those in the financial sector. This is obviously a time when it would be great if we could get the equivalent in Scotland of some of the UK data that I have described for the committee. All I can say is that we continue to push on that front, but there are serious limitations that ultimately derive from the behaviour and the wish of companies with regard to producing the data.

Wendy Alexander’s question about financial services in Scotland and the supply of credit is an interesting but difficult one. If we look at the suppliers of credit over the past few years in the UK, it is important to note the extent to which UK companies supplied credit compared with non-UK companies. Broadly speaking, overseas companies supplied about 50 per cent of the total credit in the UK in 2005, 2006 and 2007. In the absence of data, we can only presume that the situation was similar in Scotland. However, in 2008, that overseas source of lending completely disappeared. Some rather striking graphs show it dropping off completely. In aggregate, therefore, even if the UK financial sector were to reproduce its pre-recession levels of lending, there would still be the question of what would plug that important gap of 50 per cent. From that point of view, there would therefore be little surprise if there were problems on the supply side, even were the questions around balance sheet and financial stability worked out.

The other comment that I will make concerns the supply of credit from the RBS and HBOS—I assure you that I have no more knowledge on that than you probably have. The RBS and HBOS are now heavily owned by the public sector, and there are various encouragements from the public sector for them to extend credit. Therefore, at one level, we might have expected the supply of credit from those institutions to be relatively buoyant in the face of what the Government is asking them to do. To be frank, I do not know whether that is being translated into reality. The situation might be a little bit better, but we still need to see that in the context of the virtual disappearance of the overseas block of lending that was so dominant and important in the earlier period.

I will ask Gary Gillespie to comment on the point about construction.

Gary Gillespie (Scottish Government Strategy and Ministerial Support Directorate): As the committee will see from our published GDP figures, we recorded a fall of 4.5 per cent in the construction sector in Q4 compared with the UK. However, that sector is difficult to measure. We draw on all the available data. The Office of National Statistics produces a publication that provides, in nominal terms, the value of contracts in each region and country of the UK, and it tracks our database quite well. However, it is particularly difficult to measure the construction sector because of the number of self-employed people within it. It is one sector that we struggle with.

Our Q4 data for financial services show an increase. That was criticised in the press, and I can understand why people would criticise it, given the expectations about what has been happening. All I can say is that the data that we report come from the financial services sector in Scotland—the Committee of Scottish Clearing Bankers—and show its activity over the quarter. I caution the committee that quarterly data can be volatile depending on what activities happen between different quarters and it is better to look over the Q4 and Q4 data. If we look at the previous trend, we see that we are at levels below those for Q1 2007, so the sector has been in quite a bit of turmoil since the beginning of that year.

We do not have Scotland-specific data on the supply of credit. We have spoken to the Bank of England about breaking down its regional breakdowns, which it cannot do. However, we are in the field at the moment with a survey of companies in Scotland through which we hope to report across the board on the up-to-date position on credit supply and demand. We hope to publish that survey soon.

The Convener: If you get that information, it would be useful if you could forward it to the committee in due course.

Rob Gibson (Highlands and Islands) (SNP): Is the story about the demand for credit a self-fulfilling prophecy whereby companies do not expect to get credit and therefore do not seek it? If so, what is the way forward from that?

I am looking at sectors of resilience, where companies are trying to borrow and are setting up. We have been provided with a picture of business start-ups, which shows that the downturn is much worse in certain parts of the country than in others. Is the Government in any way clear about particular sectors? We know about the difficulty in oil and gas, which we will no doubt explore in a bit more detail, but are there other sectors that can show the way forward to a resilient economy?

Dr Goudie: On your questions about credit, there seems to be some evidence—it is slightly anecdotal—that one of the reasons why companies do not seek credit is the fear that, if they do, the terms and conditions of their existing credit agreements, whether the cost or the other conditions, will be renegotiated in an unfavourable direction. That seems to deter companies from seeking credit because it is a one-way track.

I am not so sure whether companies do not go to lenders because they do expect to get credit. To be frank, I do not know whether there is any evidence to support that. Credit is sought for different reasons but, to the extent that it is for investment, I would think that a much more powerful reason why companies do not seek it would be that the climate at the moment is not at all conducive to taking major investment decisions.

The statistics that I summarised earlier, both for output and for world trade, are equally stunning. The IMF argues that, this year, world trade will fall by 11 per cent and be zero next year. In that climate, it is generally hard to see a big incentive for exporters to borrow at this time. They are more likely to go to the banks for credit for shorter-term operating purposes because of the short-term pressures that are imposed on them. However, if that were to lead to their receiving worse terms on their existing credit, that would be a disincentive to doing that. Nevertheless, at the moment, the evidence is increasingly that the demand for credit is becoming the key issue, and that is fundamentally a function of their expectations of future growth.

Gary Gillespie may want to comment on your second point.

Gary Gillespie: On the point about what sectors will drive Scotland's recovery, on page 8 of the 9 April version of the "State of the Economy" document, we show the drivers of falling GDP. Those are what the forecasters use when they think about what drives the economy—household consumption, Government expenditure, gross capital formation and net trade. Among the contributors to the Q4 2008 GDP fall, we see clearly a big drop in gross capital formation. Eighty-five per cent of that was businesses running down stocks and cutting back on production. That is why the manufacturing and production sectors have been badly hit. Household consumption has also fallen. Against those two negatives, the only two positive drivers of growth were Government expenditure and net trade. The net trade story in Q4 was about import substitution because of the fall in sterling and the increase in import prices.

If we flip that round, what sectors do we need to lead us out of the recession? Manufacturing is one possibility, given the collapse in sterling. We have seen a euro zone PMI reporting optimism in April for manufacturing and export orders across the euro zone. We may pick up through that. However, until confidence is restored, sectors that are dependent on household consumption will lag. In the short term, Government expenditure will still provide a boost. The big uncertainty is the stock level position. Once companies in the UK and Scotland have run down their stocks, they will start to rebuild those stocks. We could see production sectors leading Scotland in the upturn.

Rob Gibson: I wonder whether Cliff Lockyer would like to comment on those points before I ask a supplementary question.

Cliff Lockyer: I echo most of what has been said. Judging by the comments that we have picked up from business surveys, the credit problems are particularly acute for businesses in the middle of the supply chain, where there is evidence of suppliers seeking early payment and customers seeking to pay late. That position has been echoed by a couple of the business organisations.

Gary Gillespie has summarised excellently the position regarding the drivers of GDP.

Rob Gibson: I am surprised that you are not hazarding a guess about particular sectors that can lead us. Viewed from the north of Scotland—indeed, as we have found through the committee's inquiry into energy—a lot of people seem to be upping the investment in renewable energy, particularly offshore projects. Is that not an area that you could highlight—with others alongside it—as one that could give us resilience in a new economy and an alternative to going back to the consumption that we relied on before?

Gary Gillespie: Renewable energy such as tidal energy is an obvious sector for that, given Scotland's natural resources. It is also a sector in which there has been a lot of investment over the past year, so it clearly has potential. It is one of the key sectors in the Government's economic strategy, and it is one on which the Government will hope to build. Given the green agenda and the drive to reduce carbon emissions, it is certainly positive.

It is difficult to pick sub-sectors across the board. It really depends on the companies and the markets, and there could be surprises in the downturn. A downturn shakes out some companies from sectors, but others will benefit and grow. Energy—particularly green technology—is recognised throughout the world as a growing sector. Part of the US stimulus and what the UK announced last week is about building jobs for the future in the sector.

10:15

Rob Gibson: In the USA, the credit to do that will come internally. In Scotland, we need a much wider base from which to seek credit to allow many of these companies to develop here. The intent remains the same, but the source of credit might well be different. The provision of credit from outside the UK during the downturn is an issue that we need to explore in more detail in considering how we support energy development.

Gary Gillespie: That is a key issue. In a sense, each sector will have a different investment outlook and different intentions, but the energy sector seems to have maintained investment levels throughout the year, given the announcements that we have had about various energy investments in Scotland. We need to be careful not to generalise, but I am sure that investment in energy will be available, given the prospects for the sector.

Stuart McMillan (West of Scotland) (SNP): First, I seek a point of clarification. I think that I know the answer to this question, but I will ask it nonetheless. In the information that we have on the construction sector, I assume that the figures include small businesses and tradespeople who seek work in domestic jobs rather than in constructing houses, schools and so on. Is that correct?

Gary Gillespie: Yes, I believe that to be correct. I am happy to provide a detailed note on how we measure construction sector activity, if that helps.

Stuart McMillan: That would be helpful. My reason for seeking that clarification is that the figures might be skewed by the fact that many small businesses throughout Scotland—hundreds or, probably, thousands—do not seek work in larger projects but are happy to carry out domestic pieces of work. If that information can be provided, that would be good.

A recent Scottish Parliament information centre research briefing, "Economic Indicators", which was published on 24 April, makes an interesting point. On page 3, it states:

> "Between Dec 2007 and Dec 2008 it is estimated that there was a decrease in the percentage employed within all sectors except public administration, construction and agriculture & fishing."

That seems to be at odds with what we heard this morning and with what we have heard in recent times about 20,000 jobs being lost in the construction industry. Can you comment on that?

Gary Gillespie: I have not seen that briefing note. The only caution that I would add is that different sources are used in different surveys. The ONS surveys and employer surveys typically exclude the self-employed, so their construction numbers have been at odds with what we have been told on the ground. Other surveys include the self-employed. However, I will have a look at the briefing note. Again, I am happy to clarify in writing that source relative to other sources.

Stuart McMillan: The briefing paper gives the source as

"Office for National Statistics. (2009d) DWP Jobcentre Plus Vacancies … [Accessed 22 April 2009]"

Gary Gillespie: I will check and come back to the committee on that. There are slight caveats about who is surveyed by the different surveys.

Stuart McMillan: I have another couple of questions. About a month ago, the committee received a briefing—a very interesting briefing, I hasten to add—from the Bank of England. At the beginning of that week, the message that the Bank of England gave to the wider public was that they should not spend as much money, whereas the message hitherto from the UK Government had been that people should spend a bit more and that the UK Government would put more money into the economy.

I raised this point with the Bank of England at the briefing. There seemed to be a mixed message coming from the two bodies, which was confusing for me and the other committee members who were there. The representative of the Bank of England conceded that point. If it was confusing for politicians, it could be even more confusing for members of the public who are not privy to some of the information that we get regularly. Do you have any comments on that? What should be the message? Should we spend more money or not?

Dr Goudie: I do not know precisely what was said, but I think that the parties were presenting a case from two different angles, which I think I recognise. The argument that it sounds as if you were getting from one of the parties about increasing spend is founded in the belief that one way of trying to enter the recovery phase more rapidly is to boost demand in the economy. In essence, that is what the fiscal stimulus is about at public sector level. If the private sector increases its consumption, that is also a big boost, which will counter the recession that we are in at the moment. That is the view that is held in many advanced countries and which underpins the fiscal stimulus packages that we have seen right across the globe. The packages are an attempt to boost demand. There is a view that the greater the extent to which one can encourage consumers to do the same, the shorter the recessionary period will be.

The second argument, which is slightly different, is that one of the reasons why the financial crisis is as severe as it has been, and one of the serious imbalances that have arisen over recent years, which we have to address, is the fact that lending at many levels, whether corporate or personal, has not been sustainable and has not been for the most productive purposes. Part of the recession will entail a real adjustment in those holdings. To that extent, people's savings ratios will have to rise to something more sustainable and the lending that they incur will have to fall to some extent. To some extent, that process of adjustment is painful but, nonetheless, it is a necessary part of restoring a longer-term equilibrium. I guess that the second view that you heard was something like that.

A lot of people have expressed the view that we have to boost the supply of credit, boost borrowing and get back to 2007 levels. That is an interesting thought, because it is one way of boosting the economy and getting out of recession, but it also begs the question whether we want to get back to 2007 levels, given that they were part of the problem and, arguably, led at least to the exacerbation of the downturn that we have now seen. There is a difficult balance to be struck between the short-term wish to get out of recession and the longer-term wish to establish a financial system, a borrowing pattern and behaviour of individuals and companies that are more sustainable. My guess is that you heard those two different perspectives come across in the debate.

