



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 12 May 2010

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2010

Applications for reproduction should be made in writing to the Information Policy Team, Office of the Queen's Printer for Scotland, Admail ADM4058, Edinburgh, EH1 1NG, or by email to:  
[licensing@ogps.gov.uk](mailto:licensing@ogps.gov.uk).

OQPS administers the copyright on behalf of the Scottish Parliamentary Corporate Body.

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

---

**Wednesday 12 May 2010**

**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>3611</b>
<b>BUDGET STRATEGY PHASE 2011-12 .....</b>	<b>3612</b>

---

**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**15<sup>th</sup> Meeting 2010, 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:**

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

David Wilson (Scottish Government Energy Directorate)

**CLERK TO THE COMMITTEE**

Stephen Imrie

**LOCATION**

Committee Room 1



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 12 May 2010*

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Iain Smith):** It has gone 9.30, so I welcome everybody to the 15<sup>th</sup> meeting in 2010 of the Economy, Energy and Tourism Committee.

Agenda item 1 is to decide whether to consider in private the committee's draft report on the budget strategy phase 2011-12 at next week's meeting. Do members agree to do so?

**Members** *indicated agreement.*

## Budget Strategy Phase 2011-12

09:30

**The Convener:** Item 2 is continuation of our scrutiny of the budget strategy for 2011-12. I welcome to the meeting the Cabinet Secretary for Finance and Sustainable Growth John Swinney and his officials. I invite the cabinet secretary to introduce those officials and to make brief opening remarks if he wishes to do so.

**The Cabinet Secretary for Finance and Sustainable Growth (John Swinney):** Thank you, convener. I provided the committee with a note in advance of my appearance before it, therefore, in the interests of time, I will not make an opening statement.

The officials who will support me this morning are David Wilson, who is the director of energy and climate change, Dougie Greig, who is the head of our strategy team, and David Reid, who is from the finance directorate.

**The Convener:** These are interesting times. We have received the report from the chief economist, Andrew Goudie, which contains his estimates on what is likely to happen to public finances over the next three years. Does the cabinet secretary share his views on what is likely to happen to Scotland's budget and the implications for expenditure in the economy?

**John Swinney:** In his analysis, Dr Goudie essentially took the material that was available from the budget that was produced by the former United Kingdom Government in March this year and presented a picture of the public expenditure outlook, having taken into account the significant variables, which include the announced position on the total managed expenditure that the previous Government expected. Of course, his analysis is predicated on certain assumptions about the level of annually managed expenditure that will require to be sustained, particularly in relation to what one might call the costs of recession—the debt interest payments that will be required and the support for social security programmes principally. Dr Goudie presented a scenario that is based on sound assumptions about the impact on departmental expenditure limits, which are, of course, the part of public expenditure over which the Scottish Government has control and responsibility.

There are, of course, uncertainties around the analysis. There are uncertainties about the calculation of the size of the annualised expenditure that will be required and the departmental expenditure limits at the United Kingdom level. Obviously, there would be beneficial consequentials for Scotland if there

were, for example, a significant increase in the health departmental expenditure limit in the United Kingdom, but there would not be if there were a significant expansion of the defence departmental expenditure limit. Dr Goudie tabulated those factors in his report.

As I have said, Dr Goudie's analysis is based on the former Government's financial perspective. We are in slightly uncertain territory this morning, but I understand from news reports that it is likely that there will be public expenditure constraints beyond those that the previous Government set out. Obviously, that remains to be confirmed, but that is my impression from the news reports that I have heard this morning.

**The Convener:** As you say, we are in uncertain times. No doubt we will have a clearer indication when we get to the budget in the autumn. However, with regard to the Economy, Energy and Tourism Committee's remit, do you envisage Scottish Government expenditure in this area falling in line with the expected overall reduction in expenditure or will it fall less or more than the average?

**John Swinney:** I hope that you will forgive me, convener, but that question is impossible to answer at this stage. We still have to go through a budget process that will be based on information that we receive from the United Kingdom Government.

As I said, there are a number of uncertainties. If we are, as I heard in this morning's news bulletins, looking at the likelihood of a further reduction in public expenditure in 2010-11, we will have to understand the implications of that for Scotland. Before the election campaign, we discussed the issue with Alistair Darling, George Osborne and Vince Cable, and we will pursue with the new Chancellor of the Exchequer the precise implications of any change to public expenditure in 2010-11. Obviously, I will update Parliament on any information that I have to hand in that respect.

I suspect that the word "uncertainty" is going to crop up an awful lot this morning but, as far as the outlook is concerned, we are planning for the expectation that the UK Government will undertake a comprehensive spending review over the summer and announce its findings towards the latter part of the year, possibly in October or November. I will then, after due consideration with the Scottish Government, be in a position to set out the choices that we have made. It is still unclear whether there will be a spending review later this year and, indeed, whether we will get the kind of three-year financial package that we have had for the best part of 10 years or whether our financial settlements will be for a shorter period. I will, of course, update Parliament accordingly.

Any implications for the economy, energy and tourism portfolio will be a matter for deliberation within the Scottish Government. However, I will say that the direction that the Government has taken in its public spending choices has been based on the need first, to continue to support economic recovery, which there is still every requirement on us to do, and secondly, to protect front-line services. Those two considerations will be uppermost in ministers' minds as they make their choices.

**The Convener:** Before I bring in other members, perhaps I should ask my question in a slightly different way. I appreciate that there is uncertainty—indeed, for that very reason I have some questions about whether this exercise that we are undertaking on behalf of the Finance Committee has any value at this time. That said, what guidance have you given to the three main agencies with which this committee deals—Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland—on the budgets that they should expect for 2011-12 and future years?

