ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 28 October 2009

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE
27th 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)
David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Sandy Brady (Highlands and Islands Enterprise)
Forbes Duthie (Highlands and Islands Enterprise)
Stephen Gallagher (Scottish Enterprise)
Hugh Hall (Scottish Enterprise)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Katy Orr

ASSISTANT CLERK

Gail Grant

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 28 October 2009

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

Draft Budget Scrutiny 2010-11

The Convener (Iain Smith): It is time to start the meeting. Believe it or not, we have already reached the 27th meeting of the Economy, Energy and Tourism Committee in 2009. Doesn't time fly? I have received no apologies for absence from today's meeting. One or two of our colleagues are still on their way, but we will make a start as we are quorate.

The main item on the agenda is the draft budget for 2010-11. We are taking evidence from the two enterprise agencies—Scottish Enterprise, followed by Highlands and Islands Enterprise—then from the Cabinet Secretary for Finance and Sustainable Growth.

I welcome to the meeting our adviser, Peter Wood, and thank him for the briefings that he provided in advance of the meeting.

I welcome Hugh Hall, who is the chief financial officer, and Stephen Gallagher, who is the managing director, commercial and infrastructure, of Scottish Enterprise. I invite Hugh Hall to make introductory comments, after which I will invite members to ask questions.

Hugh Hall (Scottish Enterprise): I will be brief, because we have already given you what I hope is a detailed but concise submission that covers all the necessary information, on which we are happy to expand during the next hour. We at Scottish Enterprise are mindful of the fact that we find ourselves still in the economic downturn. We continue to do what we can to address some of the shorter-term issues around the downturn while keeping an eye on the medium-to-longer-term issues around sustainable economic growth. Rather than go on, I am delighted to answer questions.

The Convener: I will start by asking you to clarify some of the figures in your submission. The committee has been having difficulty marrying up the figures and headings in this year's submission with last year's level 4 budget figures. Will you run through the main changes between the 2009-10 and 2010-11 budgets, so that the committee can be clear about them? Will you explain where the changes are just definitional—where things are called something different but, in effect, we are talking about the same money—and where there are significant changes in how the money is being allocated between different operations in Scottish Enterprise?

Hugh Hall: I am happy to do that. Stephen Gallagher will outline the detailed comparisons. The changes are more to do with the enterprise networks review and its consequences in terms of transfers to other organisations, including local government and Skills Development Scotland. In addition, we have the acceleration of capital infrastructure spend, which makes things even more complex. Year-on-year comparisons are terribly difficult in any event. Stephen Gallagher will cover the main changes.

Stephen Gallagher (Scottish Enterprise): In our submission you will see that we are predicting an overall income level of about £250 million, which includes £201 million from the Government as grant in aid. As Hugh Hall identified, some adjustments have been made. The acceleration of £35 million of capital expenditure from later years in the planning cycle into earlier years is taken account of in this year's budget submission. In addition to the grant in aid from the Government, there is an expectation of income from the European Union, property income, money from the Scottish co-investment fund and other business income that we generate through our operations.

Hugh Hall: The net reduction year on year is about £8 million.

The Convener: I want to drill down into that a bit more. I am trying to make comparisons between last year's and this year's level 4 figures. Under the heading "Enterprise (support/advice to companies)", there has been a 36 per cent reduction and under the heading "Innovation & Commercialisation of Research", there has been a 42 per cent reduction. Why do those two areas, which appear to us to be the core work of Scottish Enterprise, appear to be receiving the most significant reductions? Is it just because of the way that the money has been defined? Is it related to the capital changes? It is unclear to the committee, which is trying to scrutinise your budget, exactly what the changes are and why they have come about.

Hugh Hall: I take it that your question relates to page 4 of the seven pages of our submission. We have given potential investment scenarios for the next year, which are still to be clarified and accepted by our board.

The Convener: For clarity, I am primarily referring to table 2 on page 6 of paper EET/S3/09/27/3.

Stephen Gallagher: We enjoy demand that exceeds the cash that is available to meet it, so we have set prioritisation criteria. In addition, because of where we are in the economic cycle, partners have been unable to commit to some projects that have been planned.

Table 2 includes the heading “Enterprise”. We are seeing interesting savings coming through under that heading. We have doubled the size of the Scottish manufacturing advisory service and we expect to invest more cash in that, but with the new highers that have been brought in and the people who are there, a good and professional service is being delivered, and we do not need to go out of house for that. Similarly, in our work with companies, we are getting greater leverage on the account-management side of the business.

We are working closely with intermediary technology institute colleagues as we integrate the innovation support part of our business. A move is planned to deliver more intellectual property exploitation and entrepreneurial development.

The property and business infrastructure investment has led to a recalculation of the investment numbers. Some £35 million of capital expenditure has been removed from the year.

The Convener: I will have one more try before I open up the discussion. Can you give us the comparative figures for 2009-10 under the same headings that are included in table 2 for 2010-11? The figures from last year do not marry up to this year’s figures. It is therefore difficult for us to make a proper year-on-year comparison.

Hugh Hall: We can give you the figures so that you can compare the two sets, but we must make it clear that our board has still to consider and approve the budgets.

That said, in general terms, we are seeing a shift from investment in IP generation to investment in commercialisation. We are maintaining what we spend in the international side of the business and putting the same level of investment into infrastructure. We can achieve a lot of what we need to achieve on the account-management side of the business through our account managers and our cohort of staff, so less funding is going into intervention grants.

However, we will provide the committee with a separate detailed comparison if that would help.

The Convener: It would help to have that comparison now, if possible, as we are trying to scrutinise the budget. Doing so is difficult when we do not have a year-on-year comparison. If you could provide that information now, that would be helpful; if not, we would like it as soon as possible, please.

Rob Gibson (Highlands and Islands) (SNP): There has been quite a bit of acceleration in public investment during this stage of the economic cycle. How has Scottish Enterprise been involved in that?

Hugh Hall: We have participated in accelerating capital spend. We were able to accommodate the call that went out for projects to be brought forward. I refer to three projects in particular: the Edinburgh BioQuarter, the Scottish Exhibition and Conference Centre arena and Fife energy park. We have accelerated capital spend into the current financial year, which means that less money is available for infrastructure in 2010-11. However, if there is a call for additional moneys to be spent as part of an accelerated capital expenditure round, we would be able to use them.

Rob Gibson: Other people have suggested to the committee that a short-term increase in funds for regeneration led to spending on projects that were of a questionable nature. Has that been your experience?

Hugh Hall: That has not been our experience. The projects that we have been investing in are all related to our medium-to-longer-term plan for sustainable economic growth. Those projects that I mentioned—BioQuarter, the SECC arena and the Fife energy park—are self-evidently medium or longer-term projects with an economic gain to them. They do not involve investment in bricks and mortar. Stephen Gallagher is the expert in this area.

Stephen Gallagher: We were fortunate to be able to accelerate capital expenditure for the BioQuarter with our partners. This year, we commissioned construction of the Scottish centre for regenerative medicine. About £49 million-worth of contract went to a Scottish company. We have a £25 million capital commitment to the SECC, with significant leverage from other partners. We see the Fife energy park as a major scheme, which will allow Scotland to take advantage of the Crown Estate’s releases around the British isles, with about 7,000 turbines required. We have put in significant funding, and our board approved a further £19 million of investment this year.

Rob Gibson: With regard to your total spend on that kind of capital infrastructure stuff, how much was accelerated capital spend helping in terms of the percentage of total spend that would have been allocated to the projects anyway?

Stephen Gallagher: We have enjoyed the ability to bring forward investment more quickly. We are not putting in any more, but we are doing it quicker than we would ordinarily have done. Coupled with that, we are investing in urban regeneration companies and local regeneration. We have been quite successful with our property portfolio, too.

Rob Gibson: Do you mean in that you have been able to sell property?

Stephen Gallagher: The properties that we have sold have largely gone to account-managed companies in the growth zone. For example, Invitrogen recently bought a laboratory-space facility off us at Inchinnan. We work closely with local authorities, which have bought some of our stock and have co-located. Other account-managed companies have taken advantage of their growth opportunities and we have been working closely with them and releasing space for them. The property sales have all been above market value.

Rob Gibson: I will move on to a slightly different subject, which is important to me as I come from the Highlands. There has been criticism of the fact that we have two enterprise networks—others might wish to follow up on this point. Is there any duplication of effort, or are the two companies' efforts complementary, given the conditions that are met in the Highland situation and in the rest of Scotland?

Hugh Hall: We work closely with colleagues in Highlands and Islands Enterprise. A number of activities take place on a pan-Scotland basis, including in our investments in equities, in industry advisory groups and in international activities. We believe that, where there is scope for a pan-Scotland operation, one is in place. We have close working relationships with Highlands and Islands Enterprise as I said, and they function very effectively.

Rob Gibson: There has been criticism from business that the two superstructures are such that there are perhaps cost savings to be made. Your experience and practice are quite different, however.

Hugh Hall: The question whether there should be two organisations or one is a matter for Government, not for us. We try to work within the structures that already exist and we try to explore opportunities for shared service activity. We tend to work towards shared services on a geographical basis. For example, we are working with Skills Development Scotland, which has a Glasgow headquarters. Information services provision would potentially be more complex with an Inverness office, but we work together where we can.

Lewis Macdonald (Aberdeen Central) (Lab): I wish to explore further the comparison between this year's numbers and last year's numbers. I was surprised that you did not offer budget and outturn figures on a comparison basis for the two years. However, it was still possible to explore the figures from this year and to compare them with approximately similar headings from last year.

The convener mentioned innovation. Figures that I have in front of me suggest that, last year, your budget for innovation and commercialisation together was of the order of £84 million, but that this year, it is projected or planned to be £53 million. Do you recognise those figures and that reduction of a third in your spending on innovation?

09:45

Stephen Gallagher: We will have to check the figures and resubmit on a like-for-like basis to give you that comparison. We have an investment profile of some £0.25 billion next year, which is still a substantial amount of public money.

Hugh Hall: There are ups and downs in that area, for example, as we have said, in the innovation and IP generation area. A lot of funding went to ITI Scotland, for example, but there has been a reduction in that.

Lewis Macdonald: Can you quantify that?

Hugh Hall: I do not have the numbers to hand, but we can give you a separate note on that. We are reducing the amount of money that we are putting into IP generation and spending more on trying to commercialise IP. Another area in which there is an increase in spend is in research and development grants. We have a pent-up demand for research and development grants from companies that wish to invest in that. It is a core objective for Scottish Enterprise to try to increase innovation in individual companies. From those R and D grants, we get a significant leverage from the companies.

Stephen Gallagher: This year, we have had significant demand on R and D, which we have been able to meet. In 2009-10, we have made nine large awards on R and D, with some £4.2 million of investment, which has leveraged £31.9 million of investment from our partners. That is new investment in Scotland in large R and D projects that are safeguarding and creating new employment. They involve companies such as Hammerfest, Nallatech, STMicroelectronics and Honeywell—those are some of the big names that are involved.

Lewis Macdonald: We applaud investment in commercialisation, but commercialisation requires IP and innovation first. In the context of the economic recession, can you explain your decision—or the decision that has been taken for you—to reduce investment in innovation and simply to look at short-term commercialisation, rather than at what can benefit the Scottish economy in the long term?

Hugh Hall: Many of the commercialisation issues are long term. It has, in the first place, taken a considerable time to work up some of the really good prospects on the innovation side into companies and then to make them companies of scale in the longer term. The evaluation that was carried out four or five years into the ITIs demonstrated that on IP—on what we actually own—we are fairly blessed. A large number of projects now need to be commercialised. We are content that, for the next couple of years, we have a base of intellectual assets that are ripe for exploitation.

We are not turning off the IP generation. For example, we continue to invest in the proof of concept programme, which has been successful in taking academic innovation to a stage at which the formation of companies can be considered. We are not switching that off; we are simply shifting the balance from IP generation to commercialisation.

Lewis Macdonald: Is that a conscious response to the economic recession? It suggests that you are investing less in the future products from which the Scottish economy will seek to benefit as we come out of recession, and focusing on the short-term commercialisation targets. Would you have done that anyway, or have you accelerated the process because of the recession?

Hugh Hall: We would have done it anyway. It is based on an evaluation of the ITI activity that shows that, if we spend the bulk of our resources on IP generation without getting overly concerned about commercialisation, we simply become an extension of the higher education research sector. As the enterprise, innovation and investment agency, our interest is to take the IP that has been generated, which is valuable, and to consider how to convert it into growth companies and sustainable economic activity. That is where our efforts are now being concentrated: it would have happened regardless. I stress that commercialisation is not a quick fix; it will not happen overnight. We must get the companies established and look at the investment process, marketing arrangements and so on. The growth prospects that spin out of ITI will probably take anything from three to 10 years to start to make some really good returns.

Lewis Macdonald: Clearly, there is an argument about the balance of training, commercialisation and innovation. I suppose that my concern is that the overall budget for those together appears to have fallen by something like 40 per cent. That is certainly how the figures look when we compare, as far as we can, like for like between this year and last.

Hugh Hall: We must also consider the nature of that spend. There is a commercialisation line but a lot of commercialisation is also about how we use, for example, our investment funds, so we need to look at all the various allocations in the round. We would like to take some time to take you through that and show you the interaction between the various figures, but if we look at what we are spending on economic development, there is an £8 million reduction in our budget. All that is accommodated through reductions in running costs.

Lewis Macdonald: Can I put to you another heading—support for businesses—where I have again attempted to make a like-for-like comparison between this year and last. You described how you believe that you are achieving more leveraging, which is clearly a good thing if it is saving you money. Nonetheless, support for businesses appears to have gone down from something of the order of £65 million to something of the order of £42 million. That again appears to be a pretty drastic cut in an area that we would expect to be growing, even in constrained budgetary circumstances because of the recession. Do you recognise those figures? Am I making a reasonable comparison between the enterprise element last year and the enterprise element in the table that is in front of us today?

Hugh Hall: We are probably looking at a reduction in enterprise of about £7 million between this year and last. Within that, we are protecting the international budgets, which will remain level. It is within the area of one-to-one support for companies that the amount of money going into what we call intervention grants is being reduced—partly in response to the fall-off in demand for some of the products in that area. We are bringing more into play in respect of direct support from our account managers, SMAS staff, our investment staff and so on. We are trying to achieve more for less in that area.

Lewis Macdonald: It seems to me, from the companies that I deal with in my constituency—I suspect that other parts of the country have been worse hit than Aberdeen by the recession—that quite a large number of companies are looking for advice and support and they are struggling to find it.

Hugh Hall: I would be surprised at that as far as Scottish Enterprise is concerned. We have run a very successful campaign called now is the time to ask. We have interacted with all our account-managed companies. We have organised workshops and have a very good feel for what they require and where Scottish Enterprise can either meet that requirement or signpost them to another agency. As far as Scottish Enterprise is concerned, we feel that we are responding in real time to the companies that require support.

There are probably issues in relation to access to finance and, in particular, access to bank finance. There is plenty of evidence that that is where companies are struggling, but we do not as an organisation provide loan finance generally, although in the last year we have increased the amount of money that we are putting into equity investment funds, co-investment funding and venture funding. Where we can increase our investment, we are doing that.

Lewis Macdonald: That £7 million reduction in support for companies must be manifesting itself somewhere.

Hugh Hall: We are looking at how we support companies in the round, so we take money out of the intervention grants area, which is within enterprise, and invest it in other activities.

Stephen Gallagher: We have experienced healthy demand for research and development support from companies that want to trade through the downturn and to invest in new products and processes, in which we co-invest. We predict a substantial increase in that next year—from £9 million to £12 million—but I stress that our board has still to sign off and endorse that spending. That support develops products that are close to the market, creates new jobs and safeguards high-value jobs.

Ms Wendy Alexander (Paisley North) (Lab): Convener, I will forgo my opportunity to question HIE and spend a little more time on Scottish Enterprise, given the importance of the issues that are being considered. I say that to allow other committee members a full opportunity to contribute.

Given that this meeting provides Scottish Enterprise’s only occasion to have direct input into the budget process, I say to the chief financial officer that I regret that not only is the new chairman unavailable, but so are the current chief executive and the chief executive designate. Will you account for why all three senior officers could not find the time to provide input into the budget process on Scottish Enterprise’s only occasion to do so?

Hugh Hall: All three officers have prior commitments.

Ms Alexander: You cannot comment for them, but I will simply say that when Scotland faces its deepest downturn for 60 years and this is the only occasion for the organisation to have direct input into the budget process, the choice of priorities is strange. I spend much time answering questions about why Scottish Enterprise’s reputation is not what it might be among MSPs. Perhaps spending less on surveys and more on coming to committee meetings might assist that reputation.

Hugh Hall: We had a clash of dates.

Ms Alexander: For all three?

Hugh Hall: I am sure that the new chairman and the new chief executive would be delighted to appear in the future any time the committee wants to meet them.

Ms Alexander: As the chief financial officer knows, issues that predate his tenure arose with the financial management at Scottish Enterprise. In that context, is he proud of a budget submission that provides absolutely no trend data whatever from spending last year and absolutely no reconciliation between the budgets last year and next year? Is that submission appropriate?

Hugh Hall: The financial management issues that Scottish Enterprise faced are well behind us. Certainly in my tenure, the balancing of the books and the stewardship of funds have been well documented. I am proud of that.

