



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 10 November 2010

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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	4297
PROTECTION OF WORKERS (SCOTLAND) BILL: STAGE 1	4298
ENTERPRISE NETWORK INQUIRY	4318

ECONOMY, ENERGY AND TOURISM COMMITTEE
30th 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:

Mike Dailly (Govan Law Centre)

Professor Mike Danson (University of the West of Scotland)

Hugh Henry (Paisley South) (Lab)

John McLaren (Centre for Public Policy for Regions)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 10 November 2010

[The Convener opened the meeting at 09:32]

Decision on Taking Business in Private

The Convener (Iain Smith): I have been caught out by members' promptness this morning, but we are now ready to start.

I formally welcome everyone to the 30th meeting of the Economy, Energy and Tourism Committee in 2010. We have apologies for lateness from Christopher Harvie and Marilyn Livingstone, who will, I hope, both make it to the meeting at some point during the course of the morning.

The first agenda item is to consider taking business in private. Does the committee agree to take item 5 in private? Do members also agree that, as well as the committee's approach to budget scrutiny, consideration of a draft submission to the independent commission on banking at our next meeting on 17 November will also be taken in private?

Members indicated agreement.

The Convener: Can we agree that the subsequent draft reports on those items will also be taken in private?

Members indicated agreement.

Protection of Workers (Scotland) Bill: Stage 1

The Convener: Item 2 is our continued scrutiny of the Protection of Workers (Scotland) Bill. I welcome the member in charge of the bill, Hugh Henry MSP, along with Mike Dailly from the Govan Law Centre, to the meeting. I will allow Hugh Henry to make opening remarks and then I will open up the meeting to questions.

Hugh Henry (Paisley South) (Lab): I have been following the committee's evidence sessions closely and a number of interesting points have come out. There seems to be a clear split of opinion between those who believe that they and those whom they represent would be beneficiaries of the bill and—if you like—the legal establishment, which believes that there is no need for the bill.

It was disappointing to hear the evidence of the police and fire services, particularly that of the police. The Scottish Police Federation said that there is no need for the proposed legislation because current laws cover those who might be affected, and it acknowledged the fact that many are covered by the Emergency Workers (Scotland) Act 2005. At the same time, those organisations do not want to see the 2005 act removed, because their members benefit from it, even though their members, especially in the case of the police, are covered by the Police (Scotland) Act 1967.

The bill argues that there are people who might not always act in what could be described as an emergency service but who provide vital services to the public. If those workers are prevented from providing that service, for whatever reason, the public can suffer considerably.

If shops have to close because of assaults on staff, if bus services are withdrawn because of assaults on bus drivers, if trains are off because of assaults on train drivers, or if vital bills, letters or cheques do not arrive in households or businesses because a postal worker is assaulted, the consequences can be quite significant. Although those workers are not having to act as emergency workers, they often have to act in emergency situations. The definition of an emergency is a serious situation or occurrence that happens unexpectedly and demands immediate action. That can often occur when a worker is trying to deliver mail and there is a confrontation. In a shop, a serious situation can arise whether it is because someone is attempting to shoplift, or for another reason. A number of workers in this country provide vital services to the public and they are asking for the same level of protection as emergency workers have.

We have heard from the cabinet secretary about why we should not enact the bill. There seems to be a bit of a contradiction in the Government officials' response. They downplay the success of the Emergency Workers (Scotland) Act 2005, saying:

"As such, if we wished to define 'success' with only reference to the data, we would expect the number of offences under the 2005 Act to fall in number as the deterrent effect operates rather than rise as has happened."

If we accept the logic of that, the Emergency Workers (Scotland) Act 2005 has not been a success, and yet from the political perspective, the cabinet secretary is very clear that he fully supports the act. The statistics that have been provided to the committee from several parliamentary answers show that the number of prosecutions under the 2005 act continues to rise significantly year on year. We have also heard evidence from Unison that the number of assaults on health staff is falling, so to some extent that might contradict what the committee has heard from Government officials.

We believe that it is important to put on record to those who serve us, in whatever capacity, that they have the full support of the law. The Emergency Workers (Scotland) Act 2005 tried to do that. We recognise that other legislation covers serious assaults, but the footnotes to the parliamentary answers that contain the statistics on the 2005 act categorise such assaults as minor rather than serious, and they are dealt with elsewhere and by other means.

The time is right to say to those who serve us, and serve us well, that we politicians will do what we think is right to protect them when they are serving the wider public, and that the legislative cover that is available to them while they are at work should be no different from that available to those who work in emergency situations.

The Convener: Thank you for those opening remarks. I start by addressing the central issue. Could you explain to the committee how the Protection of Workers (Scotland) Bill, if enacted, would increase the legal protection for workers? I stress the word "legal".

Mike Dailly (Govan Law Centre): Evidence has been given that the bill replicates the common-law position on assaults. The bill does not include the term "obstructs or hinders" because we had a very tight timeframe in which to draft the bill after Hugh Henry approached me at Govan Law Centre; I was in the middle of drafting the Property Factors (Scotland) Bill.

We wanted to give some thought to that point, but I think that I am right in saying that, if the bill progresses to stage 2, Hugh Henry would like to

amend it so that it includes the term "obstructs or hinders", which would add value to the legislation. For instance, if a worker such as a conductor on a train is obstructed or hindered, that could effectively result in the train service being cancelled, and many people would experience a disruption to their service. I recognise the need to address that point.