**John Swinney:** On the question whether this exercise has any value, the Finance Committee is actually examining and exploring the consequences of the outlook for public expenditure in Scotland as a result of the condition of the public finances and the impact of economic recession, which is the subject matter of Dr Goudie's paper into the bargain. I very much welcome the process as a way of mobilising debate and discussion about some of the challenges that we face.

I have given the agencies that you mentioned no indicative budget numbers beyond 2011; indeed, I am not in possession of any numbers at a strategic level to be able to do so. Obviously, though, I can make some assumptions, which depend on the nature of the process that is undertaken by the incoming United Kingdom Government over the summer to formulate spending plans at UK level. The later that is left during the year, the more difficult it will be for me to give clarity to local authorities, health boards and the agencies with which this committee is primarily engaged. Therefore, we may have to make assumptions over the summer if we feel that the data for the financial year 2011-12 are going to come so late in the day that we cannot undertake an adequate budget process with proper parliamentary scrutiny and give clarity to external organisations about the level of their financial settlement. I will revisit that point in the course of the summer.

**The Convener:** When you say 2011 do you mean the 2010-11 or the 2011-12 financial year?

**John Swinney:** I mean 2011-12. Those organisations have got their budget certainty for

2010-11, and I do not intend to revisit that unless the UK Government decides to revisit the spending totals that we have been advised of for 2010-11. On that point I am unable to give the committee clarity this morning, but it will be uppermost in my mind in my discussions with the new chancellor. As soon as practicable during this year, I will give clarity to all public sector organisations on their expected allocations for 2011-12, which essentially will be part of the next budget process for the Scottish Parliament.

**The Convener:** Can I get this clear? Have you or have you not given Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland indicative budget figures for 2011-12?

**John Swinney:** They have no indicative budget numbers for 2011-12.

**The Convener:** They have given this committee information that they say is based on guidance that they have been given by their sponsoring departments.

**John Swinney:** That would be from those organisations looking at the assessment that Dr Goudie has given them. I certainly have not given the organisations a definitive set of numbers on what their resources will be.

**The Convener:** They have given us figures based on the guidance that they have been given by their sponsoring departments as to the likely level of resources that they will get next year.

**John Swinney:** The guidance can have come only from the public expenditure assessment and outlook, which is at a general level. It is certainly not indicative for the different organisations involved.

**The Convener:** Scottish Enterprise and Highlands and Islands Enterprise both indicated roughly level spending between 2010-11 and 2011-12. VisitScotland has indicated a very small fall of about 1 per cent. Dr Goudie has suggested a fall of about 3 per cent. The figures that the committee has been given do not fit with what you have just said.

**John Swinney:** I have given none of the organisations that you have referred to an indicative budget number for 2011-12.

**The Convener:** We might come back to that.

**Rob Gibson (Highlands and Islands) (SNP):** We are now talking about the development of the low-carbon economy as a Government core aim. Following the restructuring of the enterprise agencies in the last three years, they have been seen—including the one in my area—as in the vanguard in developing the renewables industry and creating new employment. Could it be argued

that those agencies are now at a level at which no further cuts in their structure should be made? Should an argument be made that they are actually supporting front-line services?

**John Swinney:** The organisations have taken a number of decisions over a number of years—that has not just been the case in the last couple of years. There have been different restructurings and realignments of the focus and approach of Scottish Enterprise and Highlands and Islands Enterprise almost continuously over the past 10 years. It is in the nature of the function and responsibilities of those organisations that their perspective and the type of support that the business community and the economy require change, and they have to be appropriate for the circumstances that we face. That is the test that I want the leadership of the organisations to take forward. There is every opportunity for the organisations to look afresh at their structure and their outlook to ensure that they are delivering the support that is expected within the economy. I will support them in taking those decisions.

09:45

**Rob Gibson:** I am interested in a particular means of support, which I will throw into the debate. The incentive for people to make a profit and be competitive is probably enhanced more by giving loans than by giving grants as we have done in the past. Will we have the facility to consider that seriously? The agencies have claimed to be successful based on the main measure of the delivery and retention of jobs, but we have not had a clear picture of the success or failure of that approach over the years, largely because people have mainly been given grants. Will there be a facility to think seriously about incentivising people to stand on their own feet a good deal more?

**John Swinney:** That is essentially the thinking that underpins the Scottish Investment Bank. As the committee is aware, we now have £50 million of resources in that bank, with the objective of supplanting them in due course. The thinking is that the bank will provide the type of support that Mr Gibson mentions.

Mr Gibson referred to the low-carbon economy. We must acknowledge that, for elements of the development of that economy, we will have to provide grant funding, because we are supporting research projects that require public sector support to make the propositions that are being considered realistic and viable. That is absolutely appropriate, but there will be a place for us to provide loan finance. The research that we carried out into access to finance, which I am pretty sure we have shared with the committee, indicates that there is a gap in the market for such support that

is not provided by commercial lenders, and I hope that the Scottish Investment Bank will be able to provide that assistance.

**Rob Gibson:** HIE states in its operating plan for 2010 to 2013:

“HIE remains mindful of the fact that demand for our resources is likely to exceed the availability of public funding for some time to come.”

It was never different from that but, given the tightness of the situation, is there room for a three-year budget that includes a greater rolling fund that is created through loans rather than a large drain of grants?

**John Swinney:** I come back to what I said about the Scottish Investment Bank: that is exactly the thinking that is involved.