We were asked to produce a submission, which we provided well in advance of the meeting. We would have been happy to come back with additional information on comparisons. We gave the caveat that our board has still to consider and approve the budgets, so if the data lack granularity, that is the reason. We do not want any hostages to fortune before the board considers the issue properly.

At the last minute—yesterday evening—we received a request for additional information. We tried to put that together for today, but time was against us. However, we would be delighted to give the committee that further detail to help its considerations in the coming weeks. We made the submission some time ago, but the request for granularity was received yesterday evening.

Ms Alexander: Saying what your spend under six budget heads was last year and is projected to be next year is not particularly granular. That is an entirely routine question for any director of finance in any organisation, so I will repeat it. Your submission outlines for the forthcoming year the spend on six areas—enterprise, innovation, commercialisation, investment and customer-facing staff. I simply want to know what the spend was under those headings last year. That would allow us to make a comparison with the projected figures for next year that you have offered us. That comparison is not difficult for a director of finance.

Hugh Hall: The comparison is absolutely not difficult to make. I am just concerned to give the committee accurate information, so that we can discuss actual figures rather than figures that the board has yet to consider fully. In the past 10 or 15 minutes, I have tried to indicate the likely broad shifts in our spend.

Ms Alexander: I am not asking for changes to this year’s figures; I am asking, from the indicative figures that you have given us for next year, what your spend was on those areas last year. You do not need to go back to the board to find out what you spent on them last year.

10:00

Hugh Hall: I will go through the figures on page 6 of the submission. The projected figure for enterprise is £42 million; this year, we have a business plan projection of £49 million. In innovation, we have a projected figure of £26 million versus £32 million in the current year. Those figures are from the published business plan; the actual outturn may be quite different. We suggest that the figure for commercialisation will be £27 million for 2010-11, against £34 million in last year's published business plan. In the area of investment, the projected figure is £65 million versus £113 million in the current financial year.

Ms Alexander: Thank you. That was very helpful. Can you confirm one other, even more high-level figure? Has the total budget of Scottish Enterprise reduced—albeit because of the change of functions—by 33 per cent in real terms since 2007?

Hugh Hall: The reduction that we face in the 2010-11 budget versus the current year, after we strip out all the changes, is £8 million. That is the figure that we will live with by bringing in more efficiency gains.

Ms Alexander: I am simply asking whether you dissent from the assertion that there has been a real-terms cut in the Scottish Enterprise budget of 33 per cent since 2007. Is that a figure that you recognise as financial director?

Hugh Hall: That is not a figure that I recognise. I do not have a figure to hand, but I would like to be able to confirm the position. In general, the changes that have taken place in our budget in recent years are related to the enterprise networks review, which has involved a shift of functions out of Scottish Enterprise. We have been able to accommodate the actual reduction that we have been facing over the period through efficiency gains.

Ms Alexander: It is clear, as recent budgets in Scotland have shown, that the budget is a process of negotiation. Has the executive team—the board—made any recommendations so far to the Scottish Government to seek a different budget? Does it intend to do so?

Hugh Hall: We have had, and will continue to have, discussions with the Government on the draft budget. We have a board session this Thursday and Friday, and Mr Swinney will join us on Thursday evening. We will discuss the draft budget and what it means for our prioritisation and our focus. We have spent a lot of time in the past year or so examining what we call a zero-based budgeting approach and getting better clarity on what our priorities are as a business. We are aware of those areas in which there are budget pressures and opportunities for us to spend in a way that means that we can leverage in moneys from elsewhere. For example, there has been a lot of success in the past couple of years in generating R and D activities, safeguarding and creating jobs and leveraging in resources from companies. We try to highlight to Government those areas in which we have particular pressures and particular opportunities. There is, as I said, the possibility of accelerating spend in areas such as infrastructure, for example.

We stand ready to take advantage of any additional resources that might become available, but we are also prudent in ensuring that we can live within whatever allocation we get and maximise the amount of return from that investment. Tough decisions are required, but we take an evidence-based and investment-led approach to our business. We are trying to achieve that while keeping a heavy downward pressure on running costs.

Ms Alexander: It would be helpful if you could inform the board that the Parliament would welcome some indication of its view on whether a £74 million reduction in grant in aid or a 17 per cent cut in capital spending across the board in Scotland are the right budget directions as we approach the budget process, especially as the figures that you have just given to us involve a cut of more than 25 per cent in the commercialisation budget and a near halving of the investment budget. The Parliament would like to know whether the board views cuts of 50 and 25 per cent as appropriate directions for the Scottish economy, given that the real-terms cut in the overall budget for next year is somewhat less than 1 per cent. It is for the chairman of Scottish Enterprise and board colleagues to decide whether they wish to share their thoughts on those matters with Parliament in advance of the budget process.

Hugh Hall: It is important that when we refer to percentage reductions we are comparing like with like.

Ms Alexander: Indeed.

Hugh Hall: The 50 per cent reduction in investment that you mentioned is largely related to accelerated capital spending. We are rectifying that in the coming year. It is not a reduction, just a reduction between years. That is why we are a bit cautious about how we use year-on-year comparisons. We need to look at all the budgets in the round over a number of years.

Ms Alexander: I take that as a sign of willingness to provide trend data in the future. It would be helpful if, as financial director of Scottish Enterprise, you simply undertook to do that.

Hugh Hall: I will be delighted to do that, and to give you the context within which the data are provided.

Ms Alexander: By how much has the head count in Scottish Enterprise fallen in recent years? How many functions have been removed over the past couple of years?

Stephen Gallagher: I will look at the period between April 2006 and March 2009. Changes arising from the enterprise networks review led to the creation of Skills Development Scotland and the removal of skills from Scottish Enterprise's remit, so skills and careers colleagues have departed. In October 2009, we have a head count of about 1,096. Intermediary technology institute staff members have come into SE, and people have left. We can provide the committee with further, clearer data. In April 2006, we had about 1,507 people in post; now we have 1,096. However, adjustments must be made for Skills Development Scotland transfers and for careers.

Ms Alexander: The organisation has had a budget cut of a third and a head count reduction of a third, the skills function has been removed and the finance director has spoken of tough decisions and bearing down on running costs. If the budget is down by 30 per cent, staff numbers are down by a third and the number of functions is down, why does the incoming chief executive have a much higher salary than her predecessor? Does that reflect tough decisions and bearing down on running costs?

Hugh Hall: I do not recognise a lot of those percentages. In responding to the question, I do not want to be seen to be acknowledging their accuracy. I also do not recognise that the incoming chief executive will be paid more than the existing chief executive—I do not think that that is factually correct. Pay is a matter for the senior pay policy of the public sector in Scotland, not for the budget that we are discussing today.

Ms Alexander: I have no further questions.

Gavin Brown (Lothians) (Con): I guess that this morning I expected to hear that Scottish Enterprise had a lot of good ideas that it could and should be pursuing and that the budget was holding it back from doing so. I expected to hear that you were nipping at Government's heels and looking for a better and bigger budget, but I think that I heard that you are standing ready in case anything extra is given to you. Could that attitude be regarded as a little too passive in the current climate?

Hugh Hall: On the contrary. I said that we have worked-up proposals on which we are ready to move. We are already in discussions with Government about particular opportunities and pressures. If money becomes available, we are ready to move. I would not say that that is being passive—on the contrary, we are being very proactive. However, we must also be realistic. When there is downward pressure on public sector funding generally, we must play our part.

We are not spending our time nipping at Government's heels and bitching and moaning at the settlement that is proposed in the draft budget. We are looking at how we can use those resources most effectively in order to contribute to sustainable economic growth. We are being proactive and we are sending a message to Government that, should additional money become available and if it wishes to put some additional investment into enterprise, we can use that resource. I do not want members to get the impression that we are being passive—on the contrary.

Gavin Brown: Okay.

Stephen Gallagher: On smarter ways of delivery, as budgets get tighter across the wider public sector landscape, we are working closely with local authorities. I am particularly keen to work in partnership with local authorities on infrastructure, where they can unlock investment through prudential borrowing. Rather than making heavy capital commitments up front, it might be useful to use revenue and work in partnership with local authorities.

Gavin Brown: I want to get back to some of the figures that have been mentioned. I heard Mr Hall's explanation about investment that has, on the face of it, been cut in half, and I accept the explanation that that is related to accelerated capital.

Under the enterprise heading, there is a figure of £42 million that is purported to be for this year. Mr Hall gave the figure of £49 million for the previous year. I think that Lewis Macdonald quoted the figure of £65 million. There is an enormous difference between £65 million and the £49 million that we have been quoted today. I accept that you do not want to say too much in order to make sure that what you say is accurate, Mr Hall, but the difference is still enormous. Why might someone think that the figure was £65 million when you are saying today that it was actually only £49 million?

Hugh Hall: The figures that we are looking at are £42 million versus £49 million.

Gavin Brown: So you do not recognise the figure of £65 million at all.

Hugh Hall: No.

Gavin Brown: For the innovation and commercialisation heads, I think that you gave the figures £32 million and £34 million, which adds up to £66 million. Mr Macdonald suggested that the figure for those two heads was previously £84 million. Again, do you recognise that figure at all? There is another enormous difference between those two figures.

Hugh Hall: No.

Gavin Brown: Obviously you have agreed to give us the details in writing so that we can see where the figures came from and compare like with like.

You talked about property sales forming a portion of the income that you expect to get next year—you predict that you will get about £20 million. You obviously predicted income from property for this year as well, and Mr Gallagher mentioned a number of property disposals that took place. How is Scottish Enterprise doing overall with property disposals against what you projected this time last year?

Stephen Gallagher: The overall context of the position in which we in the United Kingdom find ourselves is that about £225 billion in property debt is being held by various banks, and there has not been a lot of finance for development around the UK. Our sales in the past year or so have been largely to account-managed companies that are growing, and the sales have come in above our market valuation.

Invitrogen bought laboratory space from us at Inchinnan. A growing company in Aberdeen bought our former local enterprise company office. In Fife, an organisation bought our former office on a sale and lease back basis, and we have co-located with the local authority. Similarly, at Edinburgh BioQuarter, the University of Edinburgh has drawn down some land at pre-agreed prices. So we have been reasonably successful and reasonably selective. We have not flooded the market, but we have stretching targets so we have prudently moved our target down to about £20 million for next year.

There have also been some pre-pack administrations in the rented estate that we continue to hold. Some companies are struggling; we are no different from other landlords in that regard.

With regard to future-years sales, at the moment, the Aberdeen science and energy parks are under offer. A major, well-capitalised Scottish developer is taking that forward in partnership with us in a joint venture, which we predict will result in a substantial capital receipt this year.

Next year, we plan further draw-down from our national health service, university and commercial partners at the Edinburgh BioQuarter. We have a fairly healthy pipeline of investment in our land, but it is a difficult market.

10:15

Gavin Brown: There are some good individual successes there, which is to Scottish Enterprise's credit. However, last year, you predicted around £30 million for property disposals—

The Convener: I think that it was £33 million.

Gavin Brown: How likely is it that, come the end of this financial year, you will have disposed of that much property?

Stephen Gallagher: To date, with regard to the target of £40 million or so, we are sitting just about bang on where we predicted we would be. We have one large investment that is due to complete in November or December—the Aberdeen science and energy parks venture, which I mentioned earlier. That is on track and is worth £11.5 million, which is quite a bit above valuation. We have had an offer from NHS Lothian to draw down land at the BioQuarter, which will be worth £4 million. The University of Edinburgh has just drawn down some land there as well. I believe that we are on track to meet our target.

With regard to commercial matters, there is always some risk. Last year, we took advantage of market conditions and acquired some assets in Glasgow.

Hugh Hall: Because of the annuality rules that we have to live within and the requirement to bring our budget in as close as possible to zero, under adjustments that are made towards the end of the year, we can bring sales forward if we are underspending.

Gavin Brown: What involvement has Scottish Enterprise had thus far in relation to the Scottish investment bank?

Hugh Hall: We have been involved in that. When he made the announcement, the First Minister said that Scottish Enterprise's investment fund would be the starting point for the Scottish investment bank, so we have been working on those proposals.

We have also been considering the prospects of creating a JEREMIE—joint European resources for micro to medium enterprises—fund for Scotland. That has been a challenging project for us, as we have had to work on the challenge of trying to generate loan funding from the European Investment Bank that does not score against departmental expenditure limits. In order to avoid doing that, we have to put in place fairly complex governance arrangements. We have been examining what people in Wales and the north-east have done with regard to the complexity of those arrangements. That has been the most challenging aspect of all.

Our market demand analysis tells us that there is a market for loans and increased equity investment. The business plan suggests that we can afford to repay loans from the European Investment Bank and have a sustainable legacy fund at the end of the period. The most problematic area is governance. The Treasury requires us to have arm's-length governance arrangements for any such fund, otherwise it will score against departmental expenditure limits. However, such arrangements raise issues around accountability and control, which we are having to grapple with. We have made some good progress, but that is proving to be a bit of a stumbling block.

Whatever we do, our investment activity will form the nucleus of what will become the Scottish investment bank. The prize thereafter involves our working out how we can generate additional resources in that facility.

Gavin Brown: I ask because the Scottish investment bank was announced by the First Minister in April, but we are now pushing the end of October. The Scottish investment bank is mentioned in the draft budget document, but it does not appear in any budget line. In answer to a parliamentary question from me, Jim Mather suggested that the bank will receive funding to the tune of £150 million. Does the Scottish investment bank appear under a Scottish Enterprise budget heading anywhere, or does it appear under another body's budget? It is quite a big budget not to be mentioned in any budget line.

Hugh Hall: It would come under our budget line for equity investments—we have an existing spend profile there—which comprises our existing investment portfolio and is about £90 million. We also have cash at bank from a combination of co-investment fund moneys that we set aside in earlier years and European regional development fund moneys. Those resources in our bank are on our balance sheet, but they do not appear in the draft budget. Taken together, the existing spend, the equity investments on our balance sheet and the cash at bank that we have available amount to a figure that is well in excess of £100 million. We believe that that could provide the critical mass that would enable us to go to the market to generate loan finance.

Gavin Brown: If those moneys come to in excess of £100 million, where will the other £50 million come from?

Hugh Hall: As I said, we already have about £80 million or £90 million of annual investment in the venture fund and the seed fund. We also have cash at bank of about £30 million or £40 million for the co-investment fund. That takes us up to £100 million-plus as an asset base for the new Scottish investment bank.

Gavin Brown: Given that the Scottish investment bank is mentioned in the budget, can you send the committee details of what you have just outlined?

Hugh Hall: I am happy to do so.

Gavin Brown: I have one final question. In light of that explanation of how the £150 million will be made up, I struggle to see what the real difference is between the three existing funds—the venture fund, the seed fund and the co-investment fund—and the Scottish investment bank.

Hugh Hall: Those three funds will provide the core of the Scottish investment bank—that is consistent with the First Minister's announcement back in April—but the difference lies in the extent to which we can use those moneys for additionality. For example, additional ERDF moneys might be generated for use in a loan fund. We might also be able to use the moneys to generate a loan package from the EIB, which we have been exploring through the JEREMIE proposal. We could also look at whether we could raise finance from the banks directly. In England, Essex County Council has worked with Santander to raise funding on a co-investment basis for loan finance. We will use our investment funds as the nucleus through which we can then generate additional sources of finance.

The numbers all stack up, but there are challenges with the governance arrangements. We need to create a vehicle that gives sufficient comfort for the purposes of public accountability and which can deal with Treasury rules on departmental expenditure limits. That has been the most challenging aspect for us.

Gavin Brown: This is absolutely my final question. When will the Scottish investment bank go into business?

Hugh Hall: I would not like to commit to a date, but we are actively working on the matter.

Marilyn Livingstone (Kirkcaldy) (Lab): My colleague Wendy Alexander has explored the national figures, but I want to explore what impact the changes have had on local areas. In my Fife constituency, the loss of the local enterprise company has—although we were assured otherwise—definitely had an adverse effect on business.

I am concerned about two things. First, Scottish Enterprise has narrowed its account-managed business in Scotland. I have seen in Fife that there are fewer account-managed companies. I accept that those companies that are account-managed receive good information, because anecdotal evidence suggests that they are doing well. My concern is that there is a whole group of companies in the middle that are not supported by the business gateway—that falls into local economic development now—or client managed by Scottish Enterprise.

What is happening to those companies? Have you looked at what effect the transfer of funds to local government has had on local economic development? Has that money been ring fenced and made its way down to support the local economy? All the experts agree that the key to economic growth is to get small and medium-sized enterprises to start up and be able to work more effectively. There has been a reduction in grants and support, and in the number of companies that are being assisted. Businesses in my area are speaking to me and other MSPs because the support is not there on the ground for them. What tracking has Scottish Enterprise undertaken of the transfer of funds to local government? Are companies seeing those funds?

Hugh Hall: First, I am grateful that you acknowledge the success of the existing account management arrangements for those companies that Scottish Enterprise targets. That positive situation is reflected in our own evaluation of our account management activities. However, that evaluation also recognises that, from time to time, we need to refresh the number of account-managed companies with which we deal, and that, when it is evident that the companies are not benefiting from Scottish Enterprise's interventions, we should mutually agree to part company. It is also important, though, that we continue to look at companies that could come on stream. We are very much alive to the need to refresh the pool of account-managed companies.