Stuart McMillan: Your latter point is interesting. In 2007, interest rates were fairly low; obviously, they have decreased. Last year, when the debate about the economy started to increase, interest rates seemed to stay level at around 5 to 5.5 per cent. If, at that point, the Bank of England had decided to reduce interest rates, would that have had a beneficial effect on the economy, or could it have made things worse in the longer term?

Dr Goudie: One of the interesting aspects of what has been going on for the past year is the mechanisms by which different policy instruments feed through into the real economy. In more normal times, there are fairly well-established mechanisms, which we understand reasonably well, around how changing interest rates feeds through to the behaviour of individuals and companies. The important thing about the past year is that, because of the magnitude of the shock to the system, many of those mechanisms have, at best, become less predictable and, at worst, have ceased to operate in the way that they have operated in the past.

Although, as members know, interest rates have been greatly reduced around the world, the impact of the cut has been much reduced because of what else has been happening in the system. We could say the same about the less conventional parts of monetary policy. Quantitative easing, about which we hear a great deal, is another step in the dark—because of all the other issues on which we touched earlier today, there is no certainty that increasing the monetary base of banks will feed through into lending. In the past few months, the power of monetary policy and the mechanisms by which it operates, such as interest rates, has become significantly weaker. The emphasis has moved to the question whether quantitative easing can improve the situation and, more important, to the ability of fiscal stimulus to have a serious impact when the power of monetary policy has become so much weaker.

Gary Gillespie: The August Bank of England report is very interesting, because at that point the bank was on a cusp. It was still wary of the threat of inflation from higher commodity prices; although the monetary policy committee voted to keep interest rates constant, some of its members voted for them to increase. Everything changed with the collapse of Lehman Brothers, which was the start of the race to ease monetary policy.

Cliff Lockyer: I agree with the comments that have been made. We must look at events in sequence. As Gary Gillespie points out, before the onset of the financial crisis the problem was inflation. A series of policies was then introduced. The first key priority was to stabilise the banking system; a second set of stimuli was designed to reduce the effects of the recession. At the same time, we must think about the differences and changed patterns that we want to bring about in the economy. As Andrew Goudie commented, the real problems were high levels of debt and unsustainable levels of credit; however, the way in which to get out of recession in the short term is to boost demand by encouraging spending. There are contradictory pressures. There is logic to the measures that have been taken, depending on where they fall in the sequence, but we must also take a longer-term view of what we want the economy to be like when it comes out of recession. There is a series of policy issues.

Stuart McMillan: Earlier, we discussed quantitative easing. Where has the money that has enabled the UK to pursue that approach come from? The G20 summit decided that £500 billion should go to the IMF. Where will the UK's share of that money come from?

Dr Goudie: The simplistic answer to the first question is that the credit is created as a paper act in the Bank of England, which is able to extend credit in that simple way. There is no fundamental source for the finance, which is created by the stroke of a pen.

I do not know the answer to your question about the IMF. Presumably, the UK's share will have to be financed out of the total UK expenditure programme. The answer to the question lies in how the total expenditure of the UK Government is financed—from a combination of taxation sources and borrowing. It is difficult to identify precisely from where the funding for the IMF will come, but it must be part of the Government's total expenditure envelope.

Lewis Macdonald (Aberdeen Central) (Lab): I am interested in the practical application of devolved powers in addressing some of the issues that we have described. Clearly, the steps that the Scottish Government will take will depend to a great extent on the context of UK Government policy, which, as Cliff Lockyer described, is to bring forward spending—as the Scottish Government is doing. It also depends on the advice that Andrew Goudie and others give to ministers on which areas are critical and which measures will make a difference.

Rob Gibson raised the issue of energy. Recently I spoke to a small, innovative wave energy company in Aberdeen and to an equally innovative small business in the oil service sector, both of which are encountering credit issues that they have not encountered before. In different ways, both companies put it to me that the Scottish public sector might have a role in freeing up credit or providing another financial mechanism to ensure that companies that will have much to deliver in future can survive the short-term crunch. I am particularly interested in considering whether there is a role for the Scottish Government, as distinct from the UK Government and the private sector, in stimulating the energy sector, to ensure that key companies are still with us when we emerge from the recession.

10:30

Dr Goudie: You raised many issues. In the Government's economic recovery programme, which has been pursued during the past nine months or so, there are certain emphases, which are intended to use the powers that exist, not necessarily to stop the recession—the global forces that we face are so powerful that it is unrealistic to think that we can stop them—but to reduce its impact to some extent. The programme is also motivated by the wish to do the most that is possible to position the Scottish economy so that, when global recovery sets in, it is in as good a position as we could hope to take advantage of the recovery.

You will be aware that six threads in the economic recovery programme have been pursued during the past nine months. I will not list them all, but a key thread is the acceleration of capital, which serves many purposes. The focus is on providing long-term capacity for the economy in areas that will position us for the recovery. The acceleration of capital is therefore a long-term investment as well as a short-term stimulus to demand. Much capital is supported by Scottish companies, and the extent to which spend takes place in Scotland as opposed to in other countries benefits our economy.

Acceleration of capital is an important contributor from the Scottish Government, provided that the capital expenditure can take place. I think that people are talking about being shovel-ready to undertake projects. The evidence during the past year has been that, as well as accelerating the budgets, the various parts of the public sector have been able to deliver the acceleration of capital spend in the way that we want, which is encouraging.

I mention another dimension. As you know, there has been much emphasis on tourism and homecoming, which provide an interesting example. The attempt to boost the spend that comes into the country from elsewhere is another means of trying to support the economy. It looks as though we will benefit in summer from people south of the border coming north—as we did at Easter. Important elements enable us to take advantage of the current global recession and exchange rates and to capture benefits from outwith Scotland.

There has been an intensification of support to business during this period, on the manufacturing side and more generally, in the belief that the more prepared that companies are to come out of the recession, the better. There has also been an important emphasis on skills, employability and retraining. We are witnessing significant falls in employment. The Government approach has two elements: partnership action for continuing employment, which is the emergency response; and, perhaps ultimately more important, a longer-term approach to skills and employability. Young people who are coming into the labour market, people who are unemployed and people who are threatened with unemployment are being helped through skills and training programmes, which give them the capacity to get back into the labour market as rapidly as possible.

You made an important point about loans, but the Scottish Government does not have the capacity to extend loans for operational or day-to-day purposes in quite the way that you suggested.

Through various bodies, the Scottish Government supports enterprises by grants and loans for longer-term programmes and projects, of which some on the energy side are important. However, I do not believe that we have the capacity to extend short-term credit in the way that a bank might, notwithstanding the fact that, as has been correctly said, the absence of credit for fundamentally sound firms might lead to their demise, which is clearly a serious issue. One big cost of every recession is not so much the loss of companies that are not doing well but the loss of those that are doing well and have major opportunities but are unable to access credit. One of our current big concerns is that the general unavailability of credit is hitting the companies that are most important in the medium term for the comparative advantage of the country.

Lewis Macdonald: I acknowledge the point about the limit on Government potential for giving credit, but I wonder whether there is a role for the Scottish Government in considering whether the existing grants and loans systems and structures are still fit for purpose. They have certainly been effective over the past 10 years, but I wonder whether they are still what we need in the new economic circumstances.

The Scottish Government might have a role in another matter. We have heard from specialist engineering contractors—for example, on the electrician, plumbing, heating and structural engineering sides—who do a good deal of the work on the public sector and other projects that Andrew Goudie described. They are concerned about the credit that they can access from the main contractors and the pressure that they are under. Certainly, there have been significant reductions in the oil and gas sector for contract prices for subcontractors. Again, that situation is putting some businesses in jeopardy.

The specialist engineering contractors suggested to us that the Scottish Government use similar measures to those that the UK Government has put in place and to which the relevant UK parliamentary committees have signed up. The measures involve, for example, having a project bank account and compulsion for main contractors or public sector clients to pay subcontractors in time. In the view of the Scottish Government or, indeed, of Cliff Lockyer, could more action be taken in such areas to ensure that those businesses stay in being?

Cliff Lockyer: Issues relating to the relationship between subcontractors and main contractors and payment terms have been aired in different contexts over the years, particularly in the construction sector. They have often hinged on dates of payment or certain terms. What to do about that situation has always been a dilemma for subcontractors because, if they are perceived as being awkward about it, they are less likely to get work in the future.

I will return, if I may, to a couple of other comments. One feature of tourism is that concern has focused on the year of homecoming. Concern should focus, too, on the support that has been given to airlines to have direct flights into Scotland, which has been questioned at the European level. The direct flights into regional airports have had the dual benefit of increasing tourism and spreading tourist numbers around, because they are heavily concentrated in relatively few areas, according to VisitScotland figures.

On renewables, the issue is the integration of activities. There is still considerable concern about transmission infrastructure and charges for renewables. Some interesting work has been done on encouraging local capital involvement, particularly for renewable forms of energy, because that brings continuing income as a result of the renewable obligation charges. Evidence suggests that that can be a stimulus, particularly to the communities concerned. However, if the infrastructure is just for building a renewables facility, the benefits to the local community are marginal.

Dr Goudie: I am not familiar with all the UK schemes that you mentioned, but I would like to highlight one area in which we have made good progress over the past few months. We made a decision—just before the new year, I think—that we would pay all Scottish Government invoices within 10 days, if at all possible. The starting point was quite low: I am not sure what the exact figure was, but I think that only about 30 per cent of invoices were paid within 10 days. We have made striking progress, and I understand that more than 90 per cent of our invoices are now paid within 10 days. That represents a big step forward.

I recognise Lewis Macdonald's other point. We have recently been told, by the small and medium-sized enterprises community in particular, that although we are paying our invoices within 10 days the companies to whom we pay do not necessarily pass that on within 10 days. Anecdotal evidence suggests that payment periods—those that relate to payments by big firms to smaller firms, I presume—have been extended. I do not know whether we can do anything about that, but we have picked up those concerns and considered the issue recently.

Lewis Macdonald: I ask you to consider the issue further. It has been suggested to us that the Government and other public bodies that award contracts can include as a contract condition that any 10-day payment—which is welcome—be passed on to subcontractors.

Dr Goudie: We certainly share your concern. I will be happy to take the committee's views back to ministers.

The Convener: We are running short of time, so I invite Marilyn Livingstone to ask a brief question before Chris Harvie asks the final question.

Marilyn Livingstone (Kirkcaldy) (Lab): I want to follow up on the point that Andrew Goudie made about skills. Every college that responded to a recent survey by the Association of Scotland's Colleges said that the number of applicants for a place had increased. I know from speaking to universities that the same is true of the university sector. The median increase in the number of applications is around 35 per cent. Have you thought about how the need for more places will be funded? In particular, are there plans to spend the Barnett consequentials, which would amount to £29 million for the sector, in the way that the UK Government is supporting skills and learning in England?

Dr Goudie: I will deal with the second question first. The standard way in which the consequentials operate is that once we have clarified what they amount to—following the recent budget, we have now done that; we know that they will total £104 million over the two-year period—it is for the Cabinet to decide how to allocate them. To my knowledge, that discussion has not yet taken place. There have been some talks on the matter, but no decisions have been made. Any decision that is made can reflect the views of the Cabinet; it does not need to follow precisely what goes on in the UK, as you are aware. Of course, I do not know what the outcome will be.

Your first question was an important one but, to be honest, I am not competent to answer it. I do not know what the figures are, but I am sure that you are right to say that the number of applications is rising. My intuition is that in the present climate, when the labour market is much tighter, more people would look to apply for jobs of their own will, as it were, and that we would encourage people to acquire skills and to retrain for the reasons that I have outlined. I am afraid that I cannot comment on the funding because I am not at all familiar with that area, but I could ask someone to contact you if that was helpful.

Marilyn Livingstone: I would appreciate that—thank you.

Dr Goudie: Okay.

The Convener: Technically, it is for the Parliament to decide how the consequentials are spent; the Cabinet makes recommendations.