As the committee will begin to see, or has seen in some of the decisions that ministers have taken on public expenditure, we are trying to support further developments in the low-carbon economy. When I was before the committee to discuss the budget for 2010-11, we covered the specific measures on wave and tidal research. In the final decisions about the budget, we put more resources into the home insulation package, which was designed to support the low-carbon economy and, in the allocation of the budget consequential that took place just after the Easter recess, I was able to set out support for sustainable transport and various other measures of that type. Ministers' approach has been to look for different ways in which we can provide public expenditure to assist the development of the low-carbon economy and we will continue to do that.

**Lewis Macdonald (Aberdeen Central) (Lab):** Like you, cabinet secretary, to some degree I must go by what I have read in the papers and heard on the radio this morning about some of the framework in which the decisions that you are discussing will have to be made. What indication do you have regarding the current financial year? You said that you were hopeful of avoiding significant changes in the budgets of agencies that are within your remit in the current financial year. I have heard talk this morning of £6 billion being taken out of public expenditure throughout the United Kingdom straight away. Is that your understanding and, if so, what are the implications for the agencies that you fund?

**John Swinney:** I have heard the same news reports, and it is my understanding that that is the case. Obviously, a number of consequences will arise from that. The first is how such a reduction in public expenditure will be distributed across UK departments. To go back to what I said a moment ago, there are some areas in which we have 100 per cent comparability in finance; health is one. For example, if there is a reduction in the UK

health budget, that will directly cross over to our departmental expenditure limit, and Scottish ministers will decide how to address that; we are not required to follow exactly the UK Government's decision. Across all UK portfolios, if £6 billion is to be taken out of public expenditure in the current financial year, we will have to see what is affected and work out the consequential total for Scotland.

Before the election, Mr Cable assured us that there would be no alteration to the 2010-11 budget, but from today's news reports that no longer appears to be the case. Mr Osborne gave us a commitment that, if he was elected—and he has now been appointed—there would be a £6 billion reduction in expenditure, but we could opt to defer taking that impact on public expenditure until 2011-12. However, we will have to take it; it is just a question of timing.

We will seek clarity from the new Government about the nature of the £6 billion spending reduction, and how it will be applied across different portfolios, because that will affect the global total that is required to be found from the departmental expenditure limit in Scotland. We will then see whether there is any flexibility in how the reduction might be recovered.

I know that Mr Macdonald will appreciate what I am about to say because of his experience as a minister. Once the financial year has started, finding sums of money in the sphere of—not to be too precise about it—£500 million to £600 million is serious, and we will have to wrestle with that if it turns out to be the position.

**Lewis Macdonald:** You mentioned the potential for deferral. Can you explain your thinking on that?

**John Swinney:** The thinking was essentially set out to us by Mr Osborne prior to the election. His proposal—and I stress that this was made prior to the election—was that the £6 billion in expenditure cuts would come in 2010-11. There would be a consequential impact on Scotland that would have to be tabulated and calculated in the fashion that I set out in my earlier answer. However, the Scottish Government could apply that reduction in public expenditure in 2010-11 or opt to defer it until 2011-12. In short, that means that we would have to find those savings and any other savings that might be required for the 2011-12 settlement in 2011-12. From Dr Goudie's analysis, we can see that 2011-12 is already going to be a very challenging year without the additional consequential impact of the budget change that has been reported in the media this morning.

**Lewis Macdonald:** Of course, you will not have prejudged the result of the election, and you cannot prejudge the detail of what will come out later today. However, was it open to your civil



servants to consider how such a deferral might impact in practical terms were you to take that road? Have you asked your civil servants to examine that in recent weeks?

**John Swinney:** I have undertaken and am undertaking a range of contingency work to identify what issues might have to be addressed by the Scottish Government. We have had an open election contest in which all of those issues have been laid bare. Work has been undertaken on a range of the approaches that could be taken, but the Government will consider the options once we know the situation that we face in relation to public expenditure reductions from the United Kingdom Government.

**Lewis Macdonald:** You have had contingency discussions and, clearly, you will have political discussions—

**John Swinney:** I have undertaken the contingency work; we have not had the contingency discussions.

**Lewis Macdonald:** Understood.

On the points that have been raised about the impact on the agencies for which you have direct responsibility—VisitScotland and the enterprise agencies—the enterprise agencies, in particular, have taken a significant budgetary reduction over the past three years. Do you have a view on the impact of future budget cuts on those agencies, in relation to the public sector generally?

**John Swinney:** Obviously, I want the agencies to be well supported in the work that they undertake. Mr Gibson's point that there will always be more demand for services and resources was correct—that was true even in the days of enormous growth in public expenditure, so the phenomenon is not new.

I want to ensure that the agencies are fully and effectively supported in their work and that they can ensure that those resources have the maximum impact. The test that matters to everyone concerns the impact and outcome of public expenditure. The narrative around public spending has to focus on the question of what we achieve as a result of that expenditure. The numbers are the numbers; what is crucial is what impact the expenditure has, what is achieved by it and what can be generated as a consequence of it. That will be our approach to addressing the budget requirements of the various agencies.

As I said to the convener earlier, supporting economic recovery, which is the fundamental purpose of the economic agencies, will be a major consideration for the Government.

**Lewis Macdonald:** One of the issues that came up in our discussions with witnesses, particularly VisitScotland, was your decision not to introduce

transitional measures for businesses in tourism and elsewhere that are facing substantial increases in their business rates. When I raised the matter with you in the chamber, you indicated that you would meet Aberdeen and Grampian Chamber of Commerce and that you would heed the representations of affected businesses. The other day, Philip Riddle told us that he had been invited by Jim Mather to put forward responses from the sector. Can you update the committee on those issues?