As we made clear in our business plans over the past couple of years, we want to focus on companies that stand the best prospects of sustainable economic growth and to contribute to that growth. As part of the enterprise network review, a conscious decision was made to transfer some activities, notably the business gateway, to local authorities. We continue to work closely with local authorities on the business gateway. There is a joint board to oversee activities, and the message coming out of that is generally positive. We continue on a pan-Scotland basis with the central contact centre, national marketing and the website. We do that on behalf of local authorities. All the evidence suggests that the transition has been effective.

Abolishing the local enterprise companies was about removing the governance infrastructure, but we still have a local presence. However, we target the companies that have the best prospects of sustainable economic growth. The generality of companies continue to be served through website activity and things such as the now is the time to ask campaign. We still have such things as tourism workshops that address the whole population in key sectors. However, we made a conscious decision to focus our efforts on the 2,000 or so account-managed companies.

Marilyn Livingstone: I beg to differ, because that is not what I see on the ground. Businesses tell me that they want one-to-one advice. Websites are all very well as additional support, but people want one-to-one advice and grant-aided support when necessary, which are just not there on the ground. I have seen at first hand the impact of the loss of expertise. The necessary people are not there. I accept that the account-managed companies have account managers, but that is it. In Fife, we have gone from having 40-odd people to maybe two or three. That situation does not provide the same support for business in Fife, so I must beg to differ with what you said. The advice and support are not there on the ground in the way that they were before.

I am not asking about the account-managed companies, because I have acknowledged that those companies are being served well—I am not concerned about them. I am concerned about those that are not account managed. I am asking you two questions. First, does Scottish Enterprise think that the best way forward is to leave all those other companies without any support? Secondly, what has been the effect of the transfer of small business support and responsibility for the sector to local authorities? Has there been any look at whether the money is reaching where it was meant to reach? Those are the questions that I am asking. I am not asking you about your success. I know what that is. I am asking you about what is happening to the companies that are in the middle slot.

10:30

Hugh Hall: I will ask Stephen Gallagher to comment. For the avoidance of doubt, I inform you that we have considerably more than two or three people operating in Fife.

Marilyn Livingstone: Can you clarify the numbers, then, and tell me when they are there?

Hugh Hall: We will give you that information.

Marilyn Livingstone: They are on rota—they are not there full time. They may have a desk and a chair there, but they are not physically there.

Stephen Gallagher: In respect of the enterprise networks review and the transfer of responsibility to local authorities, I can comment on a couple of areas.

We enjoy a good, close working relationship with colleagues at Fife Council. Indeed, this year we have four large development sites in which the council co-invested with us, and we have a development partnership to take those forward. That did not exist when we had the local enterprise company. Similarly, our board has recently approved a substantial capital investment of £19 million in the Fife energy park. Working closely with Fife Council and other partners we see that area, with its deepwater access, being one of the winners from the Crown Estate releases. One of our account-managed companies there has done very well. We have supported it heavily and it has won a substantial order for Morecambe Bay.

Following the transfer of responsibilities, we have £12.5 million a year in our budget for local regeneration. There is underspend in that area and, under the rules and regulations, that is distributed to local authorities. At the moment, the local authorities have a decision to make in order to see more investment going into their areas. Should they take that money back on a pro rata basis or should they pool it and lever further money from Europe through the JESSICA—joint European support for sustainable investment in city areas—urban development fund? Colleagues at the Scottish Government and in local authorities are working on that. That decision could lead to a substantial fund being capitalised.

Since the transfer of responsibilities, the relationships have been working well, judging by what has been reported back to us locally and what I have seen.

Marilyn Livingstone: I am not critical of Fife Council's local economic development unit. It works well and I have no complaints about it. However, it does not have the budget—that is the point that I am making. It needs the budget and the support.

Also, the £12.5 million in the local regeneration budget constitutes a reduction such as we are seeing across the board. The reduction to £12.5 million across Scotland is significant. We are seeing reductions in social regeneration budgets and in local economic development budgets. I presume that you have looked at the budget that was transferred to local government across Scotland—I am not talking just about Fife. Is it being ring fenced? Is it supporting local companies?

Furthermore, do you believe that your policy of reducing the number of account-managed companies is good for Scotland? I do not need to hear about your success with account-managed companies—I know about that. I am asking about the rest.

Hugh Hall: On the question of the budget transfer, around the time of the enterprise networks review, we negotiated what cash could be transferred to the business gateway for local regeneration and what should be ring fenced for urban regeneration company activity. The Convention of Scottish Local Authorities and the local authorities were pretty tough in those negotiations in order to ensure that we identified the absolute sums of money that were being spent at that time or that were projected to be spent by Scottish Enterprise. That money was transferred en bloc to local authorities, so there is an audit trail—an evidence base—for that. When we transferred the functions, we transferred the budget.

What has happened subsequently is a matter for local authorities to look at in the round when they make their spending decisions. However, we can say categorically that the business gateway activity continues to operate effectively. We have mechanisms in place for monitoring that service to ensure that there is no diminution in the service. In fact, we continue to develop the service in the best way that we can.

Scottish Enterprise is not directly involved in regeneration activities—those have been transferred. Nevertheless, we continue to have £12.5 million ring fenced in our budget for URC activity.

Stuart McMillan (West of Scotland) (SNP): I return to the issue of R and D and innovation. In your submission, you make an interesting point about

"low levels of broad innovation activity (with Scotland just above the bottom quartile of UK regions)".

As an aside, I would say that Scotland is a country, not a region. Could the low levels of innovation be down to the fact that fewer business headquarters are based in Scotland? Has there been a reduction in the number of business HQs in Scotland in recent years?

Hugh Hall: The low levels of business innovation are driven largely by factors such as leadership, confidence and folks' ability to step up their game. It is about businesses knowing and understanding how they can innovate and what mechanisms and tools they can use to develop. SMAS and account management activity more generally have worked effectively with companies to help them to understand and to reflect on how they can bring business innovation to bear to increase their profitability, size and so on. Much of it is related to softer issues, rather than where business HQs happen to be located.

Stuart McMillan: My question relates to the issue of where power and direction are located in organisations. I am trying to establish whether, in the business world, Scotland is considered to be a branch economy, rather than the hub from which businesses build. If so, what knock-on effect does that have on Scottish Enterprise's budget and on what it can do to assist organisations with research and development?

Hugh Hall: Scotland is dominated by small and medium-sized enterprises, and that is the area in which we are predominantly active. Large corporate HQs and blue-chip companies already have plenty of infrastructure in place to enable them to innovate. Our focus and attention have always been on the SMEs. It is a challenge, but we think that we have had some success in helping companies in that respect. We can track the success of a range of account-managed companies in terms of their profitability, growth and so on, and there are ample studies of how our interventions can help.

Often it is not about the provision of grants—or, if you like, the creation of a dependency on grants—but about what companies can achieve within their means, given the expert support, advice and encouragement that they get not just from Scottish Enterprise but from Scottish Enterprise working with other agencies. We seek to provide those organisations with as much support as we can, to produce organic growth and ambition that are reflected in increased internationalisation, more efficient processes that impact on the bottom line and so on. We put a lot of effort into that and see some good results from it. We need to ramp up such activity and to support companies through initiatives such as investment funds. We are primarily investment led. It is less about giving grants than about working in partnership and bringing our limited resources to bear in the most effective way.

Stuart McMillan: Mr Gallagher was nodding his head a moment ago.

Stephen Gallagher: Earlier, I mentioned nine larger awards that we have made this year. In appraisals, we sometimes see that the R and D grant that we provide is the thing that makes the difference when companies compare the internal rates of return that they can get here and in other plants. Returning to the point about branch versus headquarters, I note that many of the 55 large grants that were made between 2003 and 2009 have been with companies whose international HQs are outside Scotland. They include major manufacturing and production plants.

We did some analysis and found that the vast majority of the spend that the companies were making was new, and the leverage was substantial. I mentioned some names earlier for this year—Hammerfest Strøm is a Norwegian company; Nallatech is foreign; and Honeywell is foreign owned but has substantial plant here. Other grants in offer, which are confidential, involve a mix of indigenous Scottish companies, with a bit more demand coming through from here, and international companies with locations here. Regional selective assistance has also been successful in safeguarding and creating jobs in international organisations that are located here.

Stuart McMillan: I would be grateful for some more information, if you can provide it.

Stephen Gallagher: Certainly.

Stuart McMillan: At the bottom of the first page, your written submission mentions

"**low productivity** with output per hour around 15% less than the top performing OECD countries."

Over the past few weeks, the committee has heard that it is considered a competitive advantage, certainly in the banking and financial sector, for wages to be a wee bit lower compared with elsewhere in the United Kingdom. If we consider Scottish Enterprise's encouragement of organisations to come to Scotland and grow in Scotland—and bearing in mind the budgets that we have—how can we get round the problem of low productivity in reality, compared with the perception outside the Parliament and the political bubble that people in Scotland are being paid less to do the same job? The result is lower productivity.

Stephen Gallagher: In recent examples of inward investment, the average salaries have certainly been higher than the Scottish average. One good example is the international financial services district in Glasgow, where we have been heavily involved. There has been substantial investment over the past few years.

I will name some names. Tesco made a big announcement this year regarding its retail bank. BNP Paribas took additional space in Glasgow a couple of weeks ago. We might also mention Shell's financial processing. Part of those companies' competitive selection process is cost advantage, but their salary rates are higher than the Scottish average. It is no bad thing to see inward investment with those higher rates.

Our approach is to work with key sectors in those areas where we can see the greatest potential for such higher-value activity. Associated services will certainly enjoy some spillover. I will give you an example. At our annual general meeting this year, a colleague from Selex, an Edinburgh-based company that has been working with us and which has enjoyed research and development investment, mentioned an interesting figure: for every pound that went in, there was substantial spend in the local supply chain, which largely consisted of small to medium-sized enterprises. The money filters down.

Stuart McMillan: I refer you to the first bullet point in paragraph 14 of your written submission. It says:

"These are sectors that currently employ significant proportions of the Scottish labour market".

That comes under the heading "Responding to the Recession". As a West of Scotland MSP, I represent some large towns as well as small villages. When it comes to sustainability and longer-term growth, there needs to be even more of a focus on small local areas. I have highlighted the issue in the committee before with reference to recreational boating and sailing at marinas. There is a tremendous amount of growth there, and I know that Scottish Enterprise is undertaking some work in that area—I look forward to seeing the results in due course. An organisation employing five people in a small village might well be a large employer for the area, and that might be a more sustainable situation for the medium to longer term than bringing into a large town or city a larger organisation that might only be there for a short time. Scottish Enterprise has to show a greater appreciation that there is scope in smaller communities.

10:45

Stephen Gallagher: Economic geography and the rural agenda are an important factor, as is regional equity within our business plan. We account manage a substantial number of companies in rural areas that are supporting key sectors. For example, we are doing quite a bit of work in textiles.

Internationalisation for some of those companies is also a main agenda item for us. We helped 800 companies to internationalise last year. Through the power of our globalscot network, some of the textile companies now have their products in hotels overseas. We are very keen on international opportunities for some of those organisations.

Christopher Harvie (Mid Scotland and Fife) (SNP): Last week, I celebrated—if that is the right word—my 65th birthday, and I will be going back to my university in Germany at the end of my term here in 18 months.

Meanwhile, a fortnight ago, I hosted a meeting with the Baden-Württemberg minister for universities and research, Professor Frankenberg, Sir Tim O'Shea and Jim Mather about Baden-Württemberg's interest in development in Scotland. It should be understood that Baden-Württemberg is the biggest and most advanced industrial region in Germany, with a gross national product that is similar to that of Sweden in aggregate size. Its chief interest is in energy conservation measures and renewable energy. Its companies—inter alia, Voith Siemens and part interests in RWE and E.ON—already have substantial interests in Scotland, notably the Wavegen project. They are anxious to co-operate with us but my past dealings with Scottish Enterprise gave the impression that it was much more interested in the United States than it was in co-operation with European manufacturers. Has there been a change of strategic attitude to that? It is crucial that there should be one.

Stephen Gallagher: Absolutely. We have a substantial Europe, middle east and Africa presence in the Scottish Development International network. Last week we were over in Bremerhaven to have a look at the renewables industry there. You will also see that only international consortia can bid for the upcoming Crown Estate releases.

One of the real competitive and comparative advantages for Scotland is in the fact that 25 per cent of Europe's wind and wave power resources are in our surrounding waters, with 7,000 turbines around the British isles.

On helping companies to internationalise, I mentioned earlier the example of the account-managed company in Fife that is part-owned by a Swedish organisation. We are looking at expansion for that company. We are also considering expansion of the Scottish port for fabrication.

When round 3 of the Crown Estate releases comes in, we are potentially looking at 1,600 to 1,700 turbines in the Firth of Forth, Firth of Tay and Moray Firth. Limited capacity is available at the moment. We are addressing that as best we can, but the international dimension will have to come in.

Scotland's big win will be in tackling Scottish territorial waters, which in time will open up opportunities in the China Pacific basin and offshore South America. Scottish companies have done well in Aberdeen and throughout Scotland in the past 40 years through the oil industry's legacy, and there is a latent skill base.

We are working closely with those projects, and there will be more penetration into European markets. The Danes and Germans have certainly had strong leadership, but significant investment has been proposed by the Scottish utility base. Scottish and Southern Energy and the University of Strathclyde recently made an announcement, and we are working closely with them on a choice of location. I hope that that answers your question.

Christopher Harvie: It does. It also poses a supplementary question. So much of the activity in the renewables sector is distributed along the Scottish east coast, from Rosyth right up to the Pentland Firth and Stromness in the north. Does that not make it logical to think in terms of having even an ad hoc authority that bridges the two development bodies and can present a single negotiating platform when it comes to strategic co-operation?

Stephen Gallagher: I think that such a body exists already as SDI, whose ownership is clear: the Scottish Government, Highlands and Islands Enterprise and Scottish Enterprise. We have worked tremendously closely with our colleagues in Inverness. We have had significant inward investment inquiries from Europe and far-east Asia for fabrication, assembly and through-life support. SDI is certainly leading on the international dimension in that regard. I would not countenance or suggest the creation of another body.

Christopher Harvie: I would be reluctant to suggest that as well, except for the fact that a strategic body must be in possession of a feedback loop so that it can operate as a co-ordinator and planner. There is the likely input of the saltire prize and other awards, and the need to co-operate with the universities and colleges, particularly in developing sophisticated links such as high-definition TV and virtual laboratories. I think that those links are going to be absolutely essential, so there will have to be co-operation with telecommunication and other providers, too.

I am not sure that that can be done simply by using SDI, which is essentially a semi-diplomatic organisation. As an historian, I go back to the role of the munitions directorate in the first world war, which the Germans have good reason to remember because it defeated them. Perhaps an organisation structured like that is necessary in the current Scottish context.

Hugh Hall: The Government has stressed the importance of strategic alignment. Certainly, we have seen good advances in how the various governmental bodies work together and in how we work with the Scottish Further and Higher Education Funding Council, the universities and so on to ensure that we make the best of the opportunities. The question is how, as the industry advisory groups are refreshed—particularly the energy advisory group in this instance—we can use their intelligence and work with the collection of strategically aligned public sector organisations. That should enable us to move forward on issues without creating new infrastructures. The time spent on creating new bodies might be better spent on improving the strategic alignment of those that currently exist.

The Convener: There are only a couple of minutes left, because we have to deal with Highlands and Islands Enterprise, and the Cabinet Secretary for Finance and Sustainable Growth is due at 11.30. I think that Lewis Macdonald wants to come back in on additional information from the adviser.

Lewis Macdonald: Yes, I do.

Mr Hall, Gavin Brown quite reasonably asked whether you recognise the figures that I put to you earlier in the evidence session. I think that it is important to put on the record the source of those figures. In paragraph 10 of your submission to this committee a year ago, you gave your indicative spending proposals in broad terms. I will give you those numbers, and then invite you to comment briefly on them.

First, the number that was included for enterprise was, indeed, a total of £65 million, which was made up of £30 million on company start-ups and company growth, £21 million on internationalisation, and £14 million on organisational development. For the innovation and commercialisation field, I slightly understated what was in your submission last year. I said that it was £84 million, but in fact it was a total of £90 million last year, which was made up as follows: £35 million for IP regeneration, including ITI Scotland; £21 million for support for key sectors; £16 million for commercialisation; and £18 million for support to growth companies, including research and development.

Let me repeat those numbers: £65 million for enterprise and £90 million for innovation and commercialisation. They are different from the numbers that you suggested for your business plan and significantly higher than the numbers in your report to this committee this year. You might want to come back to us with a more detailed comparison of the two sets of figures, but it would be useful to have a brief comment on them today.

Hugh Hall: The figures that matter are those that were in Scottish Enterprise's published business plan for 2009-10. We have demonstrated in this round the reasons why we have been cautious about giving detailed figures at this stage in our deliberations on working up a business plan for 2010-11. In providing the figures that you mentioned, I did not have sight of things such as the impact of accelerated capital spend and the impact of transfers that happened after the committee's deliberations.

The committee takes evidence in October. A lot happens between October and the finalisation of our business plan in March the following year. It is important that the source of the comparisons is the actual figures that are used in the business plan and, probably more important, the actual outturn that is achieved in 2009-10, because we will adjust our 2010-11 proposals on the basis of the uptake of requests and so on. I think that we have demonstrated the importance of being absolutely firm on the numbers.

I say to the convener again that we gave you a detailed submission well in advance of the meeting. Had we been given earlier notice of the need for other detail, we would certainly have given it. We will certainly give it now, and we will also commit to go through the *Official Report* of today's meeting and comment on each and every one of the figures that have been used so that we can get an accurate record of the changes that have taken place, not just between 2009-10 and the proposals for 2010-11 but over a period of time.