As for how the bill would work generally, the committee has heard evidence from the Federation of Small Businesses, which said that 20 to 28 per cent of its members were reporting abuse or assault. ScotRail, Unison and the Scottish Trades Union Congress have reported 30,000 incidents, which shows that the issue is a major one in Scotland. Public-facing workers are being abused, assaulted, hindered and obstructed daily. The bill is intended to have a deterrent effect.

Let us consider the Emergency Workers (Scotland) Act 2005 and other examples of where there has been a deterrent effect. There are now statutory aggravations relating to criminal conduct in connection with race, religion, disability and sexual orientation. Over the years, the Scottish Parliament has recognised that there is added value in giving extra protection to particular groups of people. All that the bill seeks to do is to extend that protection to ordinary working men and women who provide direct services to the public.

Hugh Henry: I wish to reinforce that point. Over many years, when the issue of aggravation has come up, people—particularly those who were speaking from a legal perspective—have told us that we do not need to provide for that, because the law already covers such incidents. The Parliament rejected that counsel and put in place provision covering aggravation. Over the years, it has extended the number of categories that are covered by aggravation. Parliament has already accepted the principle that there are assaults or incidents that the common law covers, but it is important, for whatever reason, to put on record our belief that a more serious attitude should be taken towards specific groups of people. In this case, we are talking about workers who perform a duty for the public.

The Convener: I have two related points to make. First, do you accept that the Emergency Workers (Scotland) Act 2005 increased the sentences that are available to the courts, and that the sentences that the courts have imposed have subsequently changed and caught up with those provisions? The Protection of Workers (Scotland) Bill would not do the same thing.

Secondly, the Protection of Workers (Scotland) Bill would not actually create an aggravation offence in the same way that was done for race or

sexuality, for instance, so how would it extend the protection of workers in that sense?

Hugh Henry: I will address the first point, and I will leave Mike Dailly to deal with the second one.

I accept what you say. The Emergency Workers (Scotland) Act 2005 extended sentencing provision. You are right to say that sentencing has caught up, to an extent, with that act. Judging from the evidence of the police service and the fire service, they do not want the 2005 act to be taken out of legislation. You are effectively saying that there is no need for it, but the police and the fire service do not want it to be removed. Similarly, the Cabinet Secretary for Justice believes that there is still a need for that legislation, despite the sentencing having now caught up.

It would be interesting to see what the statistics show in that regard. People are being prosecuted under the Emergency Workers (Scotland) Act 2005 rather than under other statutory libels. It is clear that the 2005 act is a tool that has been added to the armoury of both the police and the prosecution service. It is being used increasingly, and it is important to put on record the fact that the police and the prosecution service, as well as the courts, take seriously assaults on workers who perform a function for the general public.

09:45

Mike Dailly: In response to your point that the bill does not create an aggravation, I point out that neither, in a strict legal sense, does the 2005 act. As Hugh Henry has pointed out—and as my colleagues from the Law Society have suggested in their evidence—lawyers generally do not like to create new offences or aggravations of offences. From a purely legalistic point of view, they like things to be left to discretion and prefer flexibility.

However, the provisions in the 2005 act, as with this bill, are totally akin to creating an aggravation, in that they created a specific offence. Indeed, some solicitor and solicitor advocate colleagues, who spend all their time defending people who have been accused of crimes, tell me that any prosecution under the 2005 act is treated incredibly seriously and that, as a result, they advise their clients that they will be looking at a custodial sentence.

With this bill, all we are seeking is to create a separate statutory offence that would give ordinary working people in Scotland who serve the public and who put themselves in potentially risky situations—for example, a woman working in a garage late at night—the same protection that is available under the 2005 act. The risky situation is the significant point. It is not the job, per se. That would provide consistency for the prosecution service and would send out a very strong

message. I honestly believe that the bill would have the same deterrent effect that the emergency workers legislation has had.

The Convener: Do you accept or dispute the point that was made by the Crown and by the cabinet secretary that the offences are already taken very seriously by the courts, and that the prosecution service makes very clear to the court the aggravation effect, if you like, of an assault on a public-facing worker?

Mike Dailly: It is unfortunate that there is no empirical evidence of how the 2005 act has worked. Although I totally acknowledge the sincerity of the Crown Office's view that such matters are treated very seriously, I have to point out that, according to its evidence, its position is that all crime is treated seriously. I understand that. After all, a prosecutor cannot really say anything other than that every crime is serious.

Under the heading "Why have racial aggravations?" the Crown Office's guidance on racially aggravated crimes says:

"there is a need to increase trust in the criminal justice system and in the prosecution service. Our prosecution policy on racially aggravated crime is robust to ensure a consistent approach and to reassure victims of racist crime that their complaints will be taken seriously. In many ways this is the most robust of all our prosecution policies but there are good reasons for this, the most important being the need to send a message to Scottish society that racism will not be tolerated whenever it occurs as a crime."

I respectfully submit that, given the evidence of the prevalence of abuse of and assault on ordinary working people, which we all agree is unacceptable, we need to send out a strong message that such a situation must be addressed in our country. Things cannot go on in the way that they have been going on.

Rob Gibson (Highlands and Islands) (SNP): In a letter from the cabinet secretary dated 1 November, the fourth paragraph on the second page says:

"We further understand that examples were given of recent cases where the Crown has labelled a mixture of common law and statutory offences involving offences against emergency workers, and the sentences imposed on conviction."