**John Swinney:** I am pretty sure that there is a date in my diary for a meeting with Aberdeen and Grampian Chamber of Commerce—if it has not yet been arranged, it is simply a matter of logistical arrangements; of course, the meeting will happen. We will continue to have dialogue with business organisations and others on these questions.

I have set out to Parliament the decisions that the Government has taken in relation to transitional relief and I will set out further details. A significant consideration in our approach to this difficult issue was the fact that business organisations had asked us for a commitment, which we have honoured, that we would match the poundage for business rates in England.

If we had conducted the revaluation and the business rates calculation on the basis that has habitually applied, we would have aimed to generate as much business rates income post revaluation as we were getting pre revaluation. That would have resulted in a much higher business rate poundage than the one that we now have. As a consequence of my decision to honour the commitment that we gave to the business organisations and to peg the business rates poundage at the same level as in England, we have delivered a saving to the business community on the total business rates bill in Scotland of in excess of £200 million. There is therefore a saving in a number of business rates bills across the country.

10:00

I completely accept that some people have seen increases in their business rates bills. Some of those increases, by their nature, have been driven by the investment that individuals have made in their businesses and the success of those businesses. That is how the business rates system operates—we can debate whether it is the most appropriate way, but that is how it is.

As Mr Macdonald will appreciate, if we were to have a transitional relief scheme in the current financial context, it would have to be self-financing. Any cushioning of prospective business rates increases for some businesses would therefore have to be paid for by other businesses

not getting the reductions in business rates to which the valuation process said they were entitled. In that context, we would have seen an unfair outcome for a substantial range of businesses in Scotland, which would have seen no benefit to them as a consequence of the business rates revaluation process.

**Lewis Macdonald:** You have made the link clearly between the decision not to have transitional relief and the meeting of your commitment to peg the poundage level at the same level as elsewhere in the United Kingdom. When you had the discussions with the business organisations, did they understand that the price of pegging the poundage level would be that no transitional relief would be available?

**John Swinney:** The commitments given to the business organisations about business rates poundage were part of the Government's manifesto commitments in 2007. I obviously felt duty bound to honour them in the decisions that we took subsequently. I am afraid that I cannot answer the question whether the connection was fully understood and appreciated by business organisations—that is a question for the business organisations—but they certainly recognise the fact that the Government gave a commitment to peg the poundage rate and that we have fulfilled it.

**Lewis Macdonald:** Thank you.

**Stuart McMillan (West of Scotland) (SNP):** I have two areas to look at, cabinet secretary, and the first is tourism. On page 3 of your submission to the committee, you talk about "Supporting internationalisation" and how the Scottish Government is committed to continuing the work following homecoming. You state:

"we will roll out a series of further initiatives to ensure a legacy for Homecoming."

Two events have happened and continue to happen. The first is the ash cloud and the second is the strike by British Airways cabin crew staff, organised by Unite. Those events are outwith your control, but will they have implications for the Scottish Government's plans to roll out the series of further initiatives? Do you see a potential financial cost to the Scottish economy and the tourism industry in particular as we enter the summer?

**John Swinney:** I will take the two events separately and deal first with the prospective British Airways strike. It is not possible to look at that prospective strike and think that there is anything good about it. It is bad for the economy, employees and the travelling public, and clearly there will be an economic impact as a consequence.

On the ash cloud, during the prolonged disruption to flights, which lasted for about six days, other transport operators made a fantastic effort to increase capacity on the rail and bus networks the length and breadth of the UK. Although there were no flights between Edinburgh and the south of England, we still had capacity on the train network, albeit that it was tight at times. Of course there was inconvenience to the public. However, the train operating companies and bus companies put on more trains and buses swiftly and, as a consequence of their swift response, were able to generate economic activity. I pay warm tribute to all the people involved in making that happen. In the context of the BA strike, there are transport alternatives. However, we should not underestimate the possible negative impact on the economy of a prolonged period of strikes.

As I said in my statement to the Parliament on the ash cloud, we have estimated the economic impact of the prolonged disruption during April. We have not had such a prolonged period of disruption since then, but it is clear that there will be disruption. I was aiming to fly to Orkney on Monday but was thwarted, because a substantial number of transatlantic flights had to take a route above the North Sea and my flight could not go—I did not get my trip. The disruption has consequences. With the co-operation of the Civil Aviation Authority, arrangements are now in place to protect Loganair flights and short-haul flights in Scotland and so prevent such disruption.

There are opportunities for other operators to put in place internal transport connections. There are economic opportunities for the Norfolkline ferry, which comes directly to Scotland from Zeebrugge. The company has seized the opportunity for additional marketing of its services, which we welcome.

The big uncertainty is how the ash cloud will affect people's travelling patterns, for inbound and outbound travel. The moral of the story is that there is undoubtedly a tourism opportunity. More of us can do what I will do this year and holiday in the Scottish islands, which is a great choice. VisitScotland is putting in effort to intensify the promotion of holidaying within Scotland to avoid potential disruption. We are taking forward such ideas, but I would not want that to disguise the fact that I acknowledge that the ash cloud and the BA strike are likely to have an economic impact.

**Stuart McMillan:** Thank you for your detailed answer. In the context of our efforts to make Scotland an attractive destination for more visitors and to secure a legacy from the year of homecoming, I am still a wee bit concerned about the implications for VisitScotland's budget of not just the two events that we talked about but what

might come down the line from the new UK Government.

**John Swinney:** As I said to Mr Macdonald, I want the agencies to have appropriate resources to allow them to fulfil their functions. That will be my approach. In the year of homecoming, I think that we demonstrated that it is possible to deliver a significant tourism impact on a relatively small budget. We want the thoughtful, creative and effective approach that was taken to the year of homecoming to be replicated in future activities.