We would be delighted to do that, but I must stress that it has to be done on the actual figures and the proposed budgets of the Scottish Enterprise board. If we use heavily caveated draft submissions as a basis for having a discussion and gathering an evidence base, we get off to the worst possible start. It has to be based on the actual figures.

Lewis Macdonald: Nonetheless, you would acknowledge that these were the indicative spending plans a year ago and—

Hugh Hall: They were the draft budget figures before consideration by the board, before the chancellor's announcement at the time of the pre-budget report on accelerated capital spend, and before transfers as part of the enterprise networks review. As I said, what we are doing here is underlining the problems of giving you detailed figures at this early stage in our deliberations.

Lewis Macdonald: So part of what you will be able to come back to us with is an explanation of how, for example, on innovation and commercialisation, the indicative plan—which was drafted a year ago, as you say—of £90 million was reduced to £66 million. You will be able to explain how that happened and at what stage that reduction was put into the public domain.

Hugh Hall: I will be delighted to do that.

The Convener: I make it clear on the record that, as a committee, we expect to receive information that helps us to compare what was previously proposed by an agency for which we are responsible with what it plans for future years. In that respect, I would have expected a budget submission that indicates some comparisons with what we received last year; if there are significant changes in that, an indication of what those changes are for the current financial year; and an indication of what is being proposed for the future financial year. We received information only about the next financial year, which you now tell us is frankly pointless because, as a board, you have not even decided what the budget is going to be.

That is no way in which the committee or the Parliament can scrutinise any public agency. It is not acceptable to us as a committee, and I hope that you will reflect on that and the type of information that you present to the committee in future years. It is not for us to go chasing up organisations on that basis. We should get information that is useful to us as a committee in scrutinising the budget, because we want to determine whether the budget that has been given to Scottish Enterprise is adequate to meet the responsibilities that you have. We cannot do that if the information is partial and incomplete—and that is what we received today.

Hugh Hall: I must come back on that.

The Convener: Sorry, no. You will come back if I ask you to come back. I call Wendy Alexander.

Ms Alexander: I ask the finance director whether he was present when we considered the budget last year.

Hugh Hall: I believe that I was, yes.

Ms Alexander: I ask him whether, in preparing for today, he had the opportunity to look at the submission that Scottish Enterprise made a year ago.

Hugh Hall: Yes.

Ms Alexander: He will therefore understand why we find it troubling that he told a committee member today that he did not recognise the two headline spending figures for the organisation for which he is the financial director.

We are not talking about detail; we are talking about headline spending figures for the top two budgets for which the organisation is responsible. It is clearly troubling that the financial director told a committee member that he does not recognise those figures even though he was present when we considered the budget last year and spoke to the figures and even though he reviewed them in advance of this meeting.

As I said at the outset, I regret that none of the organ-grinders is here and that none of the organisation's top three officials could find the time to be present to discuss the budget. That said, I welcome the undertakings that have been given to try to provide year-on-year comparisons and reconciliation.

Let us return to the substantive issue, which is whether the right policy choices are being made when Scotland is suffering from its worst recession for more than 50 years.

11:00

The Convener: That was a comment rather than a question.

Hugh Hall: I would dearly like to come back on that, convener, but in the interests of time we will just follow through with the information that you require.

The Convener: I thank Hugh Hall and Stephen Gallagher for coming to the meeting and hope that they have taken on board the points that we have made, which we regret we have had to make but which are important. I presume that we will follow them up with the minister when we speak to him.

We will have a short suspension while the panels change.

11:01

Meeting suspended.

11:05

On resuming—

The Convener: Our second panel is from Highlands and Islands Enterprise. I am sure that the committee wishes to pass on its best wishes to the chief executive of Highlands and Islands Enterprise, Sandy Cumming. We hope that he makes a full recovery. I welcome Sandy Brady, who is acting chief executive of HIE, and Forbes Duthie, who is HIE's director of finance and corporate services. Sandy Brady wants to make some opening remarks.

Sandy Brady (Highlands and Islands Enterprise): Thank you for those good wishes, which I will pass on to Sandy Cumming. He is making a steady recovery, and we hope to see him back in the office before Christmas.

I will keep my opening remarks brief; I am conscious of the clock.

One of the most significant differences between the Highlands and Islands and the rest of Scotland is that we do not have a single regional economy as such; rather, we have a series of important local economies that differ markedly from one another. Those differences have been reflected during the course of the recession. There has been a mixed picture; some areas have continued to perform strongly while others have fared less well.

Under the Government's economic strategy, Highlands and Islands Enterprise's role is to build sustainable growth in all parts of the Highlands and Islands. Our focus lies in three broad areas of activity: supporting high-growth businesses and sectors; strengthening communities, especially in the fragile parts of the area; and creating infrastructure and the conditions to improve regional competitiveness.

I am aware of the committee's desire for comparative information on the figures, which you expressed to us yesterday afternoon, convener. We have worked on that and I will give the headline numbers in my introductory remarks. However, like Scottish Enterprise, we are keen to give you a fuller tabulation that sets out some of the changes, where they have come from, and the explanations behind them.

Our written evidence shows the projected budget position as it stands. Compared with 2009-10, our cash spend on development is likely to rise next year by just under £2 million, or 4 per cent. That is as a result of projected increased European income and the removal of a requirement to make a lump sum pension scheme contribution, which was an exceptional item. Together, those two items more than offset the planned reduction in grant in aid.

We propose to raise our spend on high-growth businesses next year by around £700,000, or 3 per cent, and to raise our spend on strengthening communities by £1.4 million, or 15 per cent. We project that our regional competitiveness spend will be broadly the same as it is in the current financial year. Our operating costs will be further reduced by around 2 per cent.

The long-term economic progress of the Highlands and Islands remains on track despite the current economic difficulties. HIE's key challenge is to achieve balance. We are an organisation that invests both in pursuing opportunity and tackling need. As we focus on generating sustainable economic growth and work to make the best use of the resources at our disposal, we are very aware of the need to retain that crucial balance.

The Convener: Thank you.

I want to clarify something. Have there been any changes in the definitions in your budget? The figures that we have received from our adviser suggest that the regional competitiveness figure has gone up significantly, and that the figures for high-growth businesses and strengthening communities have gone down. You have suggested that there are slight increases in the latter two areas and that the regional competitiveness spend will be about the same.

Sandy Brady: There have been major adjustments because of how we have treated projects. I ask Forbes Duthie to say a little bit about that.

Forbes Duthie (Highlands and Islands Enterprise): I think that you are referring to the submission that we made to the committee last year, convener. Obviously, we manage our budget using a budget pot, so we can react to any major projects that come along. The current budget is therefore somewhat different from what it was. Hugh Hall explained what happens. The budget moves and evolves. The high-growth businesses budget for this year, which is probably the most important comparator in that context, is £21.6 million; it will grow to £22.3 million. There will be movements from figures that were given in previous submissions because we must take into account different projects as they come along. We find that some projects will happen more slowly and some will happen faster, and we must take that into account. Our policy has always been never to turn down a good project, so we must always make capacity for that in our budget. That is reflected in some of the dynamics that members will see in budgets between submissions.

Sandy Brady: One of the biggest adjustments in regional competitiveness that we have faced concerns the funding that we are putting into the Welcon Towers project in Machrihanish. When last year's figures were prepared, the position was not clear. We assumed that that funding would fall under the "High-growth Businesses" heading. In fact, we are contributing to the infrastructure behind the project, so the money has been allocated to the "Regional Competitiveness" heading. That is one of the major explanatory factors.

The Convener: Those comments are extremely helpful.

Rob Gibson: I am keen to look further at the "Regional Competitiveness" heading. Can you explain what it contains, so that we can get a handle on it? What are its main elements?

Sandy Brady: Regional competitiveness consists of a wide range of activities that involve our investing in the infrastructure of the Highlands and Islands. Let me give you some examples. The biggest and most important one is the series of investments that we are making in the university of the Highlands and Islands project. We are making a range of investments across the patch, from investments in large-scale infrastructure to support for the development of the institution.

Another key example is the investment that we are making in broadband connectivity in the Western Isles. The connected communities project will take broadband to all parts of the Western Isles that would not otherwise be reached by the telecom companies. A third example is our current investment in the European Marine Energy Centre in Orkney, a partnership project on which we are working with a number of partners, including Scottish Enterprise, to build up facilities for the testing of devices in both tidal and wave environments.

Rob Gibson: Does it include transformational projects such as those for north Sutherland and Caithness?

Sandy Brady: The transformational projects in which we are involved come under the headings of "Regional Competitiveness" and "High-growth Businesses". Where a high-growth business project is of sufficient scale, we will treat it as a transformational project. Equally, many of the things that we do under regional competitiveness, because of their scale, are treated as transformational projects. We make that point because we top-slice funds for transformational projects to ensure that the pain is borne across the whole organisation and does not impact unduly on one of our area teams, especially one of our smaller area teams, whose budgets can be quite small.

Rob Gibson: Which areas might suffer most if you did not top-slice? Are you referring to Caithness, Sutherland, Orkney or the islands?

Sandy Brady: If we did not top-slice, the areas that would be likely to suffer most are those with the smallest underlying budgets and population bases—Shetland, Orkney and the Western Isles are the three obvious examples. If the European Marine Energy Centre contribution had to be taken from the allocation that we make to our Orkney team, the team would be left with little residual funding with which to do other parts of its business. Top-slicing is designed to ensure that we protect the decentralised area structures that we maintain, as we must try to develop each local economy, instead of seeing the Highlands and Islands as one entity.

Rob Gibson: In taking forward transformational projects, how much are you at the mercy of decisions by other organisations—for example, the granting of licences in the Pentland Firth by the Crown Estate?

Sandy Brady: It is a characteristic of all transformational projects, other than those in which we deal directly with a single business, that we are involved in partnership consent processes and partnership funding. Some of the transformational projects that we list each year in our operating plan proceed at the pace that we expect, others move more slowly and others move more quickly. The purpose of maintaining that pot is to ensure that we balance things out, so that if we have to find money at speed for a project that has moved more quickly, we can do so. It is a juggling act that Forbes Duthie and his colleagues perform throughout the year, in close contact with project officers, because the pace of projects changes.

Rob Gibson: I will allow other members a chance to put questions, but I must move on to a second area. Does the development of community land fall under the heading of "Regional Competitiveness"?

Sandy Brady: It falls under the heading of "Strengthening Communities". That is the area in which we account for the funds that we put out for community land projects.

11:15

Rob Gibson: We estimate that there is quite a fall in the amount of money that you are spending on strengthening communities.

Sandy Brady: The amount of money that we are spending on strengthening communities has gone down over the past two or three years. To a degree, that is in response to the demands that have been placed on that budget. I suspect that if there had been any major community buyouts over that time, the figures would have been considerably greater.

We are developing community account management in the new HIE, and we are allocating extra funds next year for that purpose. The seeds that we have sown there are beginning to come through, and we anticipate a higher level being spent. As I said in my introductory remarks, that could be about £1.5 million in 2010-11. Strengthening communities is a really important part of what we do. It is not something that happens off to one side of HIE; it suffuses all that we do, not just in fragile areas—although that is where it is most important—but in local economies right across the patch.

Rob Gibson: You will be aware that the subject of land and community buyouts attracts wide public comment in the Highlands and Islands. As far as comparisons with the Scottish land fund and growing community assets are concerned, you have already said that fewer demands are being made. How much did HIE contribute through the community land unit towards such buyouts, compared with the amounts that were put forward through the national lottery?

Sandy Brady: We were an important funder. We were a minority funder of most of the large community buyouts—

Rob Gibson: What percentage of the funding did you provide?

Sandy Brady: The percentage has varied. It has sometimes been 10 to 30 per cent, but it has sometimes been a little bit more. The key expertise that we have put into the community land effort in the Highlands and Islands is that of our team. We have built the team up over the past five to 10 years and it is they who have taken communities through the difficult process of working with the market, finding funds, buying community land and then putting that land and its resources to use for the benefit of the community. That is where we have made the greatest contribution.

Rob Gibson: So there has not been any cut in the funds that the team has to work with.

Sandy Brady: The team that is in place today is largely the team that has been in place over that time. They are still there, working closely with communities that are considering buyouts and with those that have already done it and are trying to make the best use of their assets.

Rob Gibson: You have not said whether the team has the same amount of funds.

Sandy Brady: We do not ring fence a particular amount of funds for the team; they are willing to respond to each case as it comes forward. As it happens, no major funding packages have been required over the past two to three years. The last one, I think, was Stòras Uibhist.

Rob Gibson: Comment has been made about the lack of momentum in that area. It might be said that the community land unit is seen more as a gatekeeper for the lottery than as an enabler for communities in the Highlands. We need clarification of where you are at.

Sandy Brady: We continue to field inquiries from across the Highlands and Islands, many of which are for relatively small-scale, unsung projects. They are to do with the acquisition of small parcels of land and involve working with forestry land and so on. In the past few years there have not been the sort of spectacular community buyouts that took place in Eigg, Knoydart and Gigha, but there remains considerable interest. Each year we engage with communities from across the Highlands and Islands, and the momentum of that change in ownership and in the use of assets is still present, and will be fulfilled in other parts of the Highlands and Islands in future.

Lewis Macdonald: You could perhaps help us with some clarification. You mentioned the important work that is being done to invest in broadband in areas of the Western Isles. The Scottish Government submission on the budget identified an expenditure on the Government's part of £10.7 million, for pathfinder in the Highlands and Islands and the south of Scotland. To what extent is that expenditure money for which you are responsible and that you are spending as part of the project? To what extent is it separate from that?

Sandy Brady: Our input into the connected communities project is entirely separate, and it is funded from HIE's grant in aid. We are working closely alongside the pathfinder project. Connected communities is a partnership project with Comhairle nan Eilean Siar and NHS Western Isles. The public agencies in the Western Isles are major users of broadband, and part of the success of the project has been to help it to operate, as well as the islands' private sector and residents.

Lewis Macdonald: Is there, in the relationship between pathfinder and connected communities, a split between public and private customers, or is there an all-in-one collaboration to deliver the service?

Sandy Brady: It tends to involve an all-in-one collaboration.

Lewis Macdonald: That is helpful. My next question follows on from Rob Gibson's questions about fragile communities. The initiative at the edge attempted to identify and address particular resource in relation to those communities in the past. Is there, under the "Strengthening Communities" heading, a specific budget line that attempts to address those most fragile communities in the Highlands and Islands?

Sandy Brady: We do not ring fence money for the fragile areas, which constitute about 13 per cent of the population of the Highlands and Islands, but we work closely to ensure that we devote to them resources that are commensurate with the importance of such communities to us. The figure of 13 per cent would be the minimum amount, but in some years it will rise considerably higher, depending on which projects have come forward. Fragile areas are an important issue for us.

We are currently building on the initiative at the edge by progressing an initiative within HIE called growth at the edge. It involves bringing together our strengthening communities powers and our regional competitiveness and high-growth businesses powers in some of the most remote and sparsely populated parts of the region. That work builds on what initiative at the edge has brought us in the past 10 years, and we believe that we can take it forward. We are putting a very positive connotation on it: it is about growth at the edge, which involves helping communities to grow rather than—in a negative sense—trying to maintain things or stop decline.

Lewis Macdonald: Can that be identified separately in the budget, or is it not delivered in that way?

Sandy Brady: It is not delivered in that fashion.

Lewis Macdonald: That is helpful to understand. You will be aware that, during today's meeting and at previous meetings on the enterprise networks and the budget, the question has been asked about what the contraction of both enterprise networks might mean for their future relationship. How would you define the distinguishing features of Highlands and Islands Enterprise in comparison with Scottish Enterprise, in terms of the work that you are undertaking and the budgets for which you are responsible?

Sandy Brady: I echo Hugh Hall's comments on the current working between Scottish Enterprise, HIE and agencies such as Scottish Development International. We make great use of those national schemes; they are of great value to us. SDI does a great deal of good work for the Highlands and Islands, and the Scottish manufacturing advisory service is well used in the area, which we welcome.

Highlands and Islands Enterprise is coming from a different place from Scottish Enterprise; we have a different set of challenges and opportunities. As I said in my introductory remarks, we do not have a single regional economy. To take the Highlands and Islands forward, we have to work with the local economies in the area. Excellent growth in Argyll, for example, has little connotation for Caithness, and vice versa. We have to develop each of the local economies so that we continue to work on a decentralised basis. The area teams that existed under the old local enterprise company structure are still working in those local economies and trying to develop them. There is a difference in scale in relation to our work and that of Scottish Enterprise.

We believe that that is the best and most effective way to make a contribution to national economic growth, because if any of those areas did not develop, they would become a drag on what Scotland is achieving. Those parts of the Highlands and Islands that are doing relatively well, such as the Moray Firth, need to develop but, equally, we want progress in the fragile areas such as the north isles of Orkney, Ardnamurchan, the west coast, the Western Isles and so on.

Lewis Macdonald: The critical distinction between the type of communities with which you work and the work that Scottish Enterprise is accustomed to doing elsewhere is one of scale.

Sandy Brady: That is right. One simple comparison is that, as Hugh Hall mentioned, Scottish Enterprise works with a population of around 2,000 account-managed businesses, whereas our comparable figure for the Highlands and Islands is around 500. We are working with small businesses in remote, rural economies to develop them, but we are focusing on those that we believe have the best growth prospects.