I find that interesting, because it suggests that procurators fiscal have to think about the best way of tackling particular crimes and one would expect them to take a view on the individual circumstances before deciding how to proceed.

We understand that, under the Emergency Workers (Scotland) Act 2005 and the common law, sentencing is now tougher. Does that coincidence put in the minds of procurators fiscal the idea that they must take such conduct more seriously? By mixing common-law and statutory

approaches, do they meet the needs of the circumstances that they deal with in such crime?

Hugh Henry: That logic is powerful. You say that, in dealing with crime against people who are employed in emergency services, the Crown looks at the mixture of common-law and statutory offences and decides what is most effective. That powerful and persuasive argument should also apply to workers in other settings, in relation to whom the prosecution services should have that mixture of common-law and statutory offences to determine the best way forward. The sentence that you quoted strengthens rather than weakens the arguments for the bill.

Rob Gibson: If you think that, and since you hope that the bill passes stage 1, after which you hope to introduce the obstruct and hinder provisions, how would the procurators fiscal tackle all those matters? The range of matters that we would deal with would be extended, and it would certainly be a long while before a pattern emerged that would allow us to measure the bill's effectiveness.

Mike Dailly: If one imagines for argument's sake that the bill becomes law, we need to remember that underneath the bill or any statutory offence are breach of the peace and assault, as common-law offences. The bill would provide just another tool in the toolbox for the prosecution. For section 1 to engage, the conduct must in the first instance be an assault, which is a common-law offence in any event.

I accept the implication of the change in sentencing law in 2007. If one was playing devil's advocate, one could ask what the point of the 2005 act or the bill is now. However, I understand that the Cabinet Secretary for Justice is not arguing that the 2005 act should be repealed. We argue that that act has a deterrent effect, provides consistency and sends a message. All that we say is that we should provide the same for ordinary working people who serve the public.

Rob Gibson: If we put the politics aside, we have a set of laws and the cabinet secretary will not say, "We'll scrap this one and that one," especially as the 2005 act was amended in 2008 and it takes a while to see whether legislation is effective.

You ask for an addition to that law. It could take five years to see whether what you propose is effective, although I do not want to put a time on that. The point is that, as we create more tools for the Crown Office to work with, we provide it with a more complex set of approaches, which might not help us to get to the problem's roots.

Mike Dailly: I say with respect that the system would not be more complicated. Prosecutors have a range of matters that they can label as offences.

It is down to a prosecutor to decide when to employ measures. I am not sure whether one can say that that is complicated.

If a cost benefit analysis was done and we asked what the negative repercussions were, the answer would be that the effect was more or less cost neutral and that, as for the repercussions, the bill would provide a particular purpose, as I have said, which would have no potential negative consequences.

It is important to note that the cabinet secretary's evidence to the committee has an inconsistency. As I read his evidence, he supports the 2005 act and says that Hugh Henry's bill is unnecessary. However, the Emergency Workers (Scotland) Act 2005 (Modification) Order 2008 extended the emergency workers protection to health professionals who are engaged in non-emergency work. The question that then arises is whether it is more important that health professionals who are doing non-urgent work get protection than it is that a train conductor gets protection of an evening when there is a packed train and people have been drinking. I think that the train conductor would require more protection. I am, therefore, confused by the cabinet secretary's evidence, which seems to be confused and conflicting.

Hugh Henry: To be fair to the cabinet secretary, I understand that he is not asking us to wait and see how the 2005 act operates over four or five years and whether there is any need for it. He is stating unequivocally his support for the continuation of that legislation. Mike Dailly has explained why we think that other workers in similar non-emergency situations should be covered.

Rob Gibson: Given that, at times, a mixture of common-law and statutory offences would be used, do you think that the procurators fiscal are beginning to think of the common law in a slightly more advanced form than they did before because of the range of public-facing workers who are—it is alleged by the figures with which we have been provided in evidence—being assaulted daily? Do you think that, over the next period, many such offences will be taken more seriously and that the common law will be the main means to cover them?

Mike Dailly: The difficulty with that proposition is that the Parliament cannot know that. There is no empirical evidence and, as far as I know, nobody is undertaking a proper study of it. It is regrettable that the evidence that we have is not particularly helpful in telling us whether that is the case. The Crown Office and the cabinet secretary are putting such propositions forward, but the difficulty that we all have is that there is no

independent scrutiny of that, which makes it difficult.

Hugh Henry: I refer Rob Gibson to the parliamentary questions that the cabinet secretary has answered. I will focus on the phraseology that he uses. There have been at least three questions—asked by Irene Oldfather, Richard Baker and Margaret Mitchell—and Mike Dailly is right about the lack of empirical evidence. You have heard this before, but the cabinet secretary's reply to Irene Oldfather's question states:

"The police recorded crime statistics collected centrally are based on an aggregate return and do not record the occupation of the victim. However, following the introduction of the Emergency Workers (Scotland) Act in 2005, a new distinct crime classification of Minor assault of an emergency workers was created."

Note that this will also include minor assaults of police officers during any course of their duties. He then lists the figures for those who have been charged under the 2005 act but talks about "Offences of Minor Assault". The cabinet secretary's reply concludes:

"All serious assaults are recorded under a separate crime classification. However, the Scottish Government does not hold the number of serious assaults on emergency workers as the occupation of the victim is not held centrally."—[*Official Report, Written Answers*, 2 March 2010; S3W-31412.]