**Stuart McMillan:** The reduction in ring fencing, which came with the concordat that was signed by the Scottish Government and the Convention of Scottish Local Authorities, has been a bit of a hot potato in the Scottish Parliament in recent years.

With the reduction in the budget that might come Scotland's way from the UK Government over the next few years—Scotland might lose a not insubstantial amount, judging from the figures in Dr Goudie's report—do you view ring fencing as null and void? Every department in the Scottish Government's competence will have to suffer a share of any potential reduction. If one department is safeguarded and its budget is ring fenced, other budgets in other departments will have to take an additional cut.

**John Swinney:** It is difficult for me to give a definitive answer to that. The Government is yet to know the precise financial position, and it is yet to take any decisions in that respect. The work will become clear over the course of the summer.

I repeat the point that I made before. The Government's commitments are to support economic recovery and protect front-line services. That is the clear thought that goes into the decisions that ministers make.

**Ms Wendy Alexander (Paisley North) (Lab):** Will the cabinet secretary clarify that the Scottish Government's position is that there is currently no protected department or budget line in the period ahead?

**John Swinney:** The Government has made it clear that our commitment is to support economic recovery and front-line services. We are determined to follow that approach as effectively as we can with the spending totals that we have available. That will guide the decisions of ministers.

**Ms Alexander:** So there is no protected budget.

**John Swinney:** It depends on how we look at it all. It is clear what front-line services are—health, education and social care services—and we want to support and protect those services.

**Ms Alexander:** I appreciate the uncertainty that we are dealing with, but you did cite one figure in

your earlier remarks, on the possible consequence of a £6 billion reduction in the UK budget in the year 2010-11, with possible implications for Scotland of a reduction of £500 million to £600 million. That surprised me, in the sense that it implies that all of the reduction would come in devolved areas. Do you have any inside information to suggest that that would be the case, given that devolved areas account for only about 60 per cent of the spend in Scotland?

**John Swinney:** I do not have any inside information; I am simply positing a potential scenario. If decisions were to be taken whereby UK expenditure reductions fell in that fashion, such a reduction in Scotland could be the consequential impact.

**Ms Alexander:** But that would not be the most likely impact. You have just agreed that your assumption is that all the cuts would fall in devolved departments. That would seem an unlikely assumption. Or must we simply wait and see?

**John Swinney:** I am afraid that I have no inside track that I can share with the committee. I am simply giving an illustration of what the number might look like.

**Ms Alexander:** Let me move on to some more general questions. There is a high level of uncertainty at the moment. "The Government Economic Strategy" states that the purpose of the Government is to raise the sustainable growth rate in Scotland. It goes on to say:

"Our immediate growth target is to raise Scotland's GDP growth rate to the UK level by 2011."

We are now only seven months away from 2011. Do you expect that target to be met?

10:15

**John Swinney:** Over the past couple of years it has become pretty clear that Scottish economic performance has largely mirrored the pattern of economic performance in the rest of the United Kingdom. I am not saying that that is absolutely marvellous, because we have gone through a period of sustained decline. Nevertheless, that is my key observation. My hope and expectation is that, as we move into economic recovery, the pattern we follow will be relatively similar to that in the rest of the United Kingdom.

**Ms Alexander:** The Government's submission says that we have

"the most ambitious emission reduction targets in the world".

On a long-term basis, that is clearly true, but can you clarify for us the emission reduction targets for this year and next?

**John Swinney:** There is no reduction envisaged for this year in the statutory instrument that is before Parliament. Next year, the reduction is 0.5 per cent.

**Ms Alexander:** Given the emphasis that has been placed on emissions reductions, why has your approach departed so substantially from the 3 per cent year-on-year reduction that was promised in your manifesto? Why in years 3 and 4 are we promising nothing more than a 0.5 per cent reduction? What has led to such a dramatic downscaling of ambition?

**John Swinney:** I fundamentally reject that proposition. With our statutory commitment to reduce emissions by 42 per cent by 2020, we have accepted an approach that equates to reducing emissions by 3 per cent per annum. With Parliament's consent, we have enlisted the advice of the United Kingdom Committee on Climate Change, which has assessed the ability to reduce emissions over the next few years. The committee's view is that we should not be envisaging emissions reductions over a three-year period, but the Government has opted to take a more ambitious approach, which has been set out in the statutory instrument that is currently before Parliament.

In short, then, our agenda for reducing emissions has two levels. First, we have established a process that is designed to deliver those 3 per cent reductions by 2020 and, secondly, we have put in place a more assertive plan than was envisaged by the Committee on Climate Change, from which the Parliament asked us to take advice.

**Ms Alexander:** I have two other very brief questions. The Government's submission talks about

"maintaining the most supportive environment for a strong recovery",

and points us to the economic recovery plan, which contains one mention of the Scottish Futures Trust. I am aware that the Government's intention was to bring forward an alternative model to public-private partnerships. When might that model become available?

**John Swinney:** That is what the SFT is there to do. Its on-going work is to deliver the kinds of efficient methods of financing that we have seen in, for example, the national housing trust, the work on the hub programme and the different non-profit-distributing projects that are going on around the country. All of that work forms the SFT's core functions.

**Ms Alexander:** Does that equate to an alternative model to PPP or public procurement? That is what the promise was.

**John Swinney:** I would say that that equates to that promise, yes.

**Ms Alexander:** Significant resources for support for business have been transferred from Scottish Enterprise to local government in the past couple of years, but economic development does not feature prominently in the concordat. Are any measures in place to monitor whether the spending in the broad economic development arena that has moved over from Scottish Enterprise continues to be used for economic development? Can a local authority reduce the spend on economic development to zero if it so wishes?