Christopher Harvie: I will ask you essentially the same question that I posed to your Scottish Enterprise confrères; it cuts across what you have said in your strategic plan for your own locality.

To what extent may co-operation with very big beasts—only a bold man would take on Siemens—be necessary to deliver the support that will enable the rapid take-up of the sorts of inventions that are coming on stream, especially in tidal and current energy? In my view, development will be much more accelerated than we think at the moment and will not be limited to offshore wind. We must provide trained manpower, sites and manufacturing capacity that can integrate with what is coming from a landlocked area of Europe. That could demand quite remarkable adaptation, but the dividends would be huge and permanent. What plans do you have for that sort of integration?

Sandy Brady: As Hugh Hall implied, a great deal is happening. Renewable energy is a tremendous challenge and opportunity for Scotland—disproportionately so for the Highlands and Islands, one might argue. The Pentland Firth is a huge opportunity. Communities close by in the Highlands and Islands, in both Caithness and Orkney, believe that it is important to them in the long term.

We are broadly happy with the co-ordination that is taking place. I give the example of the Welcon Towers investment at Machrihanish, which has proceeded and has brought in a major Danish player to rescue the facility. Public sector investment has come from the Scottish Government, regional selective assistance and Highlands and Islands Enterprise. Everyone involved in the project, including the local authority, which oversaw the planning and infrastructural requirements, worked hard to bring it off. The project will be a great success for south Kintyre.

Other challenging projects will come forward. We will shortly know the identity of the successful bidders for the Crown Estate leases in the Pentland Firth. It will be a big challenge for the Scottish Government and its agencies to ensure that we work with them to provide the kind of services and infrastructure that companies are seeking. In the Highlands and Islands, we are reflecting on some of the challenges that we faced a generation ago, with the North Sea oil industry. The lessons of that time are that we must be clear about what companies are looking for and try to provide those facilities, so that we do not end up with platform production yards that are never used to build platforms.

Christopher Harvie: I wrote the history of North Sea oil, so I know about that. At this stage, it would be logical for you to have direct contact with bodies such as Voith Siemens, to get a notion of the extent to which they are developing basic research. My inquiries indicate that they are doing much less than we are capable of doing here at an academic level. The problem comes in the hinge from fundamental inventiveness to line production, where we have various gaps to fill in the offer that we can make to them, if we are to maintain our autonomy.

Sandy Brady: That is undoubtedly true. Highlands and Islands Enterprise is contributing the expertise that it has, but, as the regional economic development agency, we are dependent on our colleagues in Scottish Enterprise, SDI and the Scottish Government to take matters forward at national level. We will do our utmost to ensure that the lessons of the past are applied and that the real economic benefit to our communities is realised in the best way possible. It is a long-term benefit.

Christopher Harvie: At the weekend, I will lecture in Glasgow to the Studienstiftung des deutschen Volkes on a paper entitled “The Kaiser and the Clyde”, which is about why underestimating Scottish potential in 1914 and 1915 cost the Germans the war. I commend to you the structure of the munitions directorate for Scotland at that time, which was extremely flexible and effective. We require a functioning organisational core, which must be operated jointly by Scottish Enterprise and Highlands and Islands Enterprise. If it is not, there will be division, which would be fatal at this stage.

Sandy Brady: We work closely with Scottish Enterprise on all key sectors, especially this one, in which foreseeing demand is a little more challenging than in some more mature sectors.

The Convener: I am sure that the official report will be pleased to know that I will not mention any lecturing that I will be doing.

There was concern last year about your budget’s likely capital receipts. I note that your budget this year estimates a significant reduction in capital receipts for next year compared with what was estimated for this year. Can I take it from that that you are not likely to get the capital receipts that you hoped for this year?

11:30

Forbes Duthie: Your comment is fair. At least 50 per cent of our capital receipts come from property sales; the other portion is from property rental. As we know, the banking sector is not lending, so property sales have fallen off. We feel that it is appropriate not to set ourselves a target that we cannot achieve, so we have reduced our property sales target. However, we are exceeding our property sales target in the current year, so I have raised it. We see more evidence of banks starting to lend, so I hope that we will be able to review our target as the year progresses. Right now, though, we have taken a prudent view for property sales in next year’s budget.

The Convener: Are you selling assets for more than you paid for them, or are you making a loss on some?

Forbes Duthie: We are selling our properties for market value. We would not sell below—

The Convener: Yes, but that is not the question that I am asking. The market value is different from what it was when you bought the properties.

Forbes Duthie: One of the problems in Highlands and Islands is that the cost of building properties is often more than their value. That is why we have a non-cash budget to account for depreciation and impairments. It would be rather difficult in the short term for us to make a profit on buildings in, say, the Western Isles. However, in the longer term, as inflation kicks in, I am sure that it will be possible to do so. We therefore do not make a profit on many of our properties in terms of cost, but we do against market value.

The Convener: Is HIE's overall budget sufficient to meet the economic situation in the Highlands and Islands? Do you have enough to cope with the demands on your agency?

Sandy Brady: Yes, we do. Our agency has always tried to make the best choice from the projects in front of it and to optimise the use of resources. That discipline applies, regardless of the size of the financial envelope. We are pleased with the budget that we have, and we believe that we have excellent opportunities.

As I said, our challenge is to try to balance opportunities in the most prosperous parts of the Highlands with tackling need in the more difficult parts. We have always tried to apply that method, and we will continue to do so. It is about making tough choices, as Hugh Hall said, between competing projects, which are sometimes difficult to compare. For example, we might have to compare direct investment in a company with long-term investment in the university of the Highlands and Islands to improve the learning infrastructure of the area. We like to make such choices and to have sufficient opportunity to do so, rather than scratch around to find things to spend money on. We are happy that we will do the very best that we can with what we have been given.

The Convener: If more money were made available from the Government, would you be able to use it to benefit the economy in the Highlands and Islands?

Sandy Brady: We would answer that question in the same way as any other public agency: yes, of course we would. Economic development is sometimes about opportunism. Were a major project that is currently unforeseen to come forward, we would hope that our colleagues in Government and other agencies would recognise that there might be a need to find special funds quickly. There are no such projects on the stocks at the moment, but they have happened in the past. We would love the opportunity to develop one, should it turn up.

The Convener: I have a final question, which is on issues surrounding the Scottish investment bank and access to JEREMIE and JESSICA funding. Has Highlands and Islands Enterprise been involved in discussions on the Scottish investment bank and access to any of those European funds?

Sandy Brady: Yes, we are involved in such discussions, playing a supporting role alongside Scottish Enterprise.

The Convener: As there are no further questions, I thank Sandy Brady and Forbes Duthie for coming along and answering questions fully and informatively. I suspend the meeting for five minutes.

11:34

Meeting suspended.

11:38

On resuming—

The Convener: Our final panel on scrutiny of the draft budget for 2010-11 is the Cabinet Secretary for Finance and Sustainable Growth, John Swinney, and his officials. I ask the cabinet secretary briefly to introduce his supporting cast and to make any opening remarks that he would like to make.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): I am joined by Wilson Malone from our enterprise networks division; Jamie Hume, the deputy director on renewables, who is standing in for Colin Imrie; and David Reid from the Scottish Government's finance division. The statement that I made to Parliament in September, which set out the draft budget, put on the record the context in which the budget has been set. I will be delighted to answer questions on the content of the budget.

The Convener: I refer the cabinet secretary to the written evidence that we have received today from the Scottish Council for Development and Industry. It states:

"The Scottish Government has stated that its purpose is higher sustainable economic growth and it is even more important that its decisions are based on this priority."

It goes on to say:

"Overall however, we do not consider that the draft Scottish Budget displays this long-term prioritisation".

Do you agree?

John Swinney: I do not agree, convener. During its period in office, the Government has taken a number of steps to recognise the importance of sustainable economic growth and to ensure that we deliver the increased performance that we all want to see in Scotland. That approach has been at the heart of the decisions that the Government has made.

I remind the committee that we are dealing with a fundamentally challenging economic climate and a very challenging public spending outlook. We have had to set a budget that takes into account the fact that we have £500 million less at our disposal than we expected to have. We have also had to deal with the repayment of accelerated capital expenditure that the Government argued for, which we considered essential and which has formed a major part of the Government's economic recovery plan. Over the past 15 or 16 months, the Government has actively taken steps to adjust its plans and priorities to deal with the economic situation; those steps have concentrated on the economic recovery plan.

When I look at the various interventions that the Administration has made, I think that we are doing all that we possibly can within our resources to support the Government's purpose of increasing sustainable economic growth.

The Convener: I will try again. The Confederation of British Industry Scotland's written submission states:

> "CBI Scotland has strongly supported the Scottish Government's stated purpose of increasing sustainable economic growth, and this should guide the prioritisation of the outcomes it wants to achieve. Better use can and ought to be made of the £35bn annual spending plans to realise this and ensure devolved spending is a more effective catalyst for growth, thus helping job creation, prosperity, and by reducing demands on the public purse."

The Federation of Small Businesses Scotland makes similar comments. Are all those organisations wrong and is the Government the only organisation that is right?

John Swinney: The Government must ensure that its budget meets the needs of all the people of Scotland. When I presented the draft budget to Parliament, I said that my aim had been to do two things: to prioritise the promotion of sustainable economic growth and to protect front-line services. That is what the Government tries to do.

The written submissions to which you refer contain many arguments about the ability to spend more money. Of course, there are always propositions about the spending of more money. However, I must balance and reconcile the difficult choices that we face in dealing with a budget that, for the first time since devolution, has declined in real terms. Those choices are difficult, but the Government is making important interventions by, for example, providing financial support to agencies such as Scottish Enterprise and Highlands and Islands Enterprise. Scottish Enterprise is developing the Edinburgh BioQuarter in partnership with NHS Lothian, the University of Edinburgh and the City of Edinburgh Council, while Highlands and Islands Enterprise is developing the Beechwood campus in Inverness along with the university of the Highlands and Islands and Highland Council.

You mentioned the CBI's position. I have heard no complaint from the CBI about the fact that the Government has prioritised its interests by creating the small business bonus scheme. That scheme is not universally welcomed in the Parliament; indeed, I had to contest fairly vigorously to get it through the parliamentary process.

Those measures will help the business community directly and will assist in taking forward the Government's agenda on increasing sustainable economic growth. I understand that people have different views about the choices that we have made and the priorities that we have established. Nevertheless, I assure the committee that the determination to protect front-line services and promote sustainable economic growth has been at the heart of our decision making.

11:45

The Convener: I appreciate that the Government must make difficult choices in difficult times when finances are tight, but why have you chosen to cut the budgets of Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland—the agencies that are involved in promoting and developing our economy—more than any other part of the Scottish budget?

John Swinney: It is important to look at some of the changes that have taken place in those budgets. Accelerated capital expenditure has had to be repaid. I have had to require Scottish Enterprise to repay in 2010-11 £35 million of accelerated capital expenditure. The spending of that money in 2008-09 and 2009-10 was welcomed by various commentators as the right thing to do. I think that it was the right thing to do and I was glad that we had the flexibility to do it. That is why I argue that we have another opportunity in the pre-budget report for the chancellor to do the same again and provide us with that flexibility. Undoubtedly, it has helped to support economic recovery.

There have been transfers out of the Scottish Enterprise and Highlands and Islands Enterprise budgets to the business gateway. There have been transfers out for local regeneration where we have been drawing such matters closer to the functions and responsibilities of local authorities. Many adjustments have to be taken into account in looking at how such questions are resolved.

The Convener: Although it does not seem to come into your calculation of the total amount of money that is available to the Scottish Government, I think we all understand that when you advance capital expenditure, you have to repay it next year. Even if that is taken out of the equation, the spending for Scottish Enterprise, for example, is down by 4 per cent in real terms.

John Swinney: I do not in any way dispute the fact that accelerated capital expenditure has to be repaid; I have made that crystal clear and have never disputed it. In the letter that I sent to the chancellor in advance of the pre-budget report, I laboured the point with him—the gross domestic product statistics that were released on Friday give us a bit of a cautionary warning about this—that although economic conditions are improving, the economy is still pretty fragile, as most of the survey evidence supports or suggests.

In 2010-11, I would prefer to continue with the injection of capital expenditure that we think is required to boost and stimulate economic recovery in Scotland and therefore delay the repayment of that expenditure until 2011-12. I accept that the money has to be paid back at some stage, but given the pattern of development in the economy, we could benefit from having another tranche of accelerated capital expenditure, which is why I made the pitch that I did.

In a number of other areas, Scottish Enterprise and Highlands and Islands Enterprise have been reshaping their organisations by reducing head count, for example, and as a consequence, savings are being delivered annually. I am satisfied that, within the context of the resources available to me, the Scottish Government is giving appropriate and adequate resources to Scottish Enterprise and Highlands and Islands Enterprise to fulfil the functions that we expect of them.

Rob Gibson: Where I come from, renewables offer the best potential to aid the recovery of our economy. Under the heading "Low Carbon Economy", the SCDI submission says:

"The Scottish Government has increased the renewable energy budget from £22m to £32m in 2010-11, but it is unclear how this will be allocated and if it will be sufficient to fund the wide range of initiatives which it is supposed to enable."

Have you any comments on that analysis?

John Swinney: I am glad that the SCDI acknowledges the significant increase in funding that is available for renewables—there is a 45 per cent increase in funding for 2010-11 versus 2009-10.

The Government will look carefully at the priorities that can be taken forward to encourage further development of the renewables sector during 2010-11. Announcements will be made as we consider the different opportunities and propositions that are available to us. As the committee knows, the Government has worked closely with the marine energy group to produce the road map for marine renewables, which I had the pleasure of announcing when I was in Orkney. There is an opportunity for us to develop many of the ideas and projects in the proposals from the marine energy group. That is just one example of the advantages and opportunities that we can take forward. We will look at a number of propositions in relation to renewables development.

Rob Gibson: The renewables action plan and the marine energy road map suggest that there is perhaps a need for Government priming of projects that have not yet been identified but which will be identified through the plans in the next six months to a year. Is there any flexibility to find cash for specific projects that will enhance that? The SCDI is calling for more weighty initiatives. Is it the case that, although Government funds are tight, there will be room to try to fund some of the aims that are stated in the renewables action plan in particular?

John Swinney: Yes. That will be the focus of our decision making on these questions. We will of course be happy to have discussions with the committee as we make decisions during the year.

The Convener: I seek clarity on the funding for renewable energy. Is it not the case that £10 million of that is just a notional fund to meet the cost of the saltire prize in 2014-15, so it is not additional money for this financial year for spending on renewable energy?

John Swinney: That has been the subject of discussion and debate. I will explain the rationale behind the presentation of these items in the budget document. The Government has made a commitment to fund the saltire prize to the tune of £10 million. It is not expected that that would be required during the financial year 2010-11. In presenting the information, I had a choice. I could choose not to show that information, because it will not arise in 2011, but make it clear that the Government has a commitment to it. Alternatively, I could choose to show that sum of money, which is not "notional"—it is essentially available to spend, but I know that the purpose for which it is required is not expressly to be drawn down during 2010-11. I could have been exposed to the criticism that I had not made any provision whatever for the saltire prize. I chose to show the information in this format, but I give the committee the commitment that the £10 million will be used for renewables projects, which I have set out in public comments. I hope that that clarifies the issue for the committee.

The Convener: Just to clarify your clarification, are you saying that the £10 million is notionally set aside as saltire prize money but will be available to be spent on other renewable energy projects?

John Swinney: That is exactly what I have said.

The Convener: Thank you. That is helpful to know, although it is not what it says in the level 4 budget information.

Ms Alexander: When will the saltire prize be awarded? The Government has made public commitments on that, but perhaps you will clarify them.

John Swinney: The public commitments are that we expect the saltire prize to be awarded around 2014-15.

Ms Alexander: Does that still stand? Is the money allocated for that year?

John Swinney: As Wendy Alexander knows, we do not have any forward spending information beyond the 2010-11 budget, so I am not in a position to specify whether money has been allocated. The Government has made that commitment, which will be honoured in full at the time when the saltire prize is to be awarded.

Ms Alexander: Is that £10 million ring fenced for that purpose?

John Swinney: I have said that the £10 million will be available for the saltire prize. If we want to use the term "ring fenced", we can do that. That will be in the 2014-15 budget, for which I have no financial information and for which I have not set a budget. Clearly, with the commitment that the Government has given in that respect, it would be inconceivable for that £10 million not to be available—we are running a competition for it.

Ms Alexander: The cabinet secretary stated that there is a 45 per cent increase in real terms in the renewable energy budget. In the level 4 information that the chief economic adviser helpfully provided, under the category of renewable energy, there are electricity statutory consents, electricity statutory consents income, renewable energy and the saltire prize. Will the cabinet secretary tell us—if he cannot, perhaps one of his officials can—what the real-terms increase is in the renewable energy line that is a subset of the renewable energy category, so excluding electricity statutory consents, electricity statutory consents income and the saltire prize?

John Swinney: I generally do not bring a calculator to public appearances, as I find that to be an undesirable approach politically. However, I can give Wendy Alexander the numbers on renewable energy. She said that I commented that there was a 45 per cent increase in real terms but, to clarify, I said that it was a 45 per cent increase; I did not say that it was in real terms. In 2009-10, the budget for renewable energy on level 4 data was £22,025,000. In real terms, that would compute into a figure of £21,700,000. The saltire prize figure is £10 million in 2010-11, which, as I said, would be combined with the renewables budget.