10:45

Christopher Harvie (Mid Scotland and Fife) (SNP): I have just been reading the then Chancellor of the Exchequer's Mansion house speech of June 2006, in which he talked about the centrality of financial services to Britain's economic recovery and the importance to those services of light-touch regulation. Does anything remain of that strategy? If anything of it remains, or something has to be substituted for it, how would that affect Scotland in the general area of international trade, which has suffered the most devastating setbacks of any area?

Dr Goudie: It is self-evident that the financial sector in Scotland has taken a bit of a knock, but the important point to make is that, in the long term, we still see the financial sector as a source of great strength for the economy. It is important to break down the sector into its component parts. Not all parts of the banking sector have been in difficulty; some parts remain extremely strong. Admittedly, some errors might have been made, but there is still a belief that the banking sector has a key role to play as we move forward.

We think that other parts of the financial sector, such as fund management, have an extremely important role to play. The committee will speak to David Smith from Scottish Development International later, and he will be able to tell you much more about the work that we do through SDI with companies in countries such as Japan and China, where there are incredibly important opportunities for us to take advantage of in the medium to long term. Given our fundamental strength in the sector, we think that the development of such companies could make a huge contribution well beyond the recession.

The financial sector has taken a knock—no one could argue otherwise—but it continues to have important strengths, which we think we should build on. Interestingly, the reputation of our financial sector remains extremely strong among people in the States and the far east. Although one might have thought that it would suffer some damage as a result of the financial crisis, Scotland still has a reputation as a sound place to do business and overseas people still have an image of a country that has long-term financial strengths. That is extremely reassuring as we seek to extend the role of Scottish companies in those parts of the financial sector across the globe.

Christopher Harvie: I wish I could share your optimism.

The Convener: I am afraid that we have run out of time. I thank Gary Gillespie, Andrew Goudie and Cliff Lockyer for coming to give evidence. I will suspend the meeting for a couple of minutes while we change the panels.

10:47

Meeting suspended.

10:50

On resuming—

The Convener: Colleagues, with our second panel this morning we will consider issues to do with workforce development, skills and training. We will look at how we can position ourselves in order to be in the right place when we come out of recession. As this is a large panel, I remind committee members to keep their questions brief so that we get through the business. I also ask panel members to keep their answers brief. Panel members do not need to answer every question, so they should not feel obliged to answer a question that does not relate to their area of expertise. Some questions might be directed to specific people.

With those brief introductory comments, I ask panel members to introduce themselves and to indicate who they represent. I will then open the discussion to questions.

Jackie Galbraith (Scottish Government Lifelong Learning Directorate): I work in the Scottish Government's lifelong learning directorate.

Chris Travis (Association of Scotland's Colleges): Good morning. I am the chief executive of the Association of Scotland's Colleges, which both represents and supports the 43 further and higher education colleges in Scotland.

Stuart Leitch (Scottish Training Federation): Good morning. I am the managing director of MI Technologies Ltd, which is an independent training provider that is based in Glasgow. I am also the chairman of the Scottish Training Federation, which represents 103 training providers throughout Scotland that offer vocational training programmes such as apprenticeships and skillseekers.

Ken Munro (Scottish Advisory Committee on Lifelong Learning in Engineering): Good morning. I am human resources director at Babcock Marine (Rosyth) Ltd. For my sins, I chair the Scottish advisory committee on lifelong learning in engineering, which is sponsored jointly by the Science, Engineering and Manufacturing Technologies Alliance—SEMTA—and by Scottish Engineering. I am also a member of the board of Carnegie College.

Stephanie Young (Skills Development Scotland): Good morning. I am the director of strategic relations for Skills Development Scotland. We have lead responsibility for PACE and for modern apprenticeships.

Dr Tony Axon (University and College Union): Good morning. I am the policy officer for the University and Colleges Union. In Scotland, we represent only academic-related staff in universities. Working as policy officer is my full-time position.

The Convener: Thank you very much. Marilyn Livingstone will start the questions.

Marilyn Livingstone: My first question is for Skills Development Scotland. I am aware that the organisation's corporate plan will be taken to its board on 8 May and will probably be published towards the end of May. I believe that the consultation exercise on the plan took place between 14 and 29 April, which was the final deadline. Why was the consultation period so short and who was reached during it? As we heard from the previous panel and in much other evidence, skills are important, so I am concerned that the consultation period was so short. Did you manage to get to the people you needed to speak to?

Stephanie Young: That was the final part of the consultation, but a wide range of organisations were consulted from last November. I am happy to provide a full list of the people whom we consulted as well as some write-ups from those consultations, if that would help.

Marilyn Livingstone: That would be helpful.

I am particularly interested in the college sector. Were colleges consulted?

Stephanie Young: We consulted two people from the Association of Scotland's Colleges and we had some dialogue with individual colleges. We are having further dialogue with the principals convention as we go forward. We see the consultation as an on-going process.

Marilyn Livingstone: When will Skills Development Scotland's corporate plan be published?

Stephanie Young: As you said, the plan goes to our board on 8 May and must then go to the cabinet secretary for final agreement. It will be published as soon as possible after that.

Marilyn Livingstone: Unless any other panel members want to comment on that, I will move on to ask about funding for the whole sector, including universities, colleges and modern apprenticeships.

I know from my own college—Adam Smith College—and from the Association of Scotland's Colleges briefing that there has been a 35 per cent increase in the number of applications this year. I am concerned about three aspects of that, with which I hope the panel can help me.

First, having worked in a college for 20 years, I know that many of the popular college courses will be filled up by the summer, which will present a big issue for school leavers who are awaiting exam results. I am quite concerned about that. Will funding be forthcoming to meet that increased demand?

Secondly, has there been any consultation on the Barnett consequentials, which should amount to £29 million for the sector?

Thirdly, I am concerned about bursary support, which—certainly in my own college—is paid to the most disadvantaged people who are returning to college. I think that £5 million of additional funding has been provided by individual colleges because of the increased demand. Extra support must come with the extra places that need to be provided. Given that there is already a deficit of about £5 million, I am concerned about the future funding to cope with that increased demand. That is a critical issue for our whole economy.

Finally, on modern apprenticeships, how can we support those folk—particularly in the construction industry—who have experienced a break in their apprenticeship because they have lost their job? I know that that is a big question, but it is a fundamental issue on which to start off.

Chris Travis: We share your concern about the funding for increased demand and for bursaries. You are quite right that this year's in-year reallocation for bursaries falls short of the demand on colleges to support the students who would normally receive that funding. Traditionally, in-year reallocation has provided sufficient resources to those colleges that experience unexpected demand for bursaries by transferring funds from those colleges that experience an unexpected reduction in demand for bursaries. This year, because students are staying in college longer and retention rates are up—primarily because students think that college is a safer place to be than the job market—the call on bursaries has been greater. When that is linked with an increased number of applications not just for next year but for the current year, there is significant pressure on the bursary pot. For the coming year, the Scottish Further and Higher Education Funding Council has increased the bursary allocation to £79 million. However, in real terms, that equates to about the same amount as this year's budget after the reallocation.

On the uplift in demand, you are quite right that colleges will soon—if I may quote a college principal who spoke to me yesterday—be putting up the "House Full" signs on many courses, in particular full-time courses. There is an issue about how the increased demand should be met. To pick up the point that was made by the previous panel, skills development is fundamental to recovery from recession. Given the need for a strong supply of skilled labour as the economy begins to turn upwards again, we argue that a means of funding those additional places needs to be found in order to ensure that continuous supply.

That leads me neatly to the issue of Barnett consequentials. We have had no direct consultation on those as yet, but I imagine that that will come our way soon.

Stephanie Young: We have not had any conversations about the Barnett consequentials either.

We are monitoring the redundant apprentices situation on a weekly basis. Information has been made available about the number of apprentices who have been made redundant and the number who have been placed. We are actively working with ConstructionSkills—the bulk of redundancies have involved construction apprentices—which has a scheme specifically for redundant apprentices. We are discussing with ConstructionSkills what more could be done. There are also opportunities to make more use of college provision by allowing apprentices to return to college to complete their final apprenticeship certificate. There is a variety of models.

The subject was discussed at the modern apprenticeships summit yesterday to see whether employers could come up with any other ideas and whether they perceived any barriers to taking on redundant apprentices, so a very active conversation is taking place. Within the next month or so, we hope to be able to come back with new ways of supporting people—particularly in the construction sector, where the majority of redundancies have taken place—to complete their apprenticeships.

11:00

Marilyn Livingstone: It would be really helpful if we could have an update on that situation.

The Convener: A couple of other witnesses want to speak.

Ken Munro: I share the concern, as does industry in general, about the funding of training places. However, I have not yet heard anything on our concern about funding places that will not necessarily lead to jobs and completion. I am not talking about immediate completion, because we have to go through the recession, but we should be engaging with industry to ensure that funding is aimed directly at areas where we see a pick-up in jobs and at developing required skills in the longer term. That is preferable to supply-led demand, where people run into college for the sake of being educated as there is no job market, because a lot of skilled people come out the other end to find that there are no jobs or roles for them. That is a difficulty now, just as it was in the 1980s, when we drove a lot of people into universities. I foresee a similar set of circumstances if we do not focus our efforts and foster an industry-led demand for training.

Dr Axon: The funding settlement from the Scottish Government this time round was not particularly great for universities and colleges. That is a concern for the future in developing graduate skills and research in universities. We have seen a recent increase in applications through the central admissions agency, but that has not yet turned into graduates. Most recently, there has been a decrease in the number of people going to university. All we are doing at the moment is reversing that trend.

An interesting statistic from the most recent Universities and Colleges Admissions Service figures is that there has been a 15 per cent increase in the number of applicants over 25 to Scottish universities—that is 500 extra. That is astonishing, because previously the figures were declining by 1 per cent, so we are certainly seeing more people looking to go to university. The trouble with the UCAS figure is that it does not cover graduates who are looking to upgrade their skills by doing postgraduate courses. We do not collect such figures centrally, so it is more difficult to say what will happen, although we expect there to be an increase in applications in that area. Obviously, we will need funding to deal with that.

Universities deal not only with students but with research, which we need to develop if we are to come out of recession and develop our knowledge economy. The 2008 research assessment exercise showed a huge increase in the amount and quality of research done in universities. The problem is that the level of funding for universities means that that increase in quality cannot be funded properly, whereas extra funding was made available to do that in the previous RAE. There is concern in those areas.

Marilyn Livingstone: My final question is about some of the responses that we have received. Yesterday, I met a group of chartered engineers from a Scottish university who were finishing their fourth year. Some of them were planning to stay on and do a fifth year if they could get a place, and 12 of them were ready to leave. Of those 12, only three had jobs. The university people told me that in previous years, all 12 students would have had a job at this stage. That situation is worrying for folk who are trying to enter the construction industry at that level. The group also reported that, across the board, fewer companies were willing to offer work placements, which is an important part of their course, because the companies were making folk redundant or reducing their hours and did not feel confident about offering more placements. All in all, the picture is worrying.

I think Ken Munro spoke about engaging with industry. How do we do that better to ensure that we work with young people and do not lose them to the economy? I think that one person was going off to Australia. How can we keep those people for the upturn and encourage more employers to get on board?

Jackie Galbraith: I have two points. First, increasing the demand for and supply of training provision across the piece has been discussed at the strategic forum, at which ministers and the chairs and chief executives of Skills Development Scotland, the Scottish Further and Higher Education Funding Council, Scottish Enterprise and others meet. At the previous meeting, the ability of colleges and universities to respond to what is happening was discussed, and that matter will be returned to at the next meeting in June. Work is being done on where the demand for courses is, the growth potential of industries and how we can build towards meeting demand down the line.

Secondly, there has been a lot of activity to find out exactly what can be done to respond to industry and what can be adjusted and adapted. That work has been done through strategic and individual engagement with sector skills councils. Yesterday, 150 people, most of whom were employers, were at the modern apprenticeships summit. The employers were asked what would encourage them to offer work placements and take people on. A process is therefore under way.