**John Swinney:** Reducing the spend to zero is not possible, because contractual commitments are in place to ensure that a business advice service is provided under the auspices of the business gateway. The resources are provided for the contractual commitment, so they cannot be used to support other services.

**Ms Alexander:** Does that apply to any functions beyond simply the business gateway? Does that apply to all the resources that were transferred from the development agencies or exclusively to the contract for the business gateway?

**John Swinney:** Other transfers related to local regeneration. A tranche of money was transferred to support a range of existing projects that had a substantial tail, so that resource is linked to the continuation of those projects. The same constraint as applies to the regeneration money applies to the business gateway money.

**Ms Alexander:** I presume that the regeneration projects are time limited for one, two or three years. After that, will the budget go into the local authority baseline?

**John Swinney:** The budget will go into the local authority baseline for local economic development purposes.

**Ms Alexander:** That will be an element of ring fencing that is not covered in the concordat.

**John Swinney:** We reached agreement with local government that we were transferring a function, which had to be supported as a consequence of the transfer of resources.

**Ms Alexander:** Has any commitment been made about the quantum of resources that must continue to be devoted to such functions? I presume that some projects reached the end of their natural life cycles in the past financial year and that that will happen in this and the next financial years.

**John Swinney:** You will find that local government spends more money on local economic development than we provide through

the mechanism that we are discussing. In that context, local government will invest in local economic development activity.

A key point is that the Government has been anxious to re-engage local government in the local economic development process. For a period, local government felt almost encouraged to believe that economic development was Scottish Enterprise business and had nothing to do with local authorities. I have been anxious to counter that view, because local economic development has everything to do with local authorities and with their decisions about transport, planning, infrastructure and a variety of matters. Decisions are taken in that context.

**Ms Alexander:** You said that we would find that more money was being spent, which returns us to my original question. In the interests of transparency, is any monitoring done of or are any data published about continuing local authority spend on the functions?

**John Swinney:** I am pretty sure that such spending is identifiable in local authority financial returns, but I am happy to write to the committee about that.

**Ms Alexander:** The decision about such spending is discretionary and will remain discretionary in the difficult period that is ahead. Perhaps you should write to us, because you imply that money is tied on an on-going basis. Business organisations are concerned that, in straitened circumstances, the total spend will be reduced as projects reach the end of their natural lives.

**John Swinney:** I will provide the committee with reassurance in writing.

**Gavin Brown (Lothians) (Con):** Cabinet secretary, I apologise for missing the first few minutes of your evidence and for my late arrival. One of the issues that you raised was the Scottish Investment Bank. What will happen to the co-investment fund?

**John Swinney:** The co-investment fund will continue to operate in the fashion in which it has operated historically. In essence, it will be drawn together with the Scottish Investment Bank. As I said to the convener, new resources have gone into the Scottish Investment Bank, but the Scottish co-investment fund will continue its operations as before.

**Gavin Brown:** So, to be clear, there will be no change at all to the co-investment fund.

**John Swinney:** No, there will be no change to it.

**Gavin Brown:** If the fund is doing exactly the same as it always did, what do you mean by

saying that it will be drawn into the Scottish Investment Bank?

**John Swinney:** It would be best to think about that from the perspective of somebody who is looking for investment support. Some people will pitch up at the Government's door to look for investment support. It might be appropriate for them to get that support from the co-investment fund or to get it from the Scottish Investment Bank. We are trying to make it as easy as possible for individuals to find the support that is appropriate to them. When I say that they will be drawn together, I simply mean making it practical and convenient for members of the public who seek the investment to find a ready way of accessing it.

**Gavin Brown:** Did the Government get feedback that businesses were struggling to understand the difference between the various funds?

**John Swinney:** No. The Government introduced a new fund, which was the Scottish Investment Bank. We did not want to create any obstacles or confusion about the appropriate destination for investment inquiries.

**Gavin Brown:** Is the additional £50 million that you announced a couple of weeks ago and to which you referred today already available for businesses to access? If not, when will it be available?

**John Swinney:** It is available now.

**Gavin Brown:** Has anybody accessed it?

**John Swinney:** I do not have that detail to hand.

**David Wilson (Scottish Government Energy Directorate):** No one has been awarded a grant as yet, but a number of discussions are under way. Due process and due diligence must be gone through first.

**Gavin Brown:** How is the Government letting businesses know that the fund is now open for business?

**John Swinney:** As far as I have noticed, there has been a fair amount of media coverage, so people will probably realise that the Scottish Investment Bank exists. Information about it is available through the normal channels of inquiry to the Government about particular investment funds. We will consider what additional promotional activities need to be undertaken. The business gateway or account managers within Scottish Enterprise, Scottish Development International or Highlands and Islands Enterprise will advise companies and signpost them towards the appropriate source of finance.

**Gavin Brown:** The last paragraph of the Scottish Government's written submission refers

to efficiency savings that the Government has already achieved since 2007. What did you make of Audit Scotland's analysis of the efficiency programme?

**John Swinney:** It was pretty consistent with what Audit Scotland has said about the efficiency programme in Scotland in general over a number of years, which is that it is not possible to demonstrate and authenticate every scintilla of saving that is made as part of the programme but that the programme in Scotland is more heavily evidenced than others within the United Kingdom.

**Gavin Brown:** I accept entirely the argument that it is difficult to prove every scintilla, but were you surprised that Audit Scotland said that it was unable to verify any of the efficiency savings?