Ms Alexander: Is the renewable energy line an increase or a decrease on this year's budget?

John Swinney: The budget is the same on that line, but it is obviously increasing because the saltire prize resource will be available to that budget line.

Ms Alexander: It is a cut in real terms.

John Swinney: Not when we take into account what I have said about the saltire prize.

Ms Alexander: But the renewable energy line—

John Swinney: That point is irrelevant. The numbers are going from £22,025,000 to £32,025,000 in 2010-11. In no form of contortion could that be described as a real-terms reduction.

Ms Alexander: I just ask, for a third time, about the renewable energy line.

John Swinney: I will answer in the same way for the third time, because the answer is the same the third time as it was the second and first times. The numbers go from £22.025 million in 2009-10 to £32.025 million in 2010-11. There is no way on earth that that could be described as a real-terms reduction.

Ms Alexander: Let me clarify the question that I asked for the third time. I am asking about the renewable energy line within the renewable energy subheading, so not including electricity statutory consents, electricity statutory consents income or the saltire prize.

John Swinney: I am simply making the point that, in a world in which we are supposed to look at outcomes and what can be achieved, the outcome that can be achieved is that significantly more resource will be available for renewable energy expenditure in 2010-11 than was available in 2009-10.

Ms Alexander: How will it be available in 2010-11, when we have just heard that it is ring fenced for being allocated in the year 2013-14?

John Swinney: Sorry—perhaps I am not explaining myself clearly enough. I have said to the committee that I decided to show £10 million in this budget for the saltire prize, which is a Government commitment. I could have shown zero, because I know full well that the saltire prize will not be awarded in 2010-11, but I did not show zero, I showed £10 million. I am saying to the committee that that £10 million, which will not be spent on the Saltire prize, will be available for expenditure on renewable energy. That is why the budget is going up from £22.025 million to £32.025 million in 2010-11. I hope that that is clear.

12:00

The Convener: I think so. Perhaps we should stop there while we have that clarity instead of putting it at risk again.

Lewis Macdonald: I think that you will acknowledge that the fact that your portfolio has experienced the greatest absolute reduction in budget in this year's proposals has prompted expressions of concern from a number of business organisations. This morning, for example, you might have seen the comment by Liz Cameron of the Scottish Chambers of Commerce that a £74 million reduction in the enterprise budget does not suggest that growth of the economy is the Scottish Government's first priority. What is your overall take on that? After all, this is all about priorities. I completely accept your point that tough choices have to be made, but do you acknowledge that, outwith the Government, many people who are involved in the economy are surprised that the Government's central purpose of sustainable economic growth, which you, among others, have promoted, has not been reflected in the proposed budgetary allocations?

John Swinney: As I said in my first response to the convener, I fundamentally reject that proposition. I have, of course, seen the comments that have been reported this morning. First, I do not recognise the figure of £74 million that has been mentioned. Secondly, any change to the budgets of Scottish Enterprise and Highlands and Islands Enterprise has to take account of the fact that, since the 2009-10 budget itself was formalised, other transfers have been made from those budgets. Money for business gateway, for example, has been transferred to local government, which means that it is still being spent on economically supportive measures. Moreover, as part of the Government's commitment to get local authorities more involved in economic development, money has been transferred out to local government for local regeneration. Again, that money is still being spent on the economy.

As I explained to the convener, we have had to pay back £35 million of capital expenditure in this area and, indeed, we have had to pay back other volumes of capital expenditure that have been brought forward in transport and other parts of my portfolio. All those factors have to be borne in mind. No one would be happier than I would be if we were able to decide on accelerating further capital expenditure to ensure that we did not have to deal with such matters, but, as Mr Macdonald knows, I am not the absolute decision maker in that respect. In the current financial framework, the Chancellor of the Exchequer takes such decisions, and I hope that he will take steps to ensure that we can bring forward further capital expenditure.

We should acknowledge that Scottish Enterprise and Highlands and Islands Enterprise are fundamentally smaller than they once were. Long-term annual efficiencies have been generated by reductions in head count. There has been a lot of comment about the voluntary severance schemes; however, one of the by-products of voluntary severance is that an organisation's running costs fall, with the annual benefit that that brings for the years to come.

By highlighting those factors, I think that I have explained as far as I can the point that was raised in the news this morning. However, that is not the sum total of the Government's expenditure on economically supportive measures. I should point out, for example, the Government's support for Scottish Water in its capital and investment programme and our expenditure on transport infrastructure projects. Believe you me, there is no shortage of such projects around the country, if the number of road works on our major arterial routes is anything to go by.

I also cite my fascinating visit the other week to the Highland diabetes institute in Inverness. That is a fantastic joint venture between NHS Highland, Highlands and Islands Enterprise, and the University of Stirling, which are all working together in a combined environment to develop further the work that is done by Lifescan Scotland in Inverness on fantastic propositions for research into diabetes with commercial applications. We started with the Edinburgh BioQuarter and we are continuing in other parts of the country. We are succeeding in getting organisations in the public sector to engage much more in trying to create economic opportunities for the development of the Scottish economy. That is exactly what we should be doing. Expenditure on supporting the economy is not just contained in the budget lines for which I have responsibility, although they might be the more obvious ones.

In addition, the Government has put in place support for the small business bonus scheme. I know from my visits around the country, from my constituency, and from the evidence of the Federation of Small Businesses that one in eight small businesses would have gone out of business without the small business bonus scheme. Small businesses are the backbone of the Scottish economy, so that is a good outcome.

Those are all the things that we do to support the economy. I accept that we could do more, and I would love to be able to do more, but I have to operate within the fixed set of resources that I have available.

Lewis Macdonald: I understand the point and I do not seek to itemise the £74 million that Liz Cameron referred to this morning; I am sure that she will do that herself in due course. However, we have already discussed areas for which you have direct and clear responsibility, and I would like to put some numbers to you. Scottish Enterprise's submission to the committee of a year ago included indicative plans for spending £90 million on innovation and commercialisation and £65 million on enterprise advice and support to businesses. This morning, we heard that although this time last year Scottish Enterprise was planning to spend £90 million and £65 million on those areas over this year, for the coming year it is planning to spend £53 million and £42 million. Those are quite significant cuts in budget areas that are directly and specifically for supporting the business sector in the Scottish economy.

Hugh Hall explained to us very carefully that Scottish Enterprise's plans of a year ago in those areas were not fully delivered under the business plan and the outturns; nonetheless, the ambitions for spending on those areas have been significantly scaled back. Will you comment on that and on the perceptions of the business community about the Government's commitment to those areas?

John Swinney: At that level of detail, Scottish Enterprise is obviously best placed to give a like-for-like comparison, as its representatives said to the committee this morning that it would do. Some of those budget headings can be very generic and we need to look at the detail of what is to be spent under them. I am sure that Scottish Enterprise will provide that information to the committee.

My answer is to look at the overall financial position. When I take into account all the issues around transfers, capital repayment and the various gains that are made as a consequence of reducing the organisations' running costs through voluntary severance, the budgets of Scottish Enterprise and Highlands and Islands Enterprise are, in my view, comparable and sustainable and should enable those organisations to fulfil our expectations of them and their work. Of course, we discuss that regularly with those agencies; I will see Scottish Enterprise's board later on this week and we will discuss many of those questions as part of its forward planning for 2010-11.

Lewis Macdonald: Nonetheless, in terms of prioritisation, the budgets are clearly on a downward trend. I am sure that you will appreciate why, from the perspective of those in business who are trying to make the economy grow, the choices that the Government makes do not appear readily to square with the rhetoric of making that the Government's central purpose.

John Swinney: As I said, I do not accept that point. Let me talk about some of the changes that Scottish Enterprise has made. It has taken forward proposals to draw its work much more closely together with that of the ITIs. That has resulted in savings on overheads and the avoidance of administrative duplication through the sharing of services while ensuring that people are still able to innovate and develop competitive commercial propositions. The ability to spend the money where it matters—at the coalface, on the development of innovative ideas, rather than on the administrative architecture of the agencies, which costs a lot of money to maintain—is important. That is what Scottish Enterprise is aiming to do in relation to the work of the ITIs.

You mentioned VisitScotland. In 2009-10, the VisitScotland budget was inflated to deal with the year of homecoming. I concede that expenditure. Many people doubted the wisdom of that expenditure or said that the amount was inadequate, but, as we have seen, the year of homecoming has been a tremendous success. In the recess, most of which I spent in a frenzy of work around my party conference, I had a minor day off in the Highlands and Islands. The feedback that I got from hoteliers and businesspeople in the Gairloch—which was similar to the feedback that I heard when I was holidaying in the Western Isles in the summer—indicated that they were having an absolutely fantastic tourism year, which they ascribed to the year of homecoming and to the road equivalent tariff, which is another of this Government's economic development measures that does not feature in some of the budget lines that we are talking about today but which is a significant contributor to the development of the economy.

Lewis Macdonald: I was also in the Western Isles in the summer, and I share your experience of the tourism situation there. Tourism is clearly critically important to that area, and I am sure that you would agree that the commitment that the Government makes to the tourism industry must therefore be a long-term one rather than a one-off initiative.

John Swinney: I agree. That is why we are delivering sustained resources to VisitScotland and implementing measures such as the road equivalent tariff scheme, which are designed to boost significantly the opportunities for people to visit fantastic parts of our country.

Lewis Macdonald: Earlier, the Scottish Enterprise representatives said that, with regard to the merger of ITI Scotland and Scottish Enterprise, their emphasis was on shifting from the ITI approach of maximising the creation of intellectual property to an approach that focused on the commercialisation of intellectual property. What are your views on that?

John Swinney: There is no difference of emphasis between what I am saying and what Scottish Enterprise is saying. I support Scottish Enterprise's view that there needs to be greater efficiency in the system. In a 10-year programme, which is the basis on which the ITI model was developed, it is clear that, at some stage, there has to be a commercial benefit from the work that has been done. That is what Scottish Enterprise is concentrating on.

Lewis Macdonald: Although there was some dispute about the exact numbers, I do not think that the witnesses from Scottish Enterprise disputed the proposition that Scottish Enterprise's investment, on your behalf, in innovation and commercialisation was going down rather than up.

John Swinney: Within the body of the detail that will underpin the Scottish Enterprise business plan, the like-for-like comparison that Scottish Enterprise has said that it will give to the committee will be able to address some of those questions.

My point is that it was entirely reasonable for Scottish Enterprise to try to find ways of maximising the support for front-line innovation activity, if I may call it that, and of minimising the duplication that undoubtedly existed in the architecture that surrounded the ITIs. I am not criticising people for how that was constructed—it is just a fact of life that there was a different construction and that we now have a simpler, more ordered construction that saves resources that can be valuably deployed to deliver innovation in Scotland.

12:15

Lewis Macdonald: I seek clarification of a different matter on which we have already touched—the saltire prize and the renewable energy budget. You referred to the fact that in the summer the marine energy group proposed the creation of a fund on a year-to-year basis to provide support for second-stage development and deployment of marine energy projects and technologies. This morning we have heard from you about a single allocation of £10 million. It sounds to me as if you are making that money available for projects in the course of the coming financial year; if so, that is welcome. However, is the £10 million built into the baseline for future years?

John Swinney: Here we get into an issue that is a challenge for all members of Parliament to wrestle with—the long-term sustainability of public finances. As Mr Macdonald will know, and as I said to Wendy Alexander, I have no financial information beyond 2010-11. I have been open with Parliament about the analysis that my finance advisers have undertaken. The analysis of the long-term perspective on public expenditure in Scotland that I have received from the chief economic adviser indicates that we have some pretty tough times ahead of us. There is not a commentator who says that budgets will not reduce in real terms in the medium term. In that context, the Administration must set its priorities clearly.

I recognise fully that investment in the renewables industry cannot be short term and that a commitment to sustain investment in the long term must be given. Since this Administration was elected, the renewables industry in Scotland has been helped by the absolute policy clarity that we have provided. No one in the renewables industry disputes in any way that we are serious about renewables and their development in Scotland; they can see that the Government has nailed its colours to the mast, to coin a phrase. We must reflect that in our priorities. Without giving a specific commitment on the £10 million—I hope that Mr Macdonald understands that it is difficult for me to do so in the absence of financial information—I give the strongest commitment that the Government is in renewables for the long term.

Lewis Macdonald: I understand the point and the difficulty of making predictions. If next year you are again in the position of coming before the committee with a budget that includes a number for renewable energy of between £25 million and £30 million, will you describe that as an increase or a reduction on this year's budget?

John Swinney: The starting point will be the budget of £32 million, which, for the avoidance of doubt, is a 45 per cent increase on the 2009-10 figure. I will be delighted to explain all manner of percentages to the committee in 12 months' time, if I am spared that long.

Gavin Brown: Various committee members have referred to the fact that business organisations such as the CBI, SCDI and the Scottish Chambers of Commerce have criticised the draft budget on the basis that it does not prioritise sustainable economic growth. You have disputed that. Have any business organisations or commentators taken your view and said that the draft budget prioritises economic growth?

John Swinney: I certainly remember that, when I announced the draft budget, there was plenty of commentary that said that I had taken decisions to prioritise economic growth and to protect front-line services. That dominated the assessment of the draft budget when I set it out on 17 September.

Gavin Brown: Have those people all changed their views in the intervening months, then?

John Swinney: Obviously, business organisations have a job of work to do, which is to maximise the resources that are available to invest in business. That is what their members pay their subscriptions for. I have certainly heard from the Federation of Small Businesses that it is delighted with the Government's sustained commitment to the small business bonus scheme, which is estimated to have resulted in one in eight small businesses being able to survive in a very difficult economic climate. However, it is obviously in the nature of business organisations to aspire to secure more investment to support business. That is their raison d'être, and I do not dispute that. I simply point out to the committee that my duty is to introduce a budget that reflects the Cabinet's agreed propositions and fulfils the Cabinet's requirements, which are to promote economic recovery and to protect front-line services. The draft budget is the judgment that I have arrived at.

Let me marshal some details to make it clear that, in looking at year-on-year comparisons, we must take into account certain other factors and events, such as the repayment of accelerated capital expenditure. I have made it perfectly clear that I would be delighted to deploy further acceleration of capital expenditure if I could, but all members are familiar with the constraints of the financial framework within which I operate. We need to take full account of those points in making decisions. I think that the business organisations are saying that we need continued investment in the economy. I agree with that, and we are taking that forward in a host of different areas. Our task would be made easier if we had a further tranche of accelerated capital expenditure.

Gavin Brown: I understand that point. However, just for absolute clarity, are any business organisations saying now that the draft budget prioritises economic growth?

John Swinney: I have not seen comments from all the business organisations, so it would be inappropriate for me to answer that question.

Gavin Brown: Let me rephrase the question. Have you seen any comments from business organisations that have said that?

John Swinney: Well, I have heard plenty of commentary—I cited the FSB's comments—welcoming the clear commitment that we have given to investing in the Scottish economy. Having marshalled all the ways in which we are prioritising economic growth in different areas of expenditure, I think that the draft budget speaks for itself as a genuine piece of work that seeks to achieve the two objectives of promoting economic recovery and protecting front-line services.

Gavin Brown: Let us consider some figures then, which other members have asked about. The tourism budget is being cut next year. The explanation for that cut was that the homecoming funds that were in the 2009-10 budget will not be in the 2010-11 budget because we do not have a year of homecoming next year. However, as you well know, that does not explain the entire cut; it accounts for only about £2.5 million of the £5 million decrease. That means—I know that you do not have your calculator with you—that about £3 million of the cut is not explained by the fact that there will be no year of homecoming next year. Can you explain why the tourism budget is being cut in that way?

John Swinney: I have to take some difficult decisions about where we can absorb the £500 million of cuts in our budget. Those cannot come from thin air, so they need to come from somewhere. Unfortunately—and regrettably—I have to take those decisions across different parts of Government. Therefore, £2.5 million is being taken out of the tourism budget as a contribution towards dealing with the £500 million of cuts. However, £0.25 million is being redirected to other tourism projects, which will be announced in due course.

Gavin Brown: The Government said in its economic recovery plan that tourism is a priority, and you are saying that the overall budget has been cut by 0.9 per cent in real terms. However, the tourism budget, which is meant to be a priority, will take a cut that is larger than 0.9 per cent. How can you say that tourism is a priority when it will take a larger-than-average cut?

John Swinney: Because we will assist and support tourism businesses in a number of other ways. For example, thousands of tourism businesses throughout the country will benefit from the small business bonus scheme. They will make savings on their bottom line as a consequence of the commitment that the Government has given to small businesses throughout the country. That scheme is part of our commitment to the economy. It does not feature in the budget lines that Mr Brown mentioned, but it is part of the contribution that the Government is making to the economy.

Gavin Brown: Let us consider Scottish Enterprise. I have compared last year's draft budget with this year's draft budget. I will not ask you about individual Scottish Enterprise headline figures, as I accept your point that we discussed them earlier.

You said on page 35 of the 2009-10 draft budget document that Scottish Enterprise would get £291 million for 2009-10, and you predicted that it would get £295 million for 2010-11. On page 47 of this year's draft budget document, you say that Scottish Enterprise will get £201 million. There is a difference of just over £94 million; a third of

Scottish Enterprise's entire budget has gone. You have made the point that capital acceleration explains some of that—I think that you suggested that it explains around £35 million. Can you explain the rest of the difference between what you predicted last year would be Scottish Enterprise's budget, which was £295 million, and what you have predicted it will be this year, which is £201 million?