There is also a series of ministerial engagements. Tonight, for example, ministers will meet many representatives of the manufacturing sector. We are committed to engaging with industry and adapting to and being flexible about what is on offer in order to try to keep skills and skilled people in Scotland, which is what Marilyn Livingstone suggests should happen.

Stuart Leitch: The Scottish Training Federation welcomed yesterday's modern apprenticeships summit, which showed a strong commitment to apprenticeship training and expanding the number of apprenticeships in preparation for the inevitable upturn in the economy. The federation has come up with several suggestions to expand the number of apprenticeship places, and we are pleased that Skills Development Scotland is prepared to discuss those suggestions with us.

Ken Munro: It is good to highlight the difficult issue of organisations committing themselves to work placements. We should not underestimate the difficulty that organisations face. We are slightly insulated from the matter, but we nonetheless have some short-term work problems. Having lived through seven or eight years of downsizing at Rosyth—anybody who knows anything about Rosyth will know about that—I know that it is difficult to convince people in the workforce that we should take on work placements to train people, because they believe that doing so will add to the redundancy burden.

One idea would be for a Government policy to isolate training places so that there is something for private organisations to stand on. It could be made clear that the aim is not to replace employees but to train people for the future. A little more thought about such a policy might be needed, but a policy statement could be made that would assist organisations that are keen to have training places. Those organisations could stand on such a policy. Fortunately, my company is beyond that situation now. We will take on a number of graduates and continue to take undergraduates on summer placements.

Chris Travis: I want to pick up on the issue of apprenticeships. Obviously, colleges are at the front and in the centre of delivering the formal education part of apprenticeships. Several colleges are considering innovative ways of supporting redundant apprentices so that they can at least continue the academic element of their apprenticeship. Of course, there are issues. What happens next if the person completes the academic element but does not manage to re-engage? In some industry sectors, if a person completes only an academic course in vocational education, they will not be qualified to operate in the sector because they will not have on-the-job training.

There are innovative schemes that involve colleges and employers in ensuring the supply of skills and apprenticeships. Forth Valley College, for example, has entered into a partnership arrangement with a local employer. The college initially employs the apprentices, who go on to be employed by the company when they reach a certain point in their apprenticeship. That allows the company to manage its head count, the college to continue to deliver an essential service to its community and the individuals involved to progress to highly skilled jobs and be ready when economic recovery comes our way.

The Convener: Having had the misfortune of graduating during one of the yellow bands in Andrew Goudie's presentation on recessions—I will not say which one in case I embarrass myself—I am aware of the problem that we can end up almost with a generation of people who lose the opportunity to get jobs. Graduate trainee schemes end for a year or three, and when they come back on stream they consider the new graduates, not those who graduated in the previous two or three years. The same is true for people who come out of college with qualifications: they do not get the job opportunities that they would expect. Are the Government and Skills Development Scotland considering strategies to assist people who will come out of universities and colleges over the next year or two and will not necessarily get immediate employment opportunities, to ensure that, when the economy picks up, they have an opportunity to get into the market in a way that previous generations did not?

Jackie Galbraith: We are considering a variety of measures. One is to encourage people who are coming out of college and university to consider further learning and training, such as higher and postgraduate qualifications. That is why we adjusted eligibility for individual learning accounts in recent months to support higher-level qualifications and introduced a pilot on postgraduate support for part-time students. We are adjusting the existing financial support measures to try to support such qualifications and to give people the space to do them. Other discussions are under way about how we can work with key stakeholders—employers and others—on creating opportunities in the time between graduation and employment.

Stephanie Young: The other aspect of the work is that we have been working closely with Jobcentre Plus and the Department for Work and Pensions on something called integrated employment and skills. SDS is co-locating its careers service with jobcentres to ensure that people get not only jobs advice but careers advice at the same time. That service is available to the entire population, not only graduates. We have joint services in 12 locations now and are working on a number of different approaches. The proposal is to continue to roll that out so that the two organisations have joint services to ensure that people get the right jobs, skills and learning advice.

The Convener: I will ask the first, fairly obvious question that Jackie Galbraith's answer brings to mind: where does the money come from to encourage people to go back into education to further their qualifications? Secondly, how do you target that resource to ensure that people do not simply go on to train to do more things that will not get them a job at the end of the day? How do you ensure that we use education not as a way of parking people but as a way of developing them for the longer-term benefit of the economy?

Jackie Galbraith: For example, the pilot postgraduate financial support scheme that is running now is targeted towards sectors where we anticipate that job opportunities will be created in the next two to three years. I do not have the full details, but I am happy to furnish you with them. The scheme will encourage people to go down routes that provide job opportunities and for which a further qualification might help. That is one way of dealing with the matter.

Individual learning accounts can contribute to some aspects of supporting learning, although they might not provide enough to enable some individuals to carry on. We can consider what other support exists.

The Convener: The committee would find it useful if you provided more information on that scheme.

Does anyone else wish to comment?

Stuart Leitch: Quite frequently, employers have been cited as indicating that, when a person leaves university and cannot find a suitable job, they can choose to stay on and receive further education, do a gap year or take some form of work, although not necessarily in the occupation for which they were trained. I am not sure what Ken Munro's reaction will be to this, but employers appear to say that they would prefer such graduates to do some kind of work, even if it is not the work for which they were trained.

Working with other people and learning work disciplines and so on are some of the areas in the curriculum for excellence, in terms of the core skills of knowing how to operate in a workplace, that will not be acquired by doing a further year at university, nor by helping natives in the jungles of South America. A law graduate, for example, could be usefully occupied as a volunteer in a citizens advice bureau. They would probably get some highly relevant experience and be a better person and apprentice when they obtain an apprenticeship the next year or the year after. I hope that it would be the next year.

11:15

The Convener: The general idea is that law graduates would be better employed doing something else.

Ken Munro: I endorse the general principle that we look for more than just the educational background of the graduates whom to employ; we look for management and work skills as well, albeit that soft skills that are learned in the jungles of South America, for example, can be beneficial. Doing voluntary work rather than doing nothing certainly assists the building of management skills, as distinct from educational and academic skills.

Rob Gibson: I want to pursue this issue a bit further. With the previous panel, I tried to look at the resilient sectors that will take us into a new economy. However, the problem is that many people go to college and university to train for things that perhaps are not directly related to that. Obviously, skills are transferable, but it concerns me that much of the universities' and colleges' pitch for funding is about continuing existing lines of spending in particular departments. Do any of you have evidence of graduates and qualified people not being fitted to the areas of the economy that we are thinking of developing? I mentioned the energy areas earlier, but there are clearly other underpinning areas in retail and so on. Do you have any thoughts on that?

Ken Munro: With regard to the college partnership that was mentioned earlier, we believe in working closely with colleges and universities. As we do that, we try to align our work with them to engage with our skills requirements for the future. However, I do not deny that there is evidence that there is still a tendency, particularly when colleges and universities are being driven like businesses—I am not advocating that they should not be, but there should be a balance—towards a bums-on-seats mentality. However, it is entirely down to industry to take charge of that.

Industrial partners must have the foresight to recognise where they are going and the job potentials for the future, and engage in partnership with the education sector on that basis. Rather than ask colleges what they can supply, industry should tell them what it demands. That approach has been very successful for us in Babcock Marine. The programme that was mentioned earlier, in which colleges take ownership of the first year or period of apprenticeships, works very well for us. There is also strong evidence that demand climbed in other areas when other employers, particularly in Fife, saw what was going on. That was prior to the current recession, and I cannot give figures to show that that has continued, but industry must engage with the education sector to ensure that it supplies what industry demands rather than sustain a bums-on-seats mentality.

Chris Travis: I want to echo a couple of Ken Munro's points. Colleges work extremely hard to engage with local employers. There is evidence of individual colleges amending their curriculum to reflect their conversations with local employers.

In the health sector, which is perhaps not as sexy as renewable energy, colleges are entering into a partnership with NHS Education for Scotland, because the national health service has identified that it will have a huge labour market issue in the future. The NHS is in conversation with key colleges on how to address that.

Colleges are actively engaging in knowledge transfer partnerships with local businesses. We had our first business to college awards about a month ago, at which businesses nominated colleges for their contribution to development and their engagement with the business community. It is imperative that conversation continues between the providers and users of vocational education and skills to ensure that what we deliver meets the needs of the industries to which we provide trainees.

On funding, colleges are independent incorporated bodies. They must survive and face the same trials and traumas as any other business. As a consequence, they work hard at ensuring that their offering is demanded by the end user.

Jackie Galbraith: We are trying hard to gather good evidence and good information from industry and from particular sectors to inform all the training programmes that are run and to allow us to help providers to adjust programmes. That is why, at the apprenticeships summit yesterday, the Cabinet Secretary for Education and Lifelong Learning announced the establishment of a pilot to create home energy apprenticeships, in association with Scottish and Southern Energy. That will build on existing skills and adapt a framework for a specific task that offers job opportunities in the future. Similarly, we examined the demand from the creative industry and offered resources for creative apprenticeships. We are working hard to ensure that the evidence from colleges, sector skills councils and trade bodies properly informs what we in the Government do.

Dr Axon: I will talk about graduate-level skills. There is evidence that people who have a degree are much less likely to be unemployed and that, three years after graduation, they are likely to be in a degree-level job. Statistics are often cited to show that people with degrees are not in degree-level jobs, but those statistics tend to relate to the time shortly after graduating. Even if people start in lower-level jobs, they move up more quickly to graduate-level jobs.

Graduates have the skills to move around different roles. Graduates might have a degree for the construction industry or whatever, but because they have other skills as a result of their university education, they can move on to other jobs. I like to produce myself as an example of that. I am a graduate in laser physics, but I am now a policy officer. That shows that people can move around.

The Convener: There is no answer to that, really.

Lewis Macdonald: I will ask Stuart Leitch and Ken Munro for the private sector point of view. In the bigger picture, what are the central requirements in preparing for the opportunity to come out—we hope—of the recession? What should the Government do? Are modern apprenticeships at the forefront of addressing skills needs in the future, or should they simply be one of several options that we point people in the direction of?

Stuart Leitch: Apprenticeships are of course one solution, but they are not the only solution. An apprenticeship involves a person being employed. To create an apprenticeship, we require not only an individual who would like to do the apprenticeship, but an employer who is willing to take on that individual and to pay them an apprentice's salary for their first, second, third and possibly fourth years—depending on the apprenticeship.

The cost of offering an apprenticeship varies: it depends, for example, on the style of accountancy adopted, on how much account is taken of the contribution made by the apprentice to the work of the business, and on how much time is spent supervising the apprentice. However, it goes without saying that the cost of taking on an apprentice is very high. It can sometimes be £40,000, £50,000 or £60,000, depending on the job.

The contribution from Government towards the cost of offering apprenticeships is relatively modest. It covers the cost of assessment, verification, some off-the-job training, and certification to national occupational standards. When the economy was strong and robust, the contribution was modest and much of the burden was shouldered by employers. However, as we move into different economic circumstances, it may well be that the balance should shift and a greater amount of public resource should be ascribed to supporting employers and generating apprenticeships. We would all agree that the apprenticeship process will be vital for an upturn in the economy.

Ken Munro: Apprenticeships are one avenue. In partnership with Carnegie College, we have developed a number of models for maximising the value produced by the money put in by both the employer and, we hope, the public sector. One excellent model is that of apprenticeships that are based on competences rather than timescales. We have started that only recently, but the evidence is that the individuals who come out are equally skilled and can contribute to the business much more quickly. Another model is accelerated adult apprenticeships, which are offered to internal and external semi-skilled individuals—people who have experience but may not have qualifications. Those people would be skills tested and would enter the apprenticeship framework. The public sector contribution to that has reduced but, nevertheless, the advantage is that we get a fully skilled apprentice a lot quicker. Our organisation has taken that idea on board, and it appears to be working. A number of things can be done to increase the value of an apprenticeship—although a private sector employer would never argue that the burden should always be shared with the public sector.