So, even with the 2005 act, there is a twin-track approach according to which serious assaults are dealt with under common law or statutory offences of serious assault, but minor assaults on emergency workers are charged under the 2005 act and are recorded as such.

10:00

Lewis Macdonald (Aberdeen Central) (Lab): I want to pursue one or two questions around the scope of the bill. Rather to my surprise, the cabinet secretary was fairly dismissive of the notion that you could have a category of people who were covered by the bill that would be definitive and clearly understood by the courts. I would be interested to hear your response to that. I think that at one stage he said something to the effect that the bill could cover almost anybody under almost any circumstances, which is clearly not the intention. How satisfied are you that the definition of those who are covered by the bill is adequate and will be clearly understood by the courts and the prosecuting authorities?

Hugh Henry: In one of your evidence sessions someone asked whether the bill would make it more difficult to achieve a prosecution. The answer that was given was that it would not, because the Crown would still be able to use other legislation if there was a problem with the definition of a worker. It has been clearly stated

that the bill does not create the danger that people will avoid prosecution.

The question would be, what is the definition of a worker? I will leave Mike Dailly to explain that more fully, but it is fairly simple: it is those who are engaged in occupations where a service is provided to the public. Would that be everybody in the country? No, of course it would not. Would it be everybody in a single workplace? No, because some people in some workplaces do not serve the public and do not engage with the public. They would not be covered, but the people in a workplace who engage with the public would. Could a substantial number of people be covered by the bill? Yes. I do not have the exact number of workers who serve the public at one point or another during their working day, but I accept that it is significant. Someone asked why those workers should get extra protection, which the rest of us walking down the street do not get. The Parliament has already examined that logic in relation to the 2005 act and aggravated offences. Perhaps for political reasons—you can put whatever label you want on it—we who are sent to this place to serve the people of Scotland believe that it is sometimes important to send a message that we take the plight of those affected seriously and that sometimes they will be treated differently, depending on their circumstances.

Mike Dailly: You asked about definitions. The bill would protect workers who engage with the public. In section 1(3) we define employment in fairly wide terms. The bill is fairly robust. We have used conventional language from previous acts of Parliament.

The cabinet secretary gave evidence—I think that this was in his letter to the convener—that the bill could cover 1.025 million workers. I am not entirely sure that it is necessarily a bad thing that lots of people would be protected, but it is also fair to say that Kenny MacAskill used the caveat that the figures carry a significant health warning. A lot of people who work in sales and customer services work in call centres, so they would not be covered by the bill. There are clearly a lot of people who would not be covered by the bill at all. The figure of 1.025 million is grossly overstated—I do not think it is correct.

Hugh Henry: Some workers would be covered by the bill at certain times of the working week and not be covered at others, depending on what they were doing and who they were serving.

Lewis Macdonald: It is interesting that the 2005 act proceeds on the basis of defined groups, relating to a worker's occupation, profession or employment. The amendment that the current Government made extended that to other defined groups and defined them in the same way. The scope of the working population that you seek to

protect through the bill does not really allow for that, does it? It does not allow for a definition that says, "Work groups or occupations A, B, C and D." It has to be cast in the way that you have described to achieve the effect that you want.

Mike Dailly: You are right that you could, in theory, do it in the way that you have described and have a schedule of people who are covered, but that would be very difficult because we are trying to get at people who are providing a service to the public, whether it be in the private sector, the third sector—the charitable sector—or the public sector. After much thought and deliberation, we took the view that the best way to do that—it comes back to previous questions about prosecutions and not causing complexities or difficulties; nobody wants that—was to keep it as simple and straightforward as possible. I would say this, but I think that the way it has been done is the best way it could be done to keep such flexibility but target it. That is never an easy job.

Lewis Macdonald: That is very helpful.

Some of the issues that will arise will relate to the grey areas, where people may or may not be covered by the bill. For example, evidence from the Federation of Small Businesses suggested that dealing with the public, rather than being employed to deal with the public, is what is important. It asked whether the bill would cover employers, as well as employees, when they were dealing directly with the public. We all know of agencies or businesses that use voluntary guides, for example, or that have students on placements who act as guides and such like, who are not employed in the sense that they receive a wage or salary. Do those groups come within the scope of the bill? Would further amendment be required to protect them?

Mike Dailly: In the third sector in particular, lots of people give up their time without payment and work as volunteers—I understand that it may be called the big society. They would be covered by the definition in section 1(3), because we have defined employment to include unpaid work, whether under a contract or not as the case may be. I think that that would be covered. I think that the definition of employment is sufficiently wide to allay those fears but, obviously, if there was any particular concern that there may be a lack of certainty, I would say that it is always better to err on the side of caution and make the position certain, if the committee thought it necessary, if the bill progresses. We have cast the net fairly wide.

Lewis Macdonald: Does a shopkeeper or publican employ himself and therefore obtain cover from the bill?

Mike Dailly: I concede that that is one issue that may need to be clarified. I again come back to Rob Gibson's point. You do not want any technical problems down the line and, given that solicitors often look for such issues, we would clearly want to anticipate them. It may be a fair point that that is an issue that could be addressed at stage 2, to put the situation beyond doubt.