John Swinney: Let us go through capital acceleration first. It must be borne in mind that there are two elements to capital acceleration. It inflated Scottish Enterprise's 2009-10 budget by £30 million, which was then reduced to pay back the capital expenditure that was deployed in 2008-09 and 2009-10. The budget in 2009-10 was therefore inflated by £30 million and deflated by £35 million the next year. As a result, there is a net difference of £65 million.

Gavin Brown: Okay.

John Swinney: In addition, there are transfers out of Scottish Enterprise to the tune of £12.2 million to the business gateway and transfers of £8.5 million for local regeneration. There is also an £8.5 million contribution to meet the overall budgetary pressures that we face in the Administration as a consequence of the £500 million of cuts from the Chancellor of the Exchequer. We must also take into account the impact of voluntary severance in Scottish Enterprise over the past three years, for example. My assessment is that all that reduces Scottish Enterprise's on-going running costs by around £15 million per annum. As a result, the budget presentations for Scottish Enterprise for 2009-10 and 2010-11 are broadly comparable.

Gavin Brown: I hear what you say, but I think that that still leaves a gap of £10 million or so. This morning, we were told that Scottish Enterprise thought that, overall, its budget was down by more than £8 million, which is still more than the 0.9 per cent that the total Scottish budget will be cut by. If it is a priority, why is Scottish Enterprise getting a larger-than-average cut?

12:30

John Swinney: I have explained that there is accelerated capital, that there are transfers out of Scottish Enterprise for the business gateway and local regeneration, and that all parts of the public sector must contribute towards filling the £500 million gap that we face. I also made a serious point about the impact of voluntary severance, which will lead to annual recurring savings that will benefit the public purse. Those will allow us to cope with some of the strain on the budget and to deploy resources where it matters, in front-line investment in the economy. Today we see more of that investment, following the announcements that the First Minister has made in Ayrshire of investment in GlaxoSmithKline, Slingsby and Spirit, which have been the beneficiaries of some of the Government's investment that is safeguarding or creating more than 530 jobs in Ayrshire. That is how we are deploying our resources.

Gavin Brown: At such a time, why does the chief economist office also get a cut?

John Swinney: The chief economist office of what?

Gavin Brown: According to your budget document the budget of the chief economist office of the Scottish Government is facing a cut of £100,000 at a time when I thought that we might expect more from that office.

John Swinney: That is an interesting point. I regularly come under pressure in Parliament from many parliamentarians, including your colleagues, over consultancy, research and analytical services, in relation to the fact that we spend too much money on some of those areas of internal activity. I made it clear in my statement on 17 September that Government must look at its central core costs, as must everyone else. As a consequence, we know that there are ways in which we can operate much more efficiently.

I have introduced a practice whereby I now see every prospective consultancy or research study undertaken in the Government over a value of £50,000—those proposals form a big part of my daily in-tray. If you were sitting where I am sitting, you would look at some of them and think, "Is the world going to stop if we do not do this particular study?" That is the view that I take on some of them.

I do not think that a £100,000 cut in the budget of the chief economic adviser will in any way interrupt the excellent analysis that Dr Goudie and his team take forward on our behalf.

Gavin Brown: We have heard that most of the key agencies that the committee looks at have had a cut of a larger-than-average percentage compared with the Scottish budget as a whole. Which areas affecting the economy have had an increase in funding or have been prioritised? Some of the things that you have mentioned continue work that has been going on for a year or two, and some of them are welcome. Have you prioritised in the budget any economic work that was not happening already?

John Swinney: That point is, in a sense, focused purely and simply on the changes in the budget and not on the totality of the budget. I am not making an obtuse point. We are still spending a vast amount of money on measures to support the economy, for example in the development of our transport infrastructure. I know that there has been criticism of my decision to cancel the Glasgow airport rail link project, but we are still continuing to complete the M74 project, the M80 project, the Airdrie to Bathgate rail link and the various other improvement schemes that are going on across the network. We are also still investing significant sums of money in water and sewerage infrastructure in Scotland, and I have gone through at length—I hope to the committee's satisfaction—the substantial increase in resources for the renewables sector. There are a variety of areas in which, in the total expenditure that the Government is putting forward, we are giving the necessary priority to improving the Scottish economy—and I have not got near mentioning the money that we are using to support the small business bonus scheme in Scotland.

The Convener: You said in one of your answers to Gavin Brown that capital acceleration for Scottish Enterprise's budget was £30 million but that the repayment that it has to make is £35 million. Why is it paying back £5 million more than it spent?

John Swinney: Because it got £5 million in 2008-09. The capital acceleration was undertaken in two parts. I remind the committee that I—

The Convener: You have answered the question. Thank you very much.

Stuart McMillan: In its submission, FSB Scotland states that it does not consider the extra resources that are going into the concessionary travel scheme to be a focus on economic growth. Do you agree with that assessment?

John Swinney: I fear that I am going to spend the whole day disagreeing with the business organisations of Scotland, which is an interesting position to be in, given all the efforts that I have made to have dialogue with them. I disagree with that view, because the money for the concessionary travel scheme is paid not to individuals but to transport companies. Off the top of my head, the figure is about £190 million, which obviously contributes towards employment in transport companies and the delivery of transport services throughout the country. As part of our wider objectives on climate change, the Government is trying to reduce car use and maximise public transport use. It is important that we have a dynamic transport network throughout the country that is supported by the concessionary travel scheme.

The concessionary travel scheme has other aspects, in addition to the direct contribution to the economic health of those companies. It enables a significant number of members of the public—more than a million people—to get out and about, so it contributes by helping people to lead healthy lifestyles and to keep physically active. The Government is trying to get people to think about many of the challenges, and not just in a narrow sense. Part of my theme today has been that one limitation of this process is that we consider compartments of economic activity when, in fact, economic activity is much broader. It involves transport networks, keeping people healthy and keeping them out and about. The transport network is fundamental to the economic health of the country.

Stuart McMillan: The SCDI's written submission suggests that the Government should consider a route development fund. Is that work being undertaken?

John Swinney: As part of the budget in 2008-09, I decided to conclude the route development fund. I have had representations from Ryanair, urging me to consider a successor scheme. I will consider that, because the company has come to me with the idea. However, it is not a priority and it does not feature in the budget.

Stuart McMillan: The SCDI welcomes the debate on borrowing powers for the Scottish Government and the Scottish Parliament. I am sure that the cabinet secretary will welcome that. However, the SCDI also discusses priorities and investment. It suggests that there is too much focus on social programmes rather than on longer-term investment in the economy. Do you agree with that assessment?

John Swinney: As I said to Mr Brown, significant sums are being invested in the infrastructure of Scotland as we speak. Once we take accelerated capital expenditure into account, the Government's capital programme for 2009-10, through the traditional capital budget, will be of the order of £3.7 billion. By and large, that is being invested in equipping the country with better infrastructure. There has been record investment in the housing sector in 2009-10, and major parts of the motorway network, such as the M74 and the M80, will be completed. The development of the Airdrie to Bathgate rail line is also under way, as is the tram network in Edinburgh. All those projects are examples of how we are investing in the long-term health of the economy. The small business bonus scheme is also helping companies through a difficult time, and those companies will be there at the end of the process. That seems to me to be valuable long-term investment.

Stuart McMillan: CBI Scotland's written submission is particularly interesting. It states:

> "UK public finances are in a bleak state … The constrained spending growth for 2010/11 is merely a harbinger of far tougher spending limits ahead."

The statement that I particularly like is this:

"Scottish Ministers accept we are now in an era of fiscal rectitude".

With those comments in mind, do you still think that it was the right decision to cancel GARL?

John Swinney: I note Mr McMillan's comments about borrowing powers. Part of what I am wrestling with—Parliament, too, must wrestle with it—is that, aside from having a minor overdraft facility, I am obliged to operate within a fixed budget. I have to consider the budget not just this year but in the medium term to determine the sustainability of the commitments that we have made.

The only definitive piece of financial information that I have about 2011-12 is that the Scottish Government's capital budget will be £129 million less than I would have expected it to be because of the changes that the chancellor made in his budget. I had to consider the composition of our capital programme and the commitments that we had made for 2011-12 and determine whether we could sustain those commitments. That is when I came to the conclusion that we could not proceed with the Glasgow airport rail link. I understand that that was disappointing for people, but the simple fact is that some projects would have been unable to proceed because we just would not have had enough capital resources to support them. I came to the conclusion that, given the choice between the Glasgow airport rail link and various other projects that we could have decided not to proceed with, it was a project that we could survive without.

I have said that we are committed to working with relevant partners to develop further connections in and around Glasgow, and we will proceed with that work enthusiastically because it is important that we continue to develop our transport infrastructure.

Stuart McMillan: CBI Scotland also suggests in its submission that there should be a reduction in the number of local authorities in Scotland from 32. Has the Scottish Government considered that with a view to making cost and efficiency savings?

John Swinney: There are several points to make on that. We must be quite considered about some of the points that CBI Scotland has made. Its submission makes a number of suggestions that would not realise any financial savings in 2010-11. The suggestions on Scottish Water could not realise any free resources in 2010-11 and nor would a reduction in the number of local authorities. It is also inconceivable that we could execute a reduction in the number of local authorities by 2010-11. The suggestion does not help me in my consideration of the savings options for 2010-11—it just could not happen.

I was not a member of Parliament at the time of the reorganisation of local government in 1995, nor was I involved in local government then, although many of my colleagues were. Nevertheless, it is pretty clear that local government reorganisation did not save money but cost money. That must be factored into the assessment. In the concordat, we gave a commitment not to reorganise local government, and we have not considered doing that; I reaffirm the Government's view on the issue. I know for certain that reorganisation would contribute nothing in free resources to the 2010-11 budget.

12:45

Stuart McMillan: CBI Scotland suggests that the Scottish Futures Trust be given far greater say in how public sector capital moneys are spent. Do you agree?

John Swinney: The Scottish Futures Trust is working on a number of capital projects around the country. It is involved in the hub health care proposals, work on the Forth replacement crossing and work on the school estate programme, so it has an active role in a range of public sector procurement projects. It is also involved in positive discussions, principally with the City of Edinburgh Council, on tax increment financing, which is an exciting opportunity. The Scottish Futures Trust, its chairman and its chief executive are taking an active role in the discussion of future infrastructure priorities and ways of delivering those in a number of areas.

Marilyn Livingstone: You said that small and medium-sized enterprises are the backbone of our economy and are needed to aid recovery. This morning, we heard that SE is focusing on a narrower client base of account-managed companies. How does that fit with the Government's aim of increasing the amount of business advice that is available?

John Swinney: It fits in three respects. First, Marilyn Livingstone is correct to say that Scottish Enterprise is concentrating on companies with growth potential. It is often a mistake to see those as limited to big companies—in fact, they include companies that are far from big. The other week, I visited a company with five employees that was an account-managed company, because Scottish Enterprise recognised that it had significant growth potential in its area of technology. Many big companies are account managed, but so are many small companies.

Secondly, the business gateway is now available in all parts of Scotland, which was not the case in the past. It provides business advice to new entrants to business activity, which are able to benefit from that. One key element of the business gateway system is that if, during assessment work, a company is identified as having high-growth potential, it is automatically referred to Scottish Enterprise, which takes on the case. Deeper levels of advice are then available to the company.

Thirdly, I highlight the small business bonus scheme, which benefits all eligible small businesses in the country. I know that it is warmly appreciated by them.

Marilyn Livingstone: I hear what you are saying, but that is not how businesses on the ground are feeling—certainly not in my constituency. I accept that the business gateway is doing good work and have made clear on record that I welcome the work that is done by account managers, certainly in my constituency. I am concerned about the situation of all the companies in between, which are getting no support and advice. That is the vast majority of companies. The business gateway deals with start-ups. You say that it refers companies on, but the number of account-managed companies in my constituency is reducing.

We no longer have the support of the enterprise networks. There has been a reduction not only in the budget but in the expertise in Fife—that is agreed across the political parties in Fife. Twelve million pounds was transferred to the business gateway and £8.5 million was transferred for regeneration. The money that has been transferred to local government is another piece of the jigsaw that I want to ask you about. What evidence is there that the money that was transferred for local economic development, which, in light of my previous questions, will be important, is ring fenced and reaching companies, and is not being used for other priorities?

John Swinney: Marilyn Livingstone and I have met to discuss these questions and I am happy to have another discussion, if there are concerns in Fife. However, I have visited many companies in Fife that are supported by Scottish Enterprise. With the convener, I dealt with a situation in his constituency in which Scottish Enterprise was actively involved. Unfortunately, we were unable to resurrect the company concerned, but there was certainly a high level of engagement. I would be delighted to have further discussion with Marilyn Livingstone, if that would help to address her questions.

Secondly, the business gateway is not just about start-ups.

Marilyn Livingstone: I know that.

John Swinney: If I said that, then I—

Marilyn Livingstone: I am asking about the group in the middle.

John Swinney: Yes, I know, but the group in the middle can access business gateway services for advice. My point is that the business gateway does not just help start-up businesses but provides business support to all businesses. Marilyn Livingstone asked me how I know that resources are ring fenced in local government for local economic development. The transfer of the business gateway was the key transfer of business advice services to local government, and it was done on the basis of existing contracts, which are still in place. The support and services that businesses should have been able to gain access to are still there and are still part of the fabric of what can be offered to individual businesses. I hope that that addresses the issue.

Marilyn Livingstone: No, it does not. What I am saying is that, on top of that, money was transferred. When you gave evidence to us on the reorganisation of Scottish Enterprise, we talked about funding going to local government for local economic development.

John Swinney: I would need to go back and check. My impression, sitting here today, is that the parts of the budget that were transferred to local government were to do with the business gateway and local regeneration. That is what I can offer the committee today, but I will go back and check that I am not missing something in my evidence. If I need to add to it, I will write to the convener.

Marilyn Livingstone: This committee was definitely led to believe—I see other members nodding—that local economic development was shifting from Scottish Enterprise to local government. I am just asking about that.

John Swinney: And my view of that is that that is the business gateway and local regeneration bit. I will check all the details to ensure that I am giving the committee a full answer, if the convener will allow me to do so, and I will write to him about that point.

The Convener: Thanks for that.

Christopher Harvie: I have two questions. First, on the saltire and horizon prizes, it seems up to now as if we have simply been talking about making an award and signing cheques. However, there is bound to be extensive, almost worldwide research during the run-up to the award of the prizes. Is there a programme to have a sort of shadowing of innovation in this area so that we gain not just the prize itself but an overview of the general area of research? That could do two things. First, it could enable us to pin down where the innovation is required in our own development. Secondly, it could make us the worldwide centre of a culture of marine renewables. It seems that it would be worth while to allocate some pre-emptive investment in that area before the award is made. At stake is our ability, which is almost unique in Europe, to combine the right type of environment with the right sort of industrial connections.

John Swinney: I certainly do not want the committee to think that nothing will happen until the saltire prize comes along. Many projects are being developed, and we have had more than 100 expressions of interest in the prize from various parties. There is currently a lot of research and development activity going on, which may result in appropriate entries for the saltire prize, and we are in a position to support some of it.

Connections around the development of the renewables sector are being made in a number of different areas. Part of the accelerated capital expenditure was spent on the Fife energy park, which we are developing as a potential site for significant work on renewables; I am sorry that Marilyn Livingstone is not in the room to hear that. The committee will be familiar with Skykon's investment in Machrihanish, which has Government support into the bargain.

We have a much more cohesive approach to the establishment of such connections. Not all of it is to do with the domestic Scottish situation; there is an international element that Scottish Development International is taking forward. We are making significant connections between different aspects such as public sector intervention through Scottish Enterprise and Highlands and Islands Enterprise; the involvement of many of our academic institutions, as many of our universities and colleges are involved in renewable development; and the international work of SDI. We now have in place a much better dialogue on how that all fits together.

Christopher Harvie: I ask that question because of the work that I carried out nearly 20 years ago in writing the history of North Sea oil. As you will remember, the very dispersed response from British associations at that time contrasted with the determination of the Norwegians to establish Statoil in 1971, and to co-ordinate everything around that major state-run development concern.

We may in the next two years move towards a position in which we have to establish that type of authority. I mentioned that earlier in considering the relations between HIE and SE, and the position of the entire littoral of the east of Scotland as it develops its manufacturing potential.

John Swinney: The Cabinet Secretary for Education and Lifelong Learning and I convene a body called the strategic forum, which brings together the chair and chief executive of Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, VisitScotland and the Scottish funding council. Within that body, we consider some of the questions about potential non-alignment, which is the point that Professor Harvie is driving at. We are able to draw together and reconcile some of those questions in the forum, but I will consider Professor Harvie's point. My objective is to ensure that the enterprise agencies, our academic institutions and the private sector are aligned. The generation of skills is fundamental to that, and we will ensure that that is reflected in all our work.

Christopher Harvie: My second point is very brief; it arose when I recently returned to Tübingen. In Baden-Württemberg, a lot of money for tourism development comes from what is called a kurtaxe, which is an overnight impost on visitors. Local authorities are allowed to borrow against that collateral to carry out public expenditure on tourism projects in their areas. Having seen the system in operation there, I remain to be convinced that it is a bad idea, and the money is generated from an industry that has recently been doing very well here.