Apprenticeships are one avenue, and there can be adult apprenticeships for semi-skilled people with lower skill levels. Some people might not be capable of reaching the skill levels required for certain tasks, but there are models for preparing them for the workplace. The load can be shared between the private and public sectors. We also have to remember that graduates will offer skills for the future.

The framework for modern apprenticeships is pretty sound, but employers and colleges will have to be pretty inventive to get the best out of it. We continue to try to do that.

Lewis Macdonald: Do you agree with Stuart Leitch's point that in a time of recession more Government support is needed for apprenticeships?

Ken Munro: It would be difficult for me to argue with that.

Our programme at Rosyth is growing and, in the medium term, it will add to the economy—leaving aside future political events that might cause us problems with our main customer, the Ministry of Defence, which may not be for this committee to consider. However, we will inevitably grow the workforce. We are also increasing the skills of semi-skilled people and maximising the skills of our current employees. Cross-skilling and retraining will ensure that people in our workforce are as flexible as we require them to be to give value both to private sector projects and to the public sector, in the delivery of naval warships, for example.

On that basis, we look for support for multiskilling and flexibility training. We are engaged with Scottish Enterprise on what we may do together on expertise and so on. It is about not just the straightforward technical skills but the business improvement skills. We are getting support from the Scottish manufacturing advisory service to bring some of the production techniques kicking and screaming into the 21^{st} century. We also need support for softer management skills, lean techniques and so on. Encouraging businesses to be involved in such areas will assist us in coming out the other end of the current recession.

11:30

Lewis Macdonald: This time last year, when the committee concluded its tourism inquiry, it was concerned about the end of adult apprenticeships in the tourism and hospitality sectors. In fact, figures for apprenticeships that were started in the last year of the previous system show that there were twice as many in the management area and more than 5,000 non-traditional apprenticeships for adults—such apprenticeships have simply ceased in the past 12 months. Does that policy need to be revisited by Government in the context of a recession? Does there need to be a renewed focus and renewed funding in sectors such as tourism and retail, and management in particular, to allow adults to take up training opportunities?

Stuart Leitch: We have had consistent demand from the employers that deal with Scottish Training Federation members. There was great disappointment about the policy change relating to adult modern apprenticeships that took place 12 months ago. We are seeing some small signs of an easing off—new activities, such as professional cookery for those over the age of 20, came in this April.

For one year, the apprenticeship programme was almost exclusively restricted to people aged 16 to 19, yet surveys indicate that the lion's share of the 2020 workforce is already in employment. We must not neglect the people who missed the opportunity to do an apprenticeship during the 1970s and 1980s. When one goes round industry, one frequently sees groups of young people and groups of older people, but no one in the middle. What happened? The answer is that apprentices were not taken on in the 1970s and 1980s.

Jackie Galbraith: That issue was discussed yesterday at the summit and will be discussed again.

The key issue for apprenticeships is whether they make a significant difference to the individual and to the company. The feedback from our evaluation process was that some models were not fit for what employers were telling us they needed. For example, at the summit yesterday, I heard lots of employers saying that the apprenticeship model in management was not the best model for developing management skills in the workplace. That is not to say that we should not do something in management, but that might not be the best model.

One of the strong messages from people at the summit was about developing adults in the workplace. We have reintroduced funding for adult apprenticeships in professional cookery. A lot of ideas around that came out of the task group, which is about to report to the committee on qualifications and education in relation to tourism. Steps have been taken, but the summit yesterday will result in such issues being addressed very quickly.

Ken Munro: I cannot comment on the skill requirements for tourism and retail. However, there is space for management apprenticeships, although I agree with the previous comment that some of them do not necessarily come up to scratch in terms of what employers want. When we use management apprenticeships, we try to ensure that they are about not just portfolio and experience but supplying underpinning knowledge. As opposed to focusing only on what people already know, we try to ensure that there is growth in their skills.

One of the specific reasons why we became engaged in adult apprenticeships is that there is a clear demographic hole in our organisation; although we are recruiting young apprentices, the average age of our skilled workforce is certainly over 40, which is probably similar to other organisations' workforces. That does not mean to say that those workers do not still have a great deal left to give, but, eventually, they will run out and we will be left with a hole. That is why we are focusing on adults, too.

Lewis Macdonald: I would be interested to hear Stephanie Young's comments.

Stephanie Young: As Jackie Galbraith said, a lot of those issues were raised at the MA summit yesterday and they are now up for consideration. Even without the downturn, we were considering what our policy should be towards adult apprenticeships. A lot of the discussion yesterday was about using the downturn as an opportunity to build the skills that will enable growth and to ensure that we target efforts on those skills.

There are new apprenticeships in the creative industries, life sciences, the chemical sector and home energy and efficiency. We might need to explore new areas to support the growth areas that are being identified and the job opportunities that will be available in the future.

Yesterday, employers gave a lot of ideas about what they would like to see. We will have to take in all that information, assess it and consider what kind of programme can build capability in Scotland for the future.

Lewis Macdonald: In your view, given the current economic circumstances, it is within your existing remit to reshape a management apprenticeship to reflect some of the concerns that have been raised, which would allow adults to be trained as managers through an apprenticeship model.

Stephanie Young: The frameworks are owned by the industry bodies. We have to reflect back to the industry bodies what employers are saying about the frameworks that they need to build their businesses. We do not have control of the frameworks themselves. We must have a dialogue with sector skills councils and the other industry organisations that own the frameworks about the feedback that we are getting from employers. Yesterday, employers gave us quite a lot of ideas about what they would like to see in the management and leadership area. It was very much about building individuals' capabilities in order to grow companies, which has not necessarily been the focus of apprenticeships in the past. We have to look at the content of the frameworks and there will have to be a collaborative effort, involving the Government, Skills Development Scotland, the industry bodies and employers, if we are to make the changes that are needed.

Ken Munro: I agree. If any targeted support is to be given that is outside what we currently see as something that is industry or demand led, we should bear in mind the fact that management skills are certainly transferable, and the capability to engage and grow companies with a modern management and leadership style can be transferred anywhere in the economy.

The Convener: Chris Harvie, Gavin Brown and Stuart McMillan still want to ask questions, but, given that we are running up against the clock, their questions should be brief.

Christopher Harvie: The main areas of major progress in Scotland are biotech, pharmaceuticals, renewables, sophisticated transport infrastructure, software and the various traditional industries that are oriented towards tourism and in relation to which we have high-value-added exports. When a colleague and I looked into the difference between the number of engineering apprentices in a German Land—Baden-Württemberg—and the number in Scotland, we found that, allowing for the population difference, we produced one fifth of the number that is produced in Baden-Württemberg. Baden-Württemberg has a dual system, which means that it has thriving industries that are at the leading edge of production. For half the time that apprentices are at work, they undergo a state-of-the-art apprenticeship. In the crucial areas that I mentioned, we are often ahead in theoretical and laboratory research. How can we close the gap that exists? If we do not close it, the most that we can hope for is that industries from outside will take over and bring in their own people—indeed, they have already done so to a substantial degree.

Stuart Leitch: Over the past 10 years or so, apprentice intakes in Scottish Training Federation member engineering companies and other companies that we know about have increased consistently. A number of engineering companies that had pretty much given up apprentice training have returned to offering such training. Apprentice intakes have remained at a reasonable number this year, although there are some signs that companies may be cutting back a little bit. For instance, if a company was thinking of taking on eight apprentices, it may now take on only six. I am very encouraged that companies such as Rolls Royce, Aggreko UK and other major manufacturing and engineering companies continue to be strongly committed to apprenticeships.

On overall apprenticeship numbers, I share your disappointment that, in relation to overall apprenticeship numbers, we are light years away from Germany, with its culture of apprentice training that is at variance with the culture in Scotland and probably the rest of the UK.

Christopher Harvie: We need to get the apprentice up to the level at which they are operating in a team. The crucial transition is from university laboratory-based research to prototype development. We need people whom we can simply tell, “Take that idea away and work up a prototype.” That is the Clydeside tradition: the wee man with a micrometer and a file. We can do that only if we have powerful industries such as Vattenfall or Bosch. How can we find a substitute for that? How can we co-operate with firms from abroad? We could use high-definition television for instruction, for example. Such suggestions would enable us to be partners, rather than simply being rolled over by those companies.

Stuart Leitch: There is a strong case for large companies in Scotland that can take a lead on apprenticeship training to look seriously at training more apprentices than they need for their immediate business requirements. The skills of those who are not retained at the end of their apprenticeship could then be fed into their sub-contractors and smaller companies. In that way, the work standard and ethos that apprentices learn in large companies will be fed into the wider business sector. That would strengthen the small and medium-sized sector.

The Convener: Ken Munro is keen to respond, but I will first put a follow-up question. In proposing a supply-chain approach to apprentice training, are you suggesting that larger companies at the top of the chain need to look at not only their individual needs but those of the whole chain?

Stuart Leitch: Absolutely. Large companies can instil discipline and systems into their apprentices in a way that small companies cannot. I say that notwithstanding all the good that small companies do; they are vital to the economy, but they are not of a size to put in place major quality standard systems. Apprentices in the small and medium-sized sector do not get exposure to such training; they get an apprenticeship that is very practical, but which is not of the German type to which Christopher Harvie referred.

Ken Munro: That is absolutely correct. Clearly, we no longer have a strong engineering base, given that the whole manufacturing industry has been downsized over the years. We are trying to compete with the situation that Christopher Harvie described. The best way in which to do that would be for us to try to engage with the education sector and make things the best that they can be. In addition to technical skills, our apprentices also need business improvement skills and so forth. We will continue to try to build on that model.

Stuart Leitch suggested that private sector companies should produce apprentices for other companies. Unfortunately, although that is a great model, the market economy does not breed philanthropy in the private sector. I am unsure whether larger companies can be coerced into working in that way.

11:45

Stephanie Young: My understanding of the German system is that those with the potential to join engineering are identified quite early in school, where there is a culture of promoting science, engineering and technology. In Scotland, work is under way to promote those careers in schools. We need to consider what happens not just at the point at which people take up an apprenticeship but during all the earlier phases. We need to rebuild that culture that Christopher Harvie described as having existed on the Clyde, where entering industries that dealt with design and prototyping was both acceptable and desired. The issue is not just what happens post school but what happens in schools. I know that the committee will hear later from one of my colleagues on the ways in which we are trying to encourage more science, engineering and technology-related careers.

Chris Travis: Let me just amplify a couple of those points. I do not want to disagree with Ken Munro, but at my table during yesterday's apprenticeship summit was a large employer who was very keen on the idea of having a supply-chain development role as the main contractor. That employer already engages with sub-contractors to encourage the uptake of apprenticeship places in order to facilitate such a role. Our conversation took place in the context of the suggestion that employers should consider what was described as a buy-one-get-one-free policy on apprenticeships. That employer already takes on 500 apprentices, so taking on 1,000 would be a big ask. However, the employer could see strategic advantage if that increase in take-up could then be deployed across the supply chain to the benefit of the whole chain. The conversation that we need to have is about how to turn such a policy into a strategic investment rather than a philanthropic exercise.

Another important point to understand is that the cost to employers of taking on additional apprenticeships involves more than just the cost of those apprentices. Apprenticeships require on-the-job assessors and supervision. Yesterday, it became clear that a significant increase in the number of apprentices would be challenging for employers because of their internal capacity to deliver their employer responsibilities towards those apprentices. A balance needs to be struck between investing in additional apprentice places and providing support to employers—both large and small—so that they can build the assessor capacity to handle those apprentices.

Ken Munro: I do not disagree at all that organisations should encourage their supply chains to develop skills, but I am not sure that we would necessarily do that for them.

There are two issues—I am the eternal cynic, unfortunately—with such a buy-one-get-one-free policy. First, the number of apprentices that the employer requires might drop from 500 to 250, because it will get the other 250 free. Secondly, employers need to have the platforms. It is all very well to keep youngsters in college, but when they enter an apprenticeship they require not only the support that was mentioned but the platforms in which skills can be learned and put into operation. We certainly do not have a platform that would allow us to double our current intake of apprentices. I suggest that other organisations might be in the same position.