**John Swinney:** Yes, I was surprised at that.

**Gavin Brown:** I do not doubt for a moment that efficiency savings have happened.

10:30

**John Swinney:** That is why I find Audit Scotland's comment a bit strange. It is clear beyond peradventure that efficiency savings can be demonstrated. I cannot accept Audit Scotland's view. As I have said to Mr Brown, I would not for a moment suggest that we can produce an audit trail and receipts for every pound in the efficiency savings programmes that it has been claimed has been saved, but going to the other end of the spectrum and saying that we cannot evidence any efficiency savings does not result in a substantial point.

**Gavin Brown:** So where do we go next? It is probably not worth the effort to prove that every single pound has been saved. The amount that would be spent on proving that would probably outweigh the merits of such an approach. However, what action will the Government take to enable Audit Scotland to say that it can verify the bulk of the efficiency savings? For it to say that it cannot verify any of them strikes me as unsatisfactory.

**John Swinney:** I am largely in the same position as Mr Brown is in; indeed, ironically, I am in the same position as my predecessor was in, despite the fact that, when I was in opposition, I used to chide him for not having a more definitive answer. It is impossible to prove and demonstrate that every single pound has been saved, and it is not worth tabulating all of that work. The question is how far we are along the journey. Obviously, I am happy to engage in discussions with Audit Scotland or parliamentary committees about how we can strengthen the verification process to give people greater confidence. That said, I think that

the evidencing of such activity is far stronger in our programme than it is in other parts of the UK.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** I am particularly interested in paragraphs 7 and 9 of the Government's submission, which refer to the low-carbon economy. Does the cabinet secretary agree that it is important that we find out what the policy of our partner Government in London on that is as soon as we possibly can? There must be ambiguities about the role of nuclear power. As far as I recollect, convener, it did not figure greatly in the Liberal party's priorities. What are the implications for particular projects in Scotland, given that two of the great arrays of marine-based wind farms must proceed rapidly to the planning stages? What will the London Government's attitude to them be? Of course, work on them will be carried out to a great extent with sovereign wealth from continental countries. Whether Britain goes down the nuclear road and we find that our nuclear stations are run by the French or whether we go down a renewables road and find that things are run by the Swedes or the Germans, diplomatic initiatives will be of the essence. How can those initiatives be geared into the supply of investment from this country or from partners in Europe, given the coming London Government's ambiguous approach to European co-operation?

**John Swinney:** Allow me to be as diplomatic as I possibly can be this morning. I do not know what the United Kingdom Government's policy perspective will be, but I know that some approaches that the previous Administration took to concepts such as the strategic investment fund—I notice that Mr Macdonald questioned Scottish Enterprise about that—have been significant in enabling new technological developments to take off. We have a lot of vested interest—certainly from the Scottish Government's perspective—in ensuring that we get out of those vehicles continued investment in renewables infrastructure and the great opportunities that we have, and it is important to have clarity about that.

Obviously, the incoming UK Government will be bound by the legislation on climate change and carbon reduction that was passed by the previous Parliament. I am not familiar with the arithmetic of those parliamentary decisions, but I am pretty sure that such legislation would have been broadly supported across the political spectrum in the House of Commons and the House of Lords. There is some reassurance that there must be a focus on delivering a low-carbon economy because there are statutory commitments on carbon reduction. That will be a material point for discussion among the ministers in the new UK Government.

**Christopher Harvie:** We did not emerge from our interrogation of the Office of Gas and Electricity Markets totally satisfied with the transparency of that organisation's desire, at that time, to achieve more perfect markets—to use the in phrase—in energy supply. Is this an appropriate point at which to press for modifications to Ofgem's approach, given the fact that the Cameroons' partners will be the Liberals, who, in Scotland, have certain interests in ensuring that energy supplies from their areas are not penalised?

**John Swinney:** Ofgem certainly needs to revisit a number of its fundamental assumptions. The Scottish Government pursues such issues assiduously and will continue to do so.

**Christopher Harvie:** The earlier villains—the bankers who seemed to make an efficient getaway to tax havens—did not figure very much in the election debate. Again, is this not the time to press for the creation of a type of what John Kay would call a narrow bank, which has as its goal the creation of sustainable low-energy-consumption housing as a major part of combating fuel poverty and getting the most efficient use of our energy supplies in the housing market?

**John Swinney:** We need to ensure that there is a very strong capital market for investment in the low-carbon economy. The Government encourages that in a range of different points of dialogue that we are conducting. Whether that has to be achieved by a narrow bank is clearly a point of discussion about the architecture of the banking sector, but we must ensure that we have an adequate source of capital for investment. That is one of the major factors upon which the success of the low-carbon economy developments that we want to implement will depend.

**The Convener:** I am sure that Chris Harvie will be reassured to know that Chris Huhne, the Liberal Democrat, is the Secretary of State for Energy and Climate Change.

**Marilyn Livingstone (Kirkcaldy) (Lab):** My first question is a follow-up on Lewis Macdonald's question about the rates revaluation. With the cabinet secretary's interest in growing the economy, I am sure that he will agree that the independent nursery sector is really important to the economy, particularly in enabling women to get back into work. I have had representations from that sector in my constituency, as have members across Scotland. The nurseries have been particularly hard-hit by rates increases.

One example is a nursery in my constituency that has had a 69 per cent increase in rates. Throughout Scotland, the increases range from nothing to 276 per cent. It is being said to me very clearly that if that issue is not considered

seriously, many nurseries will go out of business. Fife Council said that one of the reasons for the increases is that nurseries are a growth industry, but the nursery in my constituency said that it has 48 places, and that is what it has, so how does it grow when it is being asked to come up with the money for a 69 per cent rates increase? I do not know whether you have a comment on that, cabinet secretary. I am using my constituency as an example, but the sector has been impacted on across Scotland.