Hugh Henry: I am not an expert on how small businesses are structured, but many people draw wages from them. Some people structure their businesses so that they exist on dividends. That may be an issue that we need to consider further, but those who draw a wage are in paid work. We are talking about a small number of people who nevertheless provide a significant service.

Gavin Brown (Lothians) (Con): I am keen to explore in a bit more detail the "deterrent effect" that is referred to in the policy memorandum. I think that both witnesses have used that phrase and that both have suggested that the 2005 act has had something of a deterrent effect. Will you expand on that and provide the basis for saying it?

Hugh Henry: Part of our problem and part of the problem with the 2005 act is the lack of empirical evidence. Members have heard from others about the frustration that exists because statistics are not kept. To some extent, we are in the same situation with the bill. Members have heard evidence from Unison that its members who are employed in occupations that are covered by the 2005 act are reporting fewer assaults, and they have heard evidence from others who represent people who are employed in occupations that are not covered by the act that the number of assaults is increasing. I suppose that the arguments are a bit like those that members had when aggravation for different categories of people was being debated in the Parliament. What do we base our empirical evidence on? I concede that that is a difficult question.

Deterrence is important. I do not necessarily accept the argument that an increase in the number of prosecutions shows that something is not a deterrent or a success. Not all assaults necessarily lead to prosecutions, and a number of successful prosecutions could lead to a fall in the total number of assaults in workplaces.

The picture is confused, but it does not pertain only to the Protection of Workers (Scotland) Bill; it pertains to the 2005 act, aggravated offences and quite a lot of issues—hence the parliamentary questions that are often lodged by members.

Mike Dailly: It seems to me that nobody really wants to prosecute people for the offence of not having their seat belt on or for using their mobile phone. Such offences are enacted in order that

there will be a deterrent effect. They do not always work, of course. There will always be some people who ignore them, but they have a deterrent effect.

I think that Dave Watson from Unison made the point to the committee that it is unfortunate that the Scottish Government no longer collects civil and criminal court statistics. It has not done so for many years; the Scottish Executive stopped collecting them. Therefore, all we have is anecdotal evidence. As I said earlier, criminal defence practitioners tell me that the 2005 act makes people sit up and take notice.

Hugh Henry: I would like to expand on that. Mike Dailly mentioned seat belts. Periodically, the police carry out blitzes on drink driving. There will be times when the number of people who drink and drive go up. If the number of prosecutions and the number of incidents apparently go up, does that show that the legislation is not effective or is not a deterrent, or does it show perhaps that complacency can sometimes creep into the minds of members of the public and that it is right for the police to carry out such exercises occasionally just to remind people of the seriousness of what they are doing?

10:15

Gavin Brown: I will take the question about a deterrent effect a bit further. You have suggested, and the policy memorandum states, that attacks on health workers are falling, which is part of the basis for this legislation. Can you give me your sources for that claim?

Hugh Henry: Paragraph 7 of the policy memorandum states:

“According to figures provided by UNISON, in 2007/08 the number of assaults of health workers fell by more than 1,000 from the previous year.”

I refer you back to Unison on that.

Gavin Brown: I asked to ensure that we are getting the information from the same place. Unison, as you know, carries out an annual survey of attacks on public service workers. The most recent survey was published some three weeks ago, on 22 October. It states that, during the year, attacks on health workers increased by 1,510 to 15,212. According to Unison, which is the organisation on which you rely in your submission, there has been a 10 per cent increase in such attacks. What do you make of Unison's most recent figures, in comparison with what you say in the policy memorandum?

Mike Dailly: That is the difficulty in not having proper, robust academic research. There could be a number of variable factors; it could be that more people are starting to report such attacks because

they believe that they are now being treated seriously under the 2005 act.

The Federation of Small Businesses said in its evidence to the committee that there is an issue with underreporting, because people think, “What's the point in coming forward?” It brings us back to the fact that we have no solid, academic evidence to go on; we can go only on anecdotes.

You asked about the deterrent effect. Colin Borland from the FSB said that if the bill was progressed and Parliament deemed it to be worth passing, it could—accompanied by a proper campaign—have a significant impact. We are all concerned about crime, but it would send out a strong message to those workers that Parliament is thinking about them.

Hugh Henry: I do not know whether it is the same set of statistics to which Gavin Brown referred, but the *Sunday Post* recently carried an article that referenced a piece of work by one of the health agencies, which mentioned assaults. The problem, as Mike Dailly said, is that we do not have detailed evidence.

We need to see what has followed from the 2005 act. Has it resulted in prosecutions? Has the number of prosecutions gone up significantly, to reflect the trend? Were the assaults that were reported prosecuted in other ways? What exactly do those assaults refer to? Without all that evidence, it is hard to give a detailed response.

Although I refer to Unison's figures for 2007-08, that in and of itself is not the justification for the bill. We would not say as a justification for any bill that it will eliminate the problem. Sometimes, for socioeconomic reasons, there are patterns of behaviour in certain areas, and things happen.

As Mike Dailly said, we need a tool to enable police and prosecutors to respond to anything that occurs for whatever reason.

Gavin Brown: For the record, convener, the document to which I refer is “Violent Assaults on Public Service Staff in Scotland: Follow up Survey 2010”, produced by Unison Scotland on 22 October.