Gavin Brown: Does the panel have any views or ideas on skills and training for the long-term unemployed? Many of those who lose their jobs at the moment will be well placed to get into work when the upturn happens because they have good skills and experience. However, one concern is that the long-term unemployed might be pushed down to the bottom of the pile again. Does the panel have any thoughts on how we can help them?

Jackie Galbraith: Clearly, we are interested in that issue because we do not want that cycle to continue. That is one reason why, as I mentioned earlier, we are adapting the eligibility criteria for various programmes. For example, we reduced the eligibility period for training for work—a vocational training programme that prepares the adult unemployed for work—from six months of unemployment to three months of unemployment. Skills Development Scotland is currently looking at how that programme might best fulfil the requirements of the long-term unemployed to acquire different skills, particularly given the challenge of there being fewer jobs that people can move into. Stephanie Young might want to say more about that.

Stephanie Young: I have two points to add. The length of time for which someone has to have been unemployed to be eligible for training has come down. In addition, if there is a job waiting for someone who has been made redundant and they require training, we can offer them immediate access to it. I mentioned the integrated employment and skills service that we have launched with Jobcentre Plus, which we are rolling out across the country. We are working collaboratively with Jobcentre Plus to ensure that what we provide complements rather than duplicates what it provides.

We are also working actively with Edinburgh, Dundee and Glasgow to complement the activities that they are engaged in as part of their city strategies. We are doing a lot to ensure that our provision is complementary and does not duplicate the provision of others.

Chris Travis: I will pick up on some of that. The role of colleges is such that every college is heavily engaged with its community and provides short access courses to enable people who have been unemployed for a considerable period to get back into the habit of education and reskilling. Adam Smith College, for example, has an outreach centre in Levenmouth that is specifically focused on that community's challenges. Many colleges have such centres. There might be only 43 colleges, but they have 4,000 outlets that are all about serving their communities.

One of the challenges that long-term unemployed people face in going back into skills development is that if they take up a course that involves more than 16 hours of training in any one week, they will lose their benefits. The association has been campaigning to get the UK Government to ease that situation in some way. We have had some short-term success—the 16-hour rule has been eased for people who have been unemployed for more than six months, but only for very short courses. We continue to press that case. We think that the student support system in Scotland needs to line up with the welfare system for the whole of the UK. That is an important issue. Removing barriers that prevent people from re-entering skills development is a key part of enabling them to re-enter the job market.

The Scottish Further and Higher Education Funding Council reorganised its budget to find extra money for the PACE initiative. Colleges are now getting to grips with that. The process was a bit cumbersome initially, but applications for support are now coming through and colleges are engaging actively with employers on how to handle redundancies.

Stuart Leitch: One of the issues that we face in dealing with the long-term unemployed is that much of the funding support comes from UK central Government through the reserved powers of Jobcentre Plus. There is also a stream that comes through the Scottish Government, which can be influenced here. How those two streams are aligned will be crucial. A plethora of initiatives for the unemployed have been announced, including a commitment to train everyone who is under 25. It will be extremely important to monitor how those initiatives are cascaded down to Scotland. Skills Development Scotland and Jobcentre Plus must operate in a harmonious partnership if we are to do the very best for the unemployed in Scotland.

The training provider network has vast experience of handling the extremely complex difficulties that often accompany the long-term unemployed. Training organisations and their staff have contacts with employers and, crucially, the third sector, which can play a significant role in assisting people to return to a work pattern, perhaps on some form of Government programme that provides what is essentially voluntary work. Such work might be in a citizens advice bureau, but it might equally well be in landscaping or construction. We heard recently that 650 community halls in Scotland are below standard. I recollect clearly programmes in the past under which unemployed construction workers turned their hand to something in the community. That kept their work habits, their teamworking and their ability to do their trade up to date and allowed them to do a useful task for the community, which meant that they were well placed with something positive on their curriculum vitae when applying for a job in the upturn.

Stuart McMillan: I have every sympathy for graduates who are unemployed for a time after leaving university. When I graduated in 1997, I was unemployed for six months. When I got a start with a company, the job was in a totally different subject from that in which I graduated. What Tony Axon said about his experience and other comments that we have heard show that such experiences are prevalent in the economy.

My question is about urban regeneration companies, so it is more for Jackie Galbraith and Stephanie Young. Have any activities, partnerships or relationships been established with the URCs in the past few months to assist them in reducing the impact on unemployed graduates in their areas or on apprentices who have completed their apprenticeships and have no employment or who have not had the opportunity to complete their apprenticeships?

Stephanie Young: Our local area teams work with urban regeneration companies on such issues, which have been discussed. I cannot say whether any of those discussions covered graduates, but I am happy to ask for details about that and to come back to the committee.

Some urban regeneration companies have a great interest in apprenticeships, because much of their work is in construction, so we have discussed that. In my previous job, I discussed apprenticeships with an urban regeneration company in Glasgow.

Jackie Galbraith: I do not have the details here, but I know that we have engaged with a range of organisations on how they can tap into the support and resources that are available. At recent forum meetings, representatives of those organisations have given us concrete ideas. However, other folk are more competent to answer the question. I will have to go back to obtain further information from them.

The Convener: That concludes the questions for the panel. I thank you all for your helpful contributions. Several of you have said that you will provide additional information, which we look forward to receiving as soon as possible.

I suspend the meeting to allow a changeover in witnesses.

11:57

Meeting suspended.

12:02

On resuming—

The Convener: I welcome our final panel, which will consider the growth industries, key sectors of the economy, exports and internationalisation. I ask panel members to say briefly who they are and what organisation they represent.

David Smith (Scottish Development International): Good afternoon. I am Scottish Development International's operations director, so I deal with the day-to-day management and running of our operations, which cover support for trade promotion and the attraction into Scotland of inward investment throughout the sectors that are important to the economy.

Tricia Campbell (Skills Development Scotland): Hi. I am involved in developing and trialling programmes that are aimed at young people aged from 11 to 19 and their teachers, parents, carers and influencers. Those programmes are about raising aspirations and career paths.

Alan Watt (Civil Engineering Contractors Association (Scotland)): I am the chief executive of the Civil Engineering Contractors Association (Scotland). Civil engineering in Scotland is worth about £2 billion a year and employs about 20,000 people in pay-as-you-earn terms plus many more in its supply chain.

Charlie Frize (Civil Engineering Contractors Association (Scotland)): I am the managing director of Luddon Construction, which is a civil engineering and building contractor. I am also the chairman of CECA (Scotland), for which Alan Watt just spoke.

Dr Barbara Blaney (BioIndustry Association Scotland): Good afternoon. I am the director of the BioIndustry Association's office in Edinburgh. We are a trade body that represents companies that seek to develop new therapies and opportunities from bioscience. We represent those companies' interests to a broad variety of stakeholders.

The Convener: One suggestion is that Scotland might be able to trade its way out of recession because of the relatively beneficial exchange rate, but the reality of the figures is that the downturn is international; some of our key export markets, such as Ireland, Spain, Germany and the USA, are in recession—some are in serious recession. Given the current circumstances, is the suggestion that Scotland can trade its way out of recession realistic?

David Smith: My view is that it is not realistic to believe that Scotland can trade its way out of recession alone, given the overall difficulties in the global economy, but it is realistic for us to look across the sectors, particularly those in which we know we have strengths and opportunities, and to look for opportunities to work with the Scottish company base in particular in the recession.

We should consider where opportunities might exist. I will give an example. This week, we are working with the seafood sector in Scotland. The European seafood exposition is taking place in Brussels, where there will be one of the largest Scottish trade presences overseas. In structuring and developing our operating plan, we have identified that opportunities exist in the food sector, particularly the seafood sector, for Scottish companies to try to take advantage of as a result of the relative weakness of sterling in global markets.

In the salmon sector, there are problems with disease in Chile, which is one of the major volume producers of salmon. It is expected that there will be a major reduction in the shipped volumes of salmon from Chile to international markets in the coming years; indeed, it has been estimated that Chilean exports might reduce from 400,000 tonnes to 100,000 tonnes, which represents a major opportunity for other producing countries. We are actively working with the salmon industry and the Scottish Salmon Producers Organisation on a plan to increase the trade promotion activities, trade events and missions in which Scottish companies will participate this year, to try to help the industry grab a slice of that market and increase its market share. That is an example of the type of work and the approach that we are undertaking.

Rob Gibson: I have asked previous panels about emergent sectors at the end of the recession. Scotland can be resilient. Different kinds of skills can be brought to bear in the energy sector, for example. I think that Skills Development Scotland's path is green programme involves thinking about that. I have a question for Tricia

Campbell. How focused are you on getting the training places and the skills that are required in that sector, which is undoubtedly taking off?

Tricia Campbell: We have been extremely focused on that area for more than a year. Skills Development Scotland and the Scottish Government's renewables policy unit have jointly funded the path is green programme initiative, which was launched on 12 May last year in the Scottish Parliament. We did not expect the programme to have the level of success that it has had. It is an integrated online media campaign that is aimed at young people from 11 to 19 and their influencers, and it is tuned to the technology that young people access and use for empowerment, such as adverts on YouTube, Bebo and Facebook. Language that young people will engage with is used. It showcases the fact that young people can aspire to real jobs in the economy, particularly in renewables. We showcase talent in jobs in biomass, wind, wave and solar power in Scottish companies, for example.

In the first six weeks after the campaign was launched, people made 58,000 hits on web pages to access information about potential career paths, what the jobs are like and what qualifications are needed to access them. To date, there have been more than 150,000 hits on the website. An aggressive public relations and marketing campaign has returned a 15:1 investment on the money that we have spent through the press interest that has been generated. The initiative has won two national awards and been shortlisted for another two awards. It was listed in the science strategy for Scotland as an exemplar of good practice and an initiative that we should continue to take forward for the next three years.

We are also developing the path is science, engineering and technology initiative, which will also have to be innovative and deliver more than the previous initiative. We hope to launch it in the week commencing 15 June.

Rob Gibson: Thank you. That is positive news. I see that, in the far north of Scotland, engineering employers are thinking harder about renewable energy developments. Do you see the companies that you represent developing in that way?

Alan Watt: In short, yes. Construction tends to be a very reactive industry; we will follow whatever show is in town. In civil engineering, where we are upwards of 70 or 80 per cent public sector, or quasi-public sector, funded, we have to follow the policy of the day. The energy policy is going towards renewables, and the industry will react to that. Work is already in train to start putting in place the apprenticeships that would feed that. We need the starting pistol to sound and the prospect of long-term investment to be in place before people will start to train up; people cannot be retained on the books on the expectation of what might happen.

Rob Gibson: We discussed with the previous panel supply chain leadership from the biggest contractors via subcontractors. Is that happening or is it just a nice idea?

Charlie Frize: In the construction industry, the largest contractors tend to be management contractors and the burden of employing people falls to the small and medium-sized contractors. The large contractors tend to employ to staff positions—engineers and other professionals—and the training of tradesmen and other types of apprentice falls to the small and medium-sized contractors. The problem with that is that, in the past three years, the industry has been under pressure because things were very busy—the house-building sector had boomed—and construction workers tend to be pretty transient, so they migrate to where the work is, which was in the housing sector. That meant that civil engineering and general construction were denuded of people. We had encouraged huge efforts to be made in relation to training, civil engineering apprenticeships, graduate take-up from universities, and trades apprenticeships right down to general operative level. We reckon that we were pretty successful in doing that.

In that period, salaries increased by more than 20 per cent in civil engineering. The fact that there was a lack of people to do the job meant that people moved to where they could command the best salary. Wages also went up in that period. Now, we have completely fallen off a cliff in that regard. We have seen a downturn of between 10 and 50 per cent in some of our companies. The people who are involved in running the companies that bear the burden of training people and preparing them to work for the biggest contractors are finding that, having bought a ticket to get on the bus, they cannot afford the fare and they might have to get back off again.

The picture in the construction industry, as opposed to engineering and manufacturing, is pretty complex.