John Swinney: There have been proposals for what have affectionately been called bed taxes, but they do not form a part of the Government's programme. However, the model that Professor Harvie mentions, in which a revenue stream enables an authority to borrow, lies at the heart of the tax increment finance approach that has been developed with the City of Edinburgh Council. Good progress has been made on that and I certainly look forward to seeing what more can be done in that respect.

13:00

Ms Alexander: By what percentage is the Scottish budget being cut next year?

John Swinney: The Scottish Government's budget is declining in real terms by 0.9 per cent.

Ms Alexander: Thank you, that is helpful. Why, in the context of a decline of less than 1 per cent, has your response been to cut the capital budget in Scotland by 17 per cent?

John Swinney: The capital budget has to take account of the need to repay accelerated capital expenditure. I am afraid that I am not able to give Wendy Alexander comparative numbers for 2009-10 and 2010-11 but, to go back to the arithmetic that I went through with Gavin Brown, I point out that the 2009-10 budget is significantly inflated by accelerated capital and the 2010-11 capital budget is significantly deflated—more so because we have to pay back two years of accelerated capital expenditure.

Ms Alexander: It is your choice to move money into capital if you wish, is it not? I am seeking an explanation of why, with a reduction in the budget of less than 1 per cent, you have chosen to reduce the capital budget in Scotland by 17 per cent.

John Swinney: The capital budget reflects the need to repay accelerated capital expenditure.

Those are the decisions that I have taken. Wendy Alexander is correct: I could have taken a decision to transfer resources from revenue expenditure into capital programmes—I cannot do it the other way round, nor would I want to do so, because that would be an unsustainable approach to budgeting. However, if I had transferred resources from revenue expenditure into capital programmes, I dare say that we would have many more concerns about the impact on revenue budgets, such as those for the services on which Wendy Alexander's constituents depend, including in the field of health care and education, and the impact on the people to whom Mr McMillan referred when he mentioned concessionary bus travel.

Ms Alexander: People are looking for an explanation from the cabinet secretary as to why, in the context of a reduction of less than 1 per cent, allowing for accelerated capital spend, he has chosen to reduce housing and regeneration capital spend by more than 47 per cent in real terms next year, enterprise, energy and tourism capital spend by more than 40 per cent, and—to choose but one other example—other transport directorate programmes by 55 per cent in real terms. The cabinet secretary has chosen at his own hand to make those cuts. Why is that the right response to the economic crisis when the overall reduction in the budget is less than 1 per cent?

John Swinney: I fear that we are going to go over the same ground again. Let me explain. In 2009-10, the housing budget, for example, was significantly higher—I do not have the numbers in front of me—than the predicted budget that I set out in the spending review in 2007. We have never had a year of expenditure on housing like the one that we are having in 2009-10; we have never built more units as part of the budget. That is the case because I took a decision, in the face of economic decline, to enhance the housing budget significantly in 2009-10—as well as the enterprise budget and the transport budget.

We are now required to repay that capital expenditure. If Wendy Alexander seeks my opinion on that, I have to say that I think that this is the wrong time to do so, and I hope that we get more flexibility to bring forward capital expenditure into 2010-11 for repayment in 2011-12, when, as I think we can all be pretty certain, the private market will be in a much stronger position. It would be very helpful if we could accelerate capital expenditure and continue the record investment that we have made this year in housing and other areas of the budget but, under the funding formula, I am forced to pay back £347 million in capital expenditure to the Treasury. Wendy Alexander is right to say that I could have taken that money out of revenue spending but, my goodness, we would have heard a lot of comment about the impact that such a move would have had on the operation of public services in Scotland.

Ms Alexander: Let me press the cabinet secretary on his total budget. If, as we have heard, that budget is declining by less than 1 per cent, can he explain why in real terms the water quality and regeneration budgets are being cut by 70 per cent, other transport agency programmes by 30 per cent, other transport directorate programmes by 18 per cent, enterprise, energy and tourism programmes by 13 per cent, and education and training by 6.5 per cent? Those are the published figures in the budget. Why, when your budget is being cut by 1 per cent—indeed, by less than 1 per cent—have you chosen to cut those budget lines by such orders of magnitude?

John Swinney: Because we have to pay back the resources that we advanced to support economic recovery. I seem to remember that that measure was generally well received by all shades of opinion in Parliament.

Ms Alexander: With respect, I point out that, notwithstanding the repayment of capital, your budget for next year is still less than 1 per cent less than this year's budget. Cabinet secretary, this is your chance to tell the nation and the committee why you have chosen to cut those budgets by these orders of magnitude. Why do they deserve such cuts? After all, these are not capital, but total budgets. Why, when your total budget is being cut by less than 1 per cent, are you cutting water quality by 70 per cent, regeneration by 70 per cent, other transport agency programmes by 30 per cent, transport directorate programmes by 18 per cent, enterprise, energy and tourism programmes by 13 per cent, and education and training by 6.5 per cent?

Are those the right choices for the Scottish economy? This is a Government whose number 1 priority is apparently economic growth; can you justify those choices in the context of economic growth?

John Swinney: Oh, I will certainly justify them in the context of economic growth. I have been justifying them for the past hour and a half, and I will continue to do so.

Wendy Alexander asks me to talk about total budgets as if capital expenditure has no effect on total budgets. What her analysis misses is the fact that £1.1 billion of the total finance and sustainable growth budget is capital and £1.7 billion is in resource, which means that capital expenditure's impact on total budgets is pretty weighty.

As I have explained to the committee, our choice, which was the correct one, was to accelerate capital expenditure to support where we could the housing, transport and infrastructure sectors. Regrettably, I now have to repay that money. If I had some of the borrowing powers that Mr McMillan was talking about, I might be able to exercise more flexibility, but that is not the case. I have to operate within a fixed financial envelope and if we as a Parliament are to understand and appreciate some of these challenges we must also look at some of the solutions. Either the Chancellor of the Exchequer responds positively to our request to expand capital expenditure in 2010-11 or we get some mobility to exercise financial flexibility in the manner that Mr McMillan suggested.

Ms Alexander: I will try once more to encourage the cabinet secretary to dwell on the choices that he has made at his own hand. As he knows, he has £35 billion of public expenditure. I will set him a challenge.

Cabinet secretary, you have provided budget figures at levels 1, 2, 3 and 4. At any of those levels, has a single line that relates to enterprise, energy or tourism—or any of the other matters within the purview of this committee—been deemed worthy of a minor incremental increase, in the context of a budget that has been reduced by less than 1 per cent in real terms? I see your officials scurrying to provide you with the only two examples of minute incremental increases: the saltire prize, which we have already heard about—which is not even in the baseline budgets—and, arguably, the £10 million for a pathfinder project that was first agreed in 2004.

The economic community in Scotland is suspicious because it cannot find a single budget line at levels 1, 2, 3 or 4 that a Government that is committed to sustaining economic growth thought was worthy of a minor incremental increase because that part of the budget was doing a good job and needed more support through an economic crisis. As I said, in cash terms, you do not have any less than you had last year and, in real-terms, the reduction is 1 per cent. Why cannot a single line be found at levels 1, 2, 3 or 4? Find me an area that you thought was worthy of getting even 1 per cent more to get the Scottish economy going again.

John Swinney: The longer the questions are, they worse they get.

Ms Alexander: You could write to me.

John Swinney: If a 45 per cent increase in the renewables budget in Scotland is defined by Wendy Alexander as "minute", we have some classification problems—to describe them in the most generous terms.

I have laboured this point, because it is a fact: we have to pay back accelerated capital expenditure in 2010-11. I would rather not do that, but that is what is having the effect of some of the swings in the budget that Wendy Alexander is talking about. I would have thought that that point would have been clearly and well understood by Wendy Alexander long before we got anywhere near considering the budget that is before us.

I return to the point that I made to Mr Brown earlier: the debate and focus tend to be on the changes rather than the total expenditure. Let us take the very good example of housing, on which Wendy Alexander has concentrated. We said in the spending review that we would spend £1.5 billion on housing and that is precisely what we will spend. I conceded that we will spend it in a different shape—it will be very lumpy in 2009-10—but we will spend it, because everyone in this Parliament told me to get money into housing expenditure. That is what I did, and I have not had a minute of regret about it.

People should be encouraging and supporting the Government in trying to maximise the effectiveness of our spend by ensuring that we do not face the turning off of the tap of capital expenditure in 2010-11 when economic recovery is very fragile. The key person who can give us a green light on that issue is the Chancellor of the Exchequer, and I hope that Wendy Alexander will support our calls for him to act in that fashion.

Ms Alexander: One way to accelerate capital expenditure in Scotland might be to have a procurement method in the market that works. Has a single bank signed up to the Scottish Futures Trust yet? If not, when do you expect that to happen?

John Swinney: That is a really interesting point. A moment ago, Wendy Alexander was asking me to divert revenue expenditure to support capital. Let us say that that is the suggestion that she offered me—let me be at my most generous. One issue with which I have had to wrestle in revenue expenditure in this budget is that private finance initiative repayment costs increase by £100 million in cash terms between 2009-10 and 2010-11. I have no discretion over those payments; they have to be made. They have a higher call on the budget than any other payment that we can make.

Wendy Alexander has come here today not to offer solutions or analysis but just to point out the ways that she wants us to spend more money. I have to rationalise and reconcile the fact that I have to live within a fixed budget that has increasing revenue costs, which were created by some of the decisions that were taken by Wendy Alexander and her colleagues when they were running this country.

13:15

Ms Alexander: That was not an answer to the question whether any bank has signed up to the SFT.

John Swinney: Well, that was my answer, and it was a very good answer.

The Convener: Surprisingly, it is not the one that any of your ministers give when they open PFI schools and hospitals.

There are one or two other issues that we need to cover. First, I will ask the question about the Scottish Futures Trust in a slightly different way: has the Scottish Futures Trust identified any additional investment moneys for Scotland's capital programme?

John Swinney: That work is at the core of what the Scottish Futures Trust is doing, along with its work to deliver greater value in procurement activities and capital expenditure. I will continue to advise Parliament of the progress that is made in that respect.

The Convener: Yes or no would have done.

John Swinney: That is the answer that I have given you, and it provides you the detail that I courteously give to the committee.

The Convener: I will interpret it as a no.

Secondly, you have spoken a lot about additional investment in housing from the accelerated capital programme that, as you rightly say, all parties welcome in principle. In his evidence to the committee, Michael Levack from the Scottish Builders Federation expressed considerable concern about the money from the accelerated capital investment:

"a lot of the money has been used to buy land ... rather than to start new projects".—[*Official Report, Economy, Energy and Tourism Committee*, 30 September 2009; c 2423.]

Has the Government done any analysis of whether the accelerated capital has gone towards actually building new houses rather than simply acquiring land banks?

John Swinney: With my own eyes I have seen some of the projects that have been created. I was in Livingston last week—perhaps it was the week before—looking at new shared-equity properties that were developed as a consequence of accelerated capital expenditure. The project was halted because the developer could not sustain the activity that was under way, but accelerated capital allowed us to put in place the resources to complete it. There are many other such examples around the country, which I would be delighted to share with the committee.

The Convener: It would be useful if the committee could, at some point, get an analysis of how effective that approach has been. I am not suggesting that there should be criticism of the Government for accelerating the capital, but it has been suggested to us by the building industry that not all the money has found its way into new building, and that some of it has been used to buy up land or existing properties. It would be helpful to get an analysis of how effective the accelerated capital has been.

John Swinney: We will happily share with the committee what information we can.

The Convener: My next question is about home insulation and energy assistance packages. The Government has made certain legislative commitments under the Climate Change (Scotland) Act 2009. Have any of those commitments been reflected in the budget, to ensure that the Government can take action on those legislative requirements in 2010-11?

John Swinney: There are a number of areas in which support for proposals such as home insulation is available in the Government's budget, and there are other areas in which we are investing to ensure that our climate change objectives are satisfied. That is reflected in various areas of investment, such as in public transport, in home insulation and in energy efficiency.

The Convener: Will there be any increase in the funding that is available for home insulation schemes or energy efficiency packages in the next financial year compared with this financial year?

John Swinney: I have set out the proposals in the budget. We have a process of dialogue and discussion to go through across the political spectrum in Parliament, and we will consider those issues as the budget takes its course.

The Convener: We spoke earlier about investment in the homecoming, and I understand that significant losses of about £600,000 have been reported in relation to the gathering event. When was the Government first aware that the event was running into such substantial financial problems?

John Swinney: I cannot give the committee a definitive date, but I think that the Government became aware of that in early September. If the convener will forgive me, I will provide a definitive date for that later.

The Convener: Obviously, that £600,000 deficit will have knock-on implications in either this or the next financial year for the budgets of the bodies involved, which include Historic Scotland, the

Scottish Government, EventScotland, Scottish Enterprise and Destination Edinburgh Marketing Alliance. What discussions has the Government had with those organisations on how to minimise the impact of that loss on their budgets?

John Swinney: Obviously, Destination Edinburgh Marketing Alliance has now taken over the gathering. The Government supports that decision, as it provides the prospect that there will be future gathering events. In all of this, we should not forget that the gathering has delivered a significant economic benefit to the Scottish and Edinburgh economy. The independent economic assessment suggests that the gathering generated £10.4 million of revenue for Scotland—£8.8 million of that total came to the city of Edinburgh—so there is no doubt that the concept can be very successful.

The Scottish Government has been involved in making a financial contribution to the gathering and has agreed not to seek to recover the loan of £180,000. We will, of course, discuss with other public bodies any implications for them of their decisions not to recover the amounts that they are owed.

The Convener: What discussions have been held to date? Are those bodies being asked in effect to write off money that is owed to them?

John Swinney: The bodies have taken the decision not to recover amounts that they are owed. Obviously, the Government continues to discuss financial issues with all those organisations on a regular basis.

The Convener: I thank the cabinet secretary for that answer and for his answers to our other questions in what has been a long session on the draft budget. I thank John Swinney and his team for bearing with us this morning.

I suspend the meeting briefly before we move on to the final item of business.

13:22

Meeting suspended.

13:23

On resuming—

Whisky Industry

The Convener: The final item on today's agenda is a research report on the Scotch whisky industry that we commissioned from the Scottish Parliament information centre. I thank the SPICe researcher, Scherie Nicol, for turning around such a comprehensive report within a short space of time. That has been very helpful indeed.

Do members wish to comment on the report? Do they want to take any further action as a result of the information that we have received?

Christopher Harvie: I have so many comments that I think that we ought to schedule a discussion of greater length at another meeting. Otherwise, we will not get through the research report and its implications.

Rob Gibson: I suggest that the import of Scherie Nicol's excellent report is such that it raises plenty of questions that the committee should follow up. Like Chris Harvie, I think that we need to schedule ways of considering the range of issues that the report throws up. We should schedule those sessions for as early a time as possible, given the need to look at how one of Scotland's key quality products lacks development and faces issues that might undermine its future viability. We need to analyse those issues carefully. I hope that we can get a commitment from the whole committee to do that quickly.

Lewis Macdonald: I am sorry that I missed the beginning of the conversation.

We ought to consider carefully the international trade issues that arise in the paper as part of the investigation that we intend to carry out in the new year. We may want to take evidence from employers and trade unions on some of the workplace and workforce planning issues that are implicit in the paper. Such a session would cover the areas in which the committee has most interest. As members have said, whisky is an important industry.

Gavin Brown: I concur with the comments that have been made about the quality of the paper—it is an excellent piece of work. I am close to Chris Harvie's position. There is so much in the paper that it is not feasible for us to do justice to it today. I would be content to leave it to the convener and the clerks to work out when the issue can be slotted into our work programme. I agree with Rob Gibson that that should happen sooner rather than later, but I cannot remember exactly what we have pencilled in for each of the next 10 weeks or so. The sooner we can get a session in, the better.

Ms Alexander: We have a heavy programme for the finance inquiry, which will dominate our time until March. However, the paper will be one of the inputs to the scoping discussion that we need to have for our trade and productivity inquiry, and we should look at the prominent way in which whisky features in that. Presumably, the scoping session is scheduled for the end of January or the beginning of February, so that we can start on the trade inquiry immediately after Easter. Like other members, I think that we should leave the matter to the convener. The paper should come back to us when we scope the trade and productivity inquiry, which is our next big piece of business after finance.

Christopher Harvie: Given the problems in Kilmarnock and other places in Scotland, we should discuss the matter before then.

The Convener: We already have a fairly hefty programme of witnesses for the banking inquiry, so it will be difficult to fit in anything meaningful quickly, but we can make further inquiries based on the work that has been done. If members agree, we can write to the Scottish Government, Scottish Enterprise and Diageo to request progress reports on what is happening in relation to Kilmarnock and Port Dundas; we may also wish to write to Whyte & Mackay.

Many of the issues that are highlighted in the paper fall neatly into our forthcoming inquiry into exports, trade and inward investment, especially our consideration of how we support the Scottish food and drink industry. As Wendy Alexander suggested, they can be drawn into that inquiry. There may be scope, when we can find a suitable slot in the programme, for a one-off state-of-the-economy hearing of the sort that Lewis Macdonald suggested, to see what issues arise. Are members content for the clerks and me to work on that basis?

Members *indicated agreement*.

The Convener: When legislation on minimum pricing is introduced, we may wish, as a secondary committee to the Health and Sport Committee, which will handle the bulk of that work, to consider holding an evidence session specifically on the impact of minimum pricing on the industry.

I thank everyone for their forbearance. It has been a long meeting, but we had a lot to get through in a short time. We were not helped by the fact that the session with Scottish Enterprise was not very helpful.

Meeting closed at 13:29.

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