Hugh Henry: According to the parliamentary questions that were answered by the cabinet secretary, violent assaults would not necessarily be covered by prosecutions under the 2005 act. He indicates that all serious assaults are recorded under a separate crime classification.

Gavin Brown: I take that point, but it appears that the basis on which Unison has been collecting its evidence over the period has not changed dramatically; therefore, it appears that Unison is comparing like with like over the piece.

Hugh Henry: That is as maybe.

Gavin Brown: I accept that there are various reasons for your introducing the bill. One of the reasons that you suggest is the deterrent effect that the bill could have, which is based on the fact that the number of attacks on health workers decreased by 1,000 following the implementation of the EWA. However, the most recent statistics from the same organisation's source suggest that the number of such attacks has since risen by 1,500. Do you accept that that reason for introducing the bill is negated slightly by Unison's most recent statistics?

Hugh Henry: Not necessarily. If you take that to its logical conclusion, you could say that the crime of serious assault is not having a deterrent effect, so you could question whether we need it. If the number of murders in the country rose, we would not say that there was no longer a need to prosecute on the basis of murder because that was not having a deterrent effect. Statistics will rise and fall. The issue is whether the crime makes people think twice about what they do. I think that being able to charge people with a specific crime for an assault on a worker would, on balance, have more of a deterrent effect than not being able to do so.

Gavin Brown: One of the planks of your policy memorandum is the fact that the number of attacks on health workers went down by 1,000, demonstrating the deterrent effect of the 2005 act. That is what you say in the policy memorandum on the bill.

Hugh Henry: That was one of the reasons for introducing the bill. However, I have made it clear all the way along that I am at a disadvantage—as others are—because we do not have detailed empirical evidence of the number of prosecutions. It would be better if all of us, as legislators, had evidence for every bill that we passed. We are sometimes asked to pass legislation without being presented with the full facts or even the implications of what we are passing—in fact, that will happen later today. I can only go on the information that is available at any time. Parliament possibly needs to press ministers on the need to start collecting more detailed evidence.

Mike Dailly: To put the increases in perspective, we would need an academic process involving regression analysis that looked at multiple variables across the board and accounted for those rises to isolate the impact of the 2005 act. I am no statistician, but I have done my time at university. The problem is that you need a piece of proper academic research to be done using robust statistical analysis tools if you are to make the kind of point that you would like to be able to make. Sadly, we are not in that position.

Gavin Brown: I find it curious that when the number of attacks on health workers is down by 1,000 you suggest in the policy memorandum that that demonstrates deterrence, but that when the number is up by 1,500 you suggest that that demonstrates that people are more comfortable about reporting such crimes.

Mike Dailly: It could be anything.

Hugh Henry: To be fair, if you look at the rest of that paragraph you will see that we do not say anything definitive. We say that “it could be suggested”. We add that caveat because we are aware—and we were aware when we were drafting the bill—that there is a lack of robust evidence not just on deterrence, but on a range of things. Of course it would be better if we had such evidence. We suggested that deterrence could be advanced as an argument, but we were not categorical about it—we did not say that it is proven.

Ms Wendy Alexander (Paisley North) (Lab): I was struck by Mike Dailly's reading out of the guidance on racial aggravation, with the rationale that it offers about the need to send a strong message with regard to that type of crime. Bearing in mind the difficulties with securing evidence in this area, is there a consensus among the legal community that having aggravations of that sort is proving helpful, either as a deterrent or with regard to the severity of the penalties that are meted out?

Mike Dailly: I return to the lack of independent, robust analysis that would allow us to answer that question fairly. All we have is anecdotes—I have mentioned anecdotal evidence from conversations with practitioners. I would say that there is something of a social policy to address. We have created aggravations in terms of race and religion—on so-called hate crimes—and one element of that can be described as social policy. The bill sends out the message that we do not think that such behaviour is acceptable in Scotland in the 21st century. As Hugh Henry has said, there will always be people committing offences. We are not saying that the bill is a panacea but, just like the 2005 act and the aggravated offences, the bill gives an extra tool to the prosecution.

Stuart McMillan (West of Scotland) (SNP): We have heard quite a bit of evidence from different people about the law as it currently stands, and it has been suggested that the existing law is sufficient to protect workers. If existing law already covers workers but businesses are not using the opportunity to prosecute if someone assaults a member of their staff, could it be suggested that, instead of our introducing new legislation in this area, more pressure could be put on businesses to deal with such cases and to protect their workers under existing legislation? I acknowledge that larger

companies will have more resources than smaller businesses to deal with such instances.

Hugh Henry: It is not for the business to decide whether there is to be a prosecution; it is for the police to investigate the matter. When an incident is reported to the procurator fiscal, it is for the fiscal to decide whether a prosecution is to follow. I would be disappointed if businesses do not report cases of assault to the police, irrespective of their size.

I think that large businesses in particular should have in place codes of conduct for how staff ought to behave in relation to one other and in relation to the public. Very clear training should be given about how staff should respond if they are confronted by aggressive or threatening customers or members of the public. Businesses need to take their responsibility to their employees seriously—they should take seriously the need to provide a secure and safe working environment for their employees. Most large businesses do so, and those that do not should be encouraged to do so. As I say, I would be very disappointed if it turned out that incidents are not being reported to the police.

You have heard evidence from others about what happens once incidents are reported. Do they go to the procurator fiscal? Does the procurator fiscal pursue the matter to the courts? Do the courts give out the sentences that those who have been victimised feel they should be imposing? Those are separate issues, which others have already raised.