Rob Gibson: I focused on the energy sector as one of those that have been identified as the way forward. Are you as business people getting the message and working with colleges and so on, to which the previous panel referred, to ensure that you can recruit people with the skills that are required?

Charlie Frize: Very much so. One of the problems that we have found is that our industry is seen as a dirty, messy coal business, and nobody likes being outside in the winter. We have had to sex up our image a bit, because young people nowadays have media influences, which perhaps affect their career choice and lead them to choose careers other than those in the traditional industries around engineering, which are the stalwarts in Scotland. We have had to approach colleges and schools using younger members of staff, who appear more user-friendly than Alan Watt or me, to say that a job in civil engineering is really good.

12:15

If somebody turns up wearing chinos and the latest designer apparel and tells school or college students what kind of car they can get if they get a job in engineering, it is far better for us. We want to be more approachable to schools and colleges. We have been working hard on it.

Rob Gibson: Without dealing with age or how pretty we all are, I acknowledge the importance of the issue. My question is for Tricia Campbell. Is the information from employers on the green path about which we spoke earlier getting through?

Tricia Campbell: Yes. In addition to our work with the sector skills councils, we have been working with individual employers to dispel some myths about careers. We need to get across how careers have changed, even in engineering. There is still a perception that engineering is dirty, mucky and all of that.

We have targeted male and female role models and produced video clips showing them at work. We want to show young people the sort of career opportunities to which they can aspire along various career paths. More important, we also want to show them that, by following a certain career path, they will learn skills that are transferable to other industries. One example is plumbing. We have a clip that shows a plumber transferring to the energy sector. Given their training, plumbers need only a short training course to work in that industry.

It is important for us to use mechanisms with which young people will engage. That is part of my job. I need to be innovative and creative to get young people to stop and think about whether a career in a certain sector is for them. Even if, after going through the process, they decide that the career in question is not for them, they have sought to maximise their potential and self-fulfilment. Doing that is also part of our job.

Marilyn Livingstone: This question is for Alan Watt and perhaps Charlie Frize. The Scottish construction forum has done much work on this area, as has the cross-party group on construction, on which Nigel Don and I sit. You have talked a lot about the issues, particularly in response to questions from Rob Gibson. If you were to ask this committee to call on the Parliament and the Scottish Government to do something to support the industry, what would your top three priorities be?

Alan Watt: First, I will put things in perspective by giving the backdrop to where we are at the moment. I take on board what Rob Gibson said about the future and where the industry is going, but our top priority at the moment is to protect what we have got. We need to try to maintain the skills resource for as long as we can with the aim of being in the best position to take advantage of an upturn, when it comes.

I do not want to put a wet blanket over the meeting but, over the past six to eight months, there has been an average 10 per cent reduction in the size of the resource. Charlie Frize alluded to that. Yesterday, I received the raw results of a recent survey that we carried out. Unless something changes, the results forecast a further 9.7 per cent cut over the next six months. That is not a guarantee of what is ahead but a projection. People based the information on their existing order books. That is the backdrop against which we are working. However, as Marilyn Livingstone and Nigel Don know from their work on the cross-party group on construction, we are taking forward various initiatives, including the development of modern apprenticeships in some core skills, including civil engineering skills. We have never really done that before.

We are trying to protect our existing workforce. We are aware that the well is gey dry, but if there were a magic wand the Government could do certain things. The quick fix is maintenance measures in the transport sector, predominantly on our roads. I am thinking of maintenance right down to the local level. Also, Scottish Water has a backlog of maintenance work but is having to wait for its money to come forward to fund it.

A lot of work came through the private finance initiative and public-private partnership education and health programmes. Charlie Frize's company has been very involved in that. Obviously, PFI and PPP projects are beginning to reach completion, and few are in the pipeline. Those are the areas that we would put forward for consideration. They would at least keep people working until other things come on stream, including energy measures.

Stuart McMillan: I am keen to explore the effect of skilled immigrant workers in the construction industry in recent years. What effect has immigration had on people who undertake apprenticeship schemes and on colleges and universities?

Alan Watt: I will answer, but I do not want to hog the floor. Construction had a huge influx of immigrants. To a degree, that was welcome, because the industry was hard pressed to achieve its outputs. As the construction industry and public spending on construction have contracted, and as private sector spending has probably reduced more, particularly in the housing market, that immigrant workforce has largely dispersed and people have returned to their home countries. That has left a legacy of a lack of skills, which is one reason why we are developing with the Scottish Qualifications Authority and the SDS a modest Scottish vocational qualification level 2 series of occupational categories in construction skills, to ensure that if an upturn occurs, we have the basic skills in place. I am talking about really basic skills such as road maintenance, plant mechanics and plant operations.

Stuart McMillan: What skills did the highest percentage of the immigrant workers who were here bring to Scotland? I am trying to establish what the skills shortage was that meant that it was important and necessary for immigrant workers to plug the gaps.

Alan Watt: That would not be my specialist subject on “Mastermind”, but I think that the migrant workers’ skills were at the lower level. That means that they are not as hard to replace now that they have gone. Does that answer your question? I am not sure whether it does.

Charlie Frize: The immigrant workers took up the slack during the boom in the construction industry, when we went up a steep slope, went along, then fell off a precipice. For the past four years, training has been aimed at the mean. The immigrant workers took up the surplus, which is now gone. We are now training at the level for sustainability in a normal construction industry. It was largely the housing boom that caused the imbalance.

Gavin Brown: My first question is aimed at David Smith. It is narrow and it might not be fair, because it relates to Scottish Enterprise rather than to SDI, so he should feel free not to answer. The headline on Friday’s *Business7* was that Scottish Enterprise is investing an extra £190 million over three years to deal with key account companies and what is called front-facing money. Can you explain where that £190 million has come from? I understand where it is being directed, but where has it been taken from?

David Smith: I do not have that detailed information. From my knowledge of Scottish Enterprise and our partner working with it, I imagine that most of that funding relates to the continuing provision of support to the customer base throughout Scotland. I am aware that the organisation refers to that as the account management function—that funding is spent on helping companies throughout Scotland to grow their business. Some of that funding no doubt relates to programmes to do with the development of innovations, for example by trying to encourage more investment in research and development and by working with companies to encourage them to consider growth opportunities from international markets. I cannot give you a detailed breakdown now, but I would be happy to get back to you, if that would be helpful.

Gavin Brown: It would be helpful. I was not sure whether the question was fair, but it would be good for the committee to have the information.

My second question is for the Civil Engineering Contractors Association. Where does CECA stand on project bank accounts?

Alan Watt: The jury is out on that. There are pros and cons of project bank accounts. If pressed, we would say that on balance we do not favour them, because they would probably introduce another layer of project management. In certain circumstances the approach might work—I am thinking about very large projects. It would not work for day-to-day projects.

Gavin Brown: The Scottish Government plans to pay all invoices within 10 days, and its success rate has risen to more than 90 per cent, which is good, but that affects only the main contractor on a project. Should measures be taken to try to ensure that money flows down the chain to subcontractors and specialists, so that the people lower down the construction chain are less at risk of insolvency?

Alan Watt: First, I want to put on record that the public sector’s attempt to pay its bills more quickly is manifesting itself at contractor level. However, there is slippage in other parts of the sector. The average slippage is nine days. The Government is going in one direction and other parts of the industry are slipping in other ways.

A healthy measure, which on balance I think CECA would support, would be for Government and public sector contracts to require payment to go down the supply chain with the same alacrity. It is probably impractical to expect all bills in the supply chain to be paid within 10 days, but measures could be put into contracts to ensure that payment cascades through the supply chain.

There is another measure that the Government could consider. There has been an obsession with retentions in contracts because, in the past, contractors were regarded as rogues and vagabonds who would disappear over the horizon after taking the money and would not return to carry out remedial work. We have moved on from that culture; many contractors are firmly based in their communities, so there is nowhere for them to go. The Government could seriously consider removing retentions, thereby taking from public sector clients and the contracting sector the huge burden of having to chase around after retentions.

Gavin Brown: It is a while since I was a construction lawyer. I think that retention used to be around 5 per cent on the majority of contracts.

Charlie Frize: It would be 5 per cent or 3 per cent, depending on the contract.

Gavin Brown: Are you arguing for no retention whatever or for a reduction in the percentage that is retained?

Alan Watt: We would argue for a phasing out of retention. If the approach was working, it could be continued. That would incentivise the industry to behave, so that retention would eventually be absent from public sector contracts.

The Convener: How well placed are key sectors in our economy, such as biotech, to get through the recession and perhaps even grow during the recession? How well placed is biotech to develop and grow quickly when we come out of the recession?

12:30

Dr Blaney: Given what has been said during the discussion, it would be inappropriate to suggest that a single sector can get us out of the recession. We have a base from which we have an opportunity to build. The biotech sector in Scotland is made up of more than 600 organisations, which employ 31,000 individuals and make a significant contribution to GDP—I am thinking of the historical figure of £3 billion, which was the sector's contribution before the economic downturn.

Many comments have been made this morning about what sort of investment would take us forward. People form a core component of a number of the sectors from which you have heard, but we also need to build a knowledge economy. Indeed, that is what we are seeking to do. We want to build on research opportunities from the academic base outwards, so we would agree with earlier comments about the need to invest in the academic infrastructure not only with regard to research, but to ensure that work is done at all levels, particularly with the colleges.

I was very interested in witnesses' comments about the modern apprenticeship programme. We and our member companies very much welcome the introduction and development of a life sciences modern apprenticeship; indeed, we have been working behind the scenes on that with a number of other larger companies. I am not sure that I would use the terms "supply chain" or "buy one, get one free" as far as helping them with the numbers is concerned, but a number of larger employers see this as a core opportunity not only to help them but to help to build the infrastructure of a skilled workforce.

I make it very clear that this is very much a case of opportunities for all. We can come across very badly as an elitist sector of individuals and companies in which anyone who wants to get involved needs umpteen qualifications. That is not the case; we want to work with all levels. After all, people with secondary and tertiary degrees and returners to work are very important, so we need to consider the core skills that are required to research new medicines and opportunities.

The support packages that are available in Scotland have really helped. I hesitate to use this word, but I think that they have shielded and might in future shield us from some of the horror headlines that we have seen or might well see. For example, according to one headline, the US could in three to six months lose a fifth of its health care firms, particularly those in the south-east and those in the public markets. To be fair, the Scottish Enterprise co-investment fund and the Scottish seed fund have, through the involvement of business angels, helped us to maximise existing opportunities. However, I am concerned that only maintenance is taking place at the moment. We need to find out where the investment and, indeed, risk capital will come from to move us to the next stage of growth.

The Convener: President Obama has announced a new approach to stem cell research. Does the Scottish bio-industry see that as a threat or an opportunity?

Dr Blaney: It should be seen as a threat. At the moment, we simply do not know how the changes will manifest themselves. The information suggests that we have a 12-month window of opportunity for responding with our own policies to ensure that we do not lose key scientists, research groups or, indeed, companies. As a result of the current external environment, we have lost stem cell companies and the private sector's research and development base has gone down. We have a lot of academic research and supply chain companies, but, as I say, the situation with private sector research and development is not what we would want it to be.

From what I heard at a dinner that I attended last night, the amounts in the US stimulus package, particularly for the academic sector, are just phenomenal. The sector genuinely does not know how to respond to it; indeed, people have said that it is awash with money. It is all very bizarre. We must find ways of keeping abreast of and responding to developments, knowing, of course, that our pockets will probably not be that deep.

The Convener: Has SDI looked at ways in which Scotland might be able to tap into some of the money that America is awash with?

David Smith: The short answer is yes. Indeed, we are continuing to do so in our operating plans for this year to build on the issues that Barbara Blaney has highlighted. It would be simplistic to give a single answer on whether the life sciences sector as a whole has an optimistic future with regard to growth because one has to disaggregate the sector somewhat. There are different dynamics within the sector. In discussions with companies, we learn of some softening of demand in certain areas of pharmaceutical production, such as for certain generics.

The work that we have undertaken on the life sciences sector this year was on the Asian market in particular, and within the contract research sector sales are holding up for the organisations from Scotland that have participated in trade missions such as Bio Korea in recent months. We can compare the very recent results of the mission in late 2008 with the summer trade mission of 2007.