**John Swinney:** In a rates revaluation, there can be significant changes. The Scottish Assessors Association undertakes the independent valuation and sets out the independent methodology that it uses to do so.

I am not familiar with the circumstances of the case that Marilyn Livingstone raises but, for example, if there have been some developments in the nursery and an increase in business performance, that will have an effect on business rates.

I point out that an appeal mechanism is available to every organisation, and I encourage any organisation that is concerned about the issue to make an appeal.

**Marilyn Livingstone:** I was using that nursery as an example, but representations have been made by nurseries across Scotland. The nursery sector seems to have been adversely hit. For example, a nursery in Dunfermline has experienced a 276 per cent rise in its business rates, and one in the convener's constituency has experienced a 50 per cent increase—I could go on. Nurseries tell me that, when they ask why their rates are going up, they are told that it is because they are a growth area. Their appeals are not being heard, but the increases are being served and they are telling me that they might be put out of business. You have to take the issue seriously, cabinet secretary, because many people, particularly women, will be adversely affected if the nurseries close. I point out to you the anomaly in the situation.

**John Swinney:** I take the issue seriously, which is why I encourage the companies to appeal. That is the process that should be undertaken. Obviously, any business rates that have been collected inappropriately will be repaid, more than likely with interest, if that is appropriate.

**Marilyn Livingstone:** For many of the nurseries, that might be too little, too late. There seems to be quite a serious issue developing.

What input will you have into the lifelong learning budget? This committee is often told that skills and learning will help us through the recession. Further education colleges and universities are bursting at the seams with extra

students. They are taking on quite a big responsibility throughout the recession and I wondered what discussions you are having about that budget area.

**John Swinney:** Marilyn Livingstone will be aware that we have expanded the support that we are giving to the college and university sector beyond what was envisaged in the spending review, as part of the negotiations around the budget process for 2010-11. In response to the points that were put forward by the Liberal Democrats, we increased the amount of support that goes into college places, which resulted in more college places being provided. I entirely accept the importance of the argument.

I have to manage and reconcile all budgets across the Administration, so I will be heavily involved in discussions on the lifelong learning budget. The Cabinet Secretary for Education and Lifelong Learning and the Minister for Skills and Lifelong Learning are actively discussing some of the challenges that we face, particularly in relation to younger people over the summer, when a lot of young people get involved in training opportunities. We want to ensure that we have appropriate opportunities for those individuals this summer. We are discussing those questions intensely just now because of the significance of the associated issues.

As Marilyn Livingstone will appreciate, there is a finite amount of money, and we will be trying to ensure that we provide as much support and as many opportunities as possible to young people who are in the circumstances that she described.

10:45

**Marilyn Livingstone:** That was going to be my next question. Colleges are bursting at the seams, and there will be huge numbers of school leavers. We would quite like to be kept up to date with the plans that you mention.

**John Swinney:** The issue is predominantly one for the Cabinet Secretary for Education and Lifelong Learning, but he and I are in active discussion about the point, as we recognise the seriousness and significance of the issue. Either Michael Russell or I will be happy to keep the committee informed.

**The Convener:** If you are able to get a word in edgeways when you are talking to Michael Russell, you are doing better than most of us.

**John Swinney:** I am sure that Mr Russell will pay careful attention to my remarks.

**The Convener:** I am sure that he will.

I thank the cabinet secretary for his attendance. Time is against us and we must conclude the

meeting. We will consider our draft report on the budget at our next meeting. It must go to the Finance Committee soon, so we will have only that opportunity to consider it.

I remind members that, at 11 o'clock, we will commence our annual joint seminar with the Scottish Trades Union Congress.

*Meeting closed at 10:46.*



Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

Members who wish to suggest corrections for the archive edition should mark them clearly in the report or send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP.

#### PRICES AND SUBSCRIPTION RATES

##### OFFICIAL REPORT daily editions

*Single copies: £5.00*

*Meetings of the Parliament annual subscriptions: £350.00*

##### WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

*Single copies: £3.75*

*Annual subscriptions: £150.00*

Printed and published in Edinburgh by RR Donnelley and available from:

##### Scottish Parliament

All documents are available on the Scottish Parliament website at:

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

For more information on the Parliament, or if you have an inquiry about information in languages other than English or in alternative formats (for example, Braille, large print or audio), please contact:

##### Public Information Service

The Scottish Parliament  
Edinburgh EH99 1SP

**Telephone: 0131 348 5000**

**Fòn: 0131 348 5395** (Gàidhlig)

**Textphone users** may contact us on **0800 092 7100**.

We also welcome calls using the Text Relay service.

**Fax: 0131 348 5601**

**E-mail: [sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)**

We welcome written correspondence in any language.

##### Blackwell's Scottish Parliament Documentation

**Helpline** may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

##### Telephone orders and inquiries

**0131 622 8283 or**

**0131 622 8258**

##### Fax orders

**0131 557 8149**

**E-mail orders, subscriptions and standing orders**  
**[business.edinburgh@blackwell.co.uk](mailto:business.edinburgh@blackwell.co.uk)**

##### Blackwell's Bookshop

**53 South Bridge  
Edinburgh EH1 1YS  
0131 622 8222**

##### Blackwell's Bookshops:

243-244 High Holborn  
London WC1 7DZ  
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh.

##### Accredited Agents

(see Yellow Pages)

and through other good booksellers