10:30

Mike Dailly: If the message goes out that particular behaviour will be treated more seriously, people may be encouraged to co-operate and to report more. When Govan Law Centre had shopfront premises, someone who was drunk came in, saw three women sitting at the front counter and decided to abuse and assault them. We went through a huge process of taking the matter to the district court but, ultimately, there was no conviction as there was some sort of plea bargain. That sort of thing leads people to wonder whether there is any point following through on such incidents. The bill would help to address that; it would protect from assault people such as me, MSPs—when they are working in their constituency offices—and anyone else who provides interface with the public. We are trying to encourage people to think that such behaviour is unacceptable and that they can report it.

Stuart McMillan: Earlier you said that the bill, if passed, would provide us with another opportunity to deal with assaults. You have just mentioned plea bargaining. If the bill were regarded as a

lesser piece of legislation or as providing for a lesser sentence, could it be plea bargained away more easily between lawyers before or during cases?

Mike Dailly: I am not sure that that would be the case. I accept that anecdotal evidence is not satisfactory but, when I speak to criminal defence practitioners, I do not get the impression that the 2005 act is plea bargained away. Rather, I get the impression that if someone decides to plead not guilty to an offence under the 2005 act they had better be wary, because they could be facing a custodial sentence. Whether the bill would result in people being encouraged to plea bargain is another issue. Plea bargaining is a big part of the criminal justice system; the volume of cases is such that, if it did not happen, the system would grind to a halt. However, I am not entirely convinced that the bill, if passed, would be plea bargained away.

Hugh Henry: I see no reason for plea bargaining to apply differently in respect of the bill than in respect of any other piece of legislation. Elected members often become frustrated when we hear the outcome of cases following incidents but, as Mike Dailly said, there are often good reasons for that outcome. If the option of plea bargaining were not available, the system would grind to a halt.

Stuart McMillan: We have discussed the cabinet secretary's letter and the number of workers in sales and customer services occupations who are covered by the bill. Mr Dailly indicated that call centre workers are not covered. We have heard evidence about the verbal abuse—as opposed to physical assault—that people suffer; I refer to instances in which a person says to someone who is working in a bar, restaurant or shop, "I will get you afterwards." People who work in call centres may also suffer verbal abuse, but they are not covered by the bill.

Mike Dailly: It is more likely that that could be prosecuted under telecommunications legislation. I think that there is a specific statutory offence of intimidating or abusing folk over the telephone. I can double check that, but I am sure that there is one. That is used in such situations. I suppose that the common law is available, too, in relation to people texting and so on. Other offences exist.

Stuart McMillan: I just want to tease out the point that call centre workers would not be covered by the bill although they probably take more verbal abuse than many other workers. I have been into a few call centres to learn a bit about the operation and I have listened in to some conversations. That point has been raised time and again with me.

Hugh Henry: The STUC has vigorously advocated that further protection be given to call centre workers. However, we had to frame the bill in a way that we thought was robust and defensible. We decided that the clear line should be the point of contact with the public in providing a service. That is not to say that there should not be a debate on the issue. If the bill got to stage 2 and members such as you who are listening to the arguments of those who support call centre workers felt that a workable amendment could be made, that would be for others to determine. However, the bill currently does not cover verbal abuse over the telephone.

The Convener: I seek clarification on the potential amendment on obstruction and hindrance that you might wish to lodge if this bill proceeds to stage 2. My recollection is that, when the Emergency Workers (Scotland) Bill was introduced, part of the reason for the obstruction and hindrance provision was the specific concern at the time about emergency vehicles being hindered when they attend incidents and life-threatening situations. Obstruction or hindrance of, for example, a bus driver is not likely to lead to a life-or-death situation, although it might lead to somebody being a bit late for an appointment. I am not sure that there is a like-for-like comparison between the provision in the 2005 act and the proposed amendment.

Hugh Henry: I recognise that, but the issue of hindrance and obstruction applies slightly more widely. An argument on the need for such a provision has been made in the committee and it has been raised with me. I am sympathetic to it, but I cannot give any guarantees about its inclusion in the bill. My duty, as the promoter of the bill, is to bring the bill as written to Parliament, which I have done, and you are considering it. At this stage, we can argue only about what I have proposed. If others wished to articulate an argument about hindrance and obstruction at stage 2—if the bill ever gets to that stage—I would be sympathetic to it, but it would be a matter for Parliament to determine rather than me, because we would have reached a different stage in the process.

The Convener: I accept that. When you did your consultation on the proposals in the bill, was that issue raised by you as part of the consultation or in the responses to it?

Hugh Henry: The issue came up. I will leave Mike Dailly to give more detailed information, but there was an issue with preparing the bill. As Mike Dailly indicated, he stepped in to the process late. Because of the pressures on the non-Executive bills unit, I could not get support from it at that stage. I was faced with having to draw together a proposal for legislation. If I had included a

provision that, as you hinted, convener, was complicated, there was a danger that I would have missed the deadline for the bill. I wanted to have a bill that was capable of progressing and that met the core needs.

The issue of hindrance and obstruction has come up. It is fair to say that there are differing views about its significance. Some argue more vociferously than others that there is a need for a provision on it. The issue warrants more detailed reflection. I am not unsympathetic to the arguments. I accept what the convener says, but there are specific instances in which a provision on hindrance and obstruction could help the police and the prosecuting authorities.