In the medium to longer term, we see the areas of regenerative medicine and stem cells having the potential for great growth and opportunity for Scotland. Last month, a partnership was announced between the Scottish Centre for Regenerative Medicine and Peking University and we will continue to seek further opportunities for collaboration between the Scottish sector and organisations in the US and other areas of hot activity around the world.

Lewis Macdonald: I want to follow up with questions on the life sciences sector as an actual growth area, in which there have already been significant developments. The arrival of Wyeth as a main player in life sciences in Aberdeen is one of the most positive developments of recent months. There will be a lot of interest in what opportunities there might be for similar types of growth.

We have heard some of the American policy decisions that impact on that. Do aspects of that sector give it a different level of stability from the wider economy? Is the life sciences sector internationally so influenced and dependent on public policy that its relationship to the wider economy is a little different from that of some of the other sectors that we have heard from today?

Dr Blaney: There will always be a need to develop medicines so there is a continuing drive to develop, whether it is new opportunities in medical technology or new medicines for existing and new disease indications. I dare say that the stock price of those companies that work in the vaccine area, particularly in flu, will go sky high. That will probably produce further opportunities for research and development.

As David Smith said, the sector in Scotland is extremely diverse. That brings a couple of headaches in how to deal with it, but it also brings a level of opportunity. We also have diversity in the size of companies in the sector. We have many SMEs in the sector, with 400 of Scotland's companies in the life sciences sector employing fewer than 50 individuals.

Some companies in medical technology and contract research are significant employers. Contract research could probably account for one sixth of all employment in our sector in Scotland. They are global companies and they provide real opportunities for people looking at career prospects within our sector. That is a challenge: what someone goes in as is not where they will stay. A number of our companies, whether through their own growth or through having been acquired, provide global opportunities in Scotland. Intercell is a great example, with bases in Livingston, Vienna and the United States. Contract research work is available in a variety of its offices.

No one is immune to what is going on and our companies have their own sensitivities in the current environment. There is a level of redundancies and people are looking to trim costs, as is any organisation at present. Where there are opportunities for growth and to keep and build on the upskilling of an existing workforce, however, companies will do that through the likes of the modern apprenticeship initiative.

Lewis Macdonald: The growth sectors that have been identified for a number of years as the six key areas—they include life sciences, energy, food and drink and so on—seem to fall into two categories. Those that are most important are essentially static and are located here—civil engineering and tourism, for example. Life sciences and energy industries, however, are very much global in character. Does Government policy have to approach those more global sectors in a different way from the way in which it approaches—for example—the construction or tourism sectors?

David Smith: That is a good question, with regard to the relationship to policy. We certainly have to be aware of the global dynamics within the sectors when we are discussing and formulating policy. In the renewable energy sector, for example, we need to understand the overall dynamics and factors that organisations take into account in making investment decisions. Companies that we have worked with to consider investment in that sector in Scotland look at European and UK legislation and support; at the Scottish picture in particular; and at the commitment that exists from Governments at

Scottish, UK and European level towards the development of the sector.

The policies that are put in place will further help the planning for and the development of the sector and are important to companies when they are considering where to invest. There are also more practical issues, such as the type of support that the organisations will get in choosing locations and logistical issues around where to site manufacturing plants.

We have been through a lot of those discussions and points in the investment decision that was announced recently by Skykon, which took over the Vesta facility at Machrihanish near Campbeltown. All those points must be considered and discussed, and the case must be made for why Scotland—and, in that case, a specific place—is the optimal location for the company to develop a facility. A relatively complex mix of factors is ultimately taken into account by individual companies, and that will drive further investment.

What works well for us in promoting opportunities in the renewable energy sector and across the life sciences sector is the level of commitment to the future development of the sector that exists throughout Scotland at Government level; from the organisations that are responsible for developing the supply chain of skills; from the people who will work in the sectors; and from the company base itself. A package of all those factors is taken into consideration by the companies.

Lewis Macdonald: Is a recession a better or a worse time for promoting Scotland as the location for the manufacturing element of such things?

David Smith: That is a great question, but—as I am sure you would expect me to say—there is no easy answer to it. We need to consider things opportunity by opportunity, even at a sub-sectoral level within industries; that is the approach that we have developed and continued to refine.

There are opportunities in all our sectors—the sectors that we have identified, and the sectors of which we are all aware but which we have not talked about much in this session. Those include important sectors such as the chemical sector; even within the textiles sector, there are international opportunities on which we continue to work with the company base. It is about understanding the dynamics in the sector, and working closely with the industry and other stakeholders to ensure that we take advantage of as many opportunities as possible.

Our approach to planning and running the organisation has changed, and we now have a much more dynamic operating environment. Every quarter, we replan and reconsider where we should be putting our resources and ask ourselves whether we need to make a change. In a couple of quarters' time, for example, we might decide to put on another trade mission in support of the opportunities that exist around the seafood sector and salmon, trading that off against another activity that we think will give us less return. Those are the practical decisions that we are making. We do not do so in isolation; we are very much driven by the needs of the customer base in Scotland and we work with stakeholders across the country.

12:45

Dr Blaney: I echo those points. Every country that wants to develop a knowledge economy will consider the key sectors, as we have done, and say, "I'd like a piece of that." There are various ways of attracting companies, such as through tax strategies or other forms of support. We must be fully aware of the tactics that are being used by other countries, particularly when we are in recession, which is when the most creative and, perhaps, divisive approaches arise.

Life sciences companies that work in Scotland have the opportunity to get round one table everyone who they would want to see regarding an inward investment opportunity or a key decision. People from colleges, universities, research and development departments and the NHS can be brought together to demonstrate that there is a genuine will to collaborate on a project. We have a good opportunity at the moment to bring together a variety of stakeholders.

The Convener: In the current economic situation—we are in recession, and the economy is forecast to fall for the foreseeable future—is it sensible for SDI's budget for 2010-11 to be cut?

David Smith: At present, the resources that we have in our budget have been held constant for the operating year ahead.

A comprehensive piece of research into the impact of our activities is taking place this year. We will use that to make the case for the resources and support that we believe to be necessary to ensure that we are taking advantage of the opportunities that are presented to us. We will be making the case and submitting our case for future funding for follow-on years towards the end of this operating year.

At this point, I am slightly at a loss with regard to what has been decided on cuts. As I said, our funding has been preserved for this operating year. We need to make the case for next year and for future budget rounds.

The Convener: I was referring specifically to the current forward budgets, which indicate that there will be a cut in SDI's budget in the financial year

2010-11. The committee will be interested in the results of the research that you mentioned.

David Smith: I would be happy to follow up that point in detail, but perhaps it looks as if that is the case because of a one-off piece of funding that was set aside for a particular project. If the difference to which you refer is around £1 million, that might well explain it.

The overall position is that SDI's funding this year is the same as it was last year. We will make the case for future funding requirements towards the end of this operating year, and that will be informed by that comprehensive piece of research that I and Lena Wilson, SDI's chief executive, have set in motion in order that we can more fully understand the attribution of our activities.

Christopher Harvie: The most intriguing of the new buzzwords that have been hovering around for the past few months are "sovereign wealth", which are often used in the same sentence as "private equity". However, sovereign wealth is not private equity; it is someone else's nationalised industry. The phrase might be used in relation to Électricité de France taking over the British nuclear industry, Deutsche Bahn taking over the British railways, or the situation with Vattenfall, whose machinery we were considering in relation to renewable energy in Denmark.

We must take into account the fact that the great days of the more perfect markets—and where do they lead but to consolidated debt obligations and so on?—might be at an end. We might be manoeuvring within market areas, certainly, but we must also take account of sovereign wealth, other states' investment and other taxpayers' subsidies.

To be realistic, if we are to take a biotechnics invention into serious production, for example, that is the sort of environment in which we will be operating, and it might have to be a governmental partnership rather than a private company that does that. We have to be careful about how we manoeuvre in this area. I do not quite know how we will do that, but I do not think that the old notions of looking for more perfect markets—which Charlie McCreevy might still believe in—will work any longer. We must realise that we are in a pool with extremely big fish, which are often backed up with the power of successful economies. The state is very much back in the running. As of yesterday, we are being told that what is good for General Motors is that it should become the property of the United States of America.

We must start considering solutions that are not just market led, but might be diplomatically led. We have to work out what sort of state we want to be negotiating on our side.

The Convener: Does anyone wish to comment on that?

David Smith: Mr Harvie raised some interesting points.

By way of illustration, I suggest that the collaboration between Wyeth Pharmaceuticals, the Scottish teaching hospitals and universities and the national health service is a good example of a model of risk participation. As part of that project, the support funding from Scottish Enterprise and the Scottish Government and the support in kind from the universities and the NHS is matched by the private sector.

The project is at the exciting point of developing new methodologies and doing further research in the area of translational medicine. We hope that, over time, Scottish industry will be able to capitalise on that work and help us to make an even bigger contribution towards shortening the drug discovery timelines. That is where the added value for the pharmaceutical sector and Scottish industry will lie.

That is the best illustration that I can think of on the spot. I am sure that, if I took some time, I could give Mr Harvie more thoughts on his comments.

Dr Blaney: A number of Government departments at a Scottish and United Kingdom level have discussed the issue of sovereign wealth funds, with particular regard to the gulf states, but I do not know how far that work has progressed.

Christopher Harvie is right to say that we need to think about what that issue means for us, how we can work with it and how we can ensure that economic development can take place either in Scotland or with a strong connection to Scotland.

David Smith: We have been working with VisitScotland and other partner organisations on the overall investment plan for the tourism sector in Scotland. That is another example of a situation in which we have had discussions with a number of sovereign wealth funds and sources of private sector funding with regard to investments in infrastructure projects.

Some of the sovereign wealth funds have indicated that they can take a slightly longer term view than other investors. In that respect, there might be some differences, and we continue to engage in dialogue with the sovereign wealth funds in the middle east and indeed across the world that are behind many of the investment companies and vehicles investing in tourism and other longer-term infrastructure projects.

Christopher Harvie: I simply think that we need to consider other means of non-traditional banking and of structuring the internal organisation of science, education or culture-based enterprises. For example, in my 10 years at the Open

University, I was paid an assistant lecturer's salary for doing a professorial job. However, we managed to get the first distance-learning university up and running in 18 months. It was run completely by the British state; we were paid our ordinary academic salaries; and we beat the other competitors in the field back in 1969 or 1970. That remains the case. Some juxtaposition with what might have been called, back in the 1970s, the gift relationship economy might, with sufficient back-up from our own state action and diplomatic manoeuvre, be a better formula for Scotland than the very badly exploded system of bankers, bonuses and strange financial instruments.

David Smith: As with any other private sector investment, sovereign wealth funds have their own requirements with regard to returns. That said, your suggestions have merit, and we should continue to explore opportunities of working with them.

As far as the internationalisation of trade is concerned, over the past 18 to 24 months we have been working with Scottish universities and colleges on finding out how to generate more value and revenue from Scottish capability in education. Not just the middle east but China, India and other markets are very much interested in upskilling their indigenous populations, and Scottish colleges and universities have a great deal to offer and can take advantage of many opportunities in that regard.

The Convener: I thank the witnesses for their evidence, which has provided the committee with additional information on the state of the economy.

The committee will consider how to take this issue forward. Indeed, we will have a number of opportunities for doing so over the next few months; for example, we might decide periodically to hold a hearing of this type to examine specific issues. On the other hand, instead of having another very broad inquiry such as those that we have had on energy, tourism and so on, the committee, once it completes the energy inquiry, might wish to hold a number of shorter, more focused inquiries to pick up some of the key issues that have been identified at this hearing and at earlier sessions. We could also have some short, reporter-led inquiries into certain aspects that have been highlighted. Over the next two or three weeks, committee members should give some thought to the matter, try before the summer recess to come up with some suggestions for our work programme and allow our estimable clerks to draw up some proposals about how to take their ideas forward.

Meeting closed at 12:58.

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