Mike Dailly: I am sympathetic to the convener's point about the comparison with the provision on obstruction and hindrance under the 2005 act. Because of that kind of thought, my advice to Hugh Henry was that we needed to ca cannie on that aspect. In many respects, it has been helpful to have the evidence that came out before the committee and to reflect on that. At the end of the day, as Hugh Henry said, if the bill progresses, the matter would be for the committee to decide.

From a public policy point of view, arguments can be made that, in certain circumstances, obstructing or hindering somebody who is providing a service to the public could be a sufficiently serious matter. I gave an example earlier about a train full of passengers being stopped because somebody harassed the conductor and the police had been called. It could be argued that that is a pretty serious matter, because all the other trains behind it would be stopped. If that happens on the Glasgow to Edinburgh line, the game is a bogey. As a commuter, I think that that is pretty serious. So a case could be made for such a provision, although I am sympathetic to the convener's position, which is that it does not just read across from the 2005 act.

The Convener: It was not a position; it was a question. We will have to explore the issues if an amendment is to be lodged at a later stage in the legislative process.

I thank Mike Dailly and Hugh Henry for giving evidence and for answering our questions fully. I also thank Hugh Henry for his attendance at previous meetings in which we considered the bill. The committee will now consider its stage 1 report and there will be a debate in Parliament in due course.

I suspend the meeting for a few moments while we change witnesses.

10:42

Meeting suspended.

10:47

On resuming—

Enterprise Network Inquiry

The Convener: Item 3 is the continuation of our review of the enterprise network. We will take evidence from a panel of academic experts—I am sure that they will be delighted to know that that is what they are. Unfortunately, Tony Mackay, from Mackay Consultants Ltd, is unable to attend, as he has been detained on other business overseas. He sends his apologies.

I invite the panellists to introduce themselves, after which we will move to questions.

John McLaren (Centre for Public Policy for Regions): I am an economist. I have worked in the Treasury and the Scottish Government both pre and post-devolution. Currently, I am working for the Centre for Public Policy for Regions, among other things.

Professor Mike Danson (University of the West of Scotland): I am professor of Scottish and regional economics at the University of the West of Scotland. At one time, I worked in Strathclyde Regional Council. I have been working on regional development agencies since the mid-1970s and have published various books and so forth on the issue.

The Convener: I will start by asking a fairly general question. Has the review of the enterprise networks that was introduced in 2008 made the enterprise network in Scotland more effective or less effective?

John McLaren: I have a couple of points to make. First, I have very little contact with the front line, so it would be difficult for me to comment on that front. Secondly, it is too early to evaluate whether the process has been successful. I have not seen much in the way of proper evaluation, which would need time, to allow me to give a judgment on that.

Professor Danson: I agree. It is quite difficult, if not impossible, to evaluate regional development agencies as such. We usually fall back on evaluating their policies and programmes, many of which, by their very nature, take years to come to fruition. In some ways, it is too early to say.

The Convener: So your argument would be less about the structures of the organisations and more about the programmes that they are in a position to deliver.

Professor Danson: Yes—in general, that is the sort of evaluation that we see.

The Convener: From your experience and your studies, what type of programmes do you consider

that an RDA or an enterprise agency needs to deliver in Scotland at present? Are there things that Highlands and Islands Enterprise and Scottish Enterprise are doing particularly well, things that they are not doing particularly well or things that they are not doing that they should be doing?

Professor Danson: It is quite interesting. Twenty years ago, in the 1990s, Scottish Enterprise and its Irish equivalent were seen throughout the world as the models—everybody wanted to have a Scottish Enterprise. By the start of this decade, that had disappeared, because the rest of the world had changed in how it delivered economic development. The first thing to say in response to the question is that we should be looking at what is appropriate and good for Scotland, or parts of it, rather than looking for models elsewhere, because there are not any. However, we can look for best practice elsewhere.

What do the agencies do well? As always, foreign direct investment and boosting entrepreneurship and enterprise tend to be things that they do well. With other things, such as work on information and broadband, it is difficult to tell how they are doing, because there is no benchmark.

John McLaren: You have asked the narrow question before we, presumably, get on to the broad question of what the fundamental purpose of Scottish Enterprise is. In that sense, the bigger, more important question is whether the money that has gone into any of Scottish Enterprise's activities is being used better than it would be in education, infrastructure or something else. I think that Scottish Enterprise currently claims a cost benefit ratio of 8.8. I would take that with more than a pinch of salt; such evaluations are usually done on the basis of surveys. I think that the internationalisation evaluation was based on £5 million spend and the inward investment one was based on £6 million spend, which are tiny figures compared to Scottish Enterprise's overall budget. They are making heroic assumptions and there are fundamental flaws in a lot of these surveys, some of which I have carried out myself, on the positive side of getting a good result. If the ratio was 8.8, you should be considering vastly expanding how much Scottish Enterprise gets, but it is not.

Rob Gibson: It is good that this has turned into a truth and reconciliation meeting. We have to follow up Mike Danson's point that others have moved away from the model of enterprise development that we have here. Do either of you want to expand on that to allow us to contrast what is happening elsewhere with what we have here at present?

Professor Danson: We did work for the previous Enterprise and Lifelong Learning

Committee—I think that it was the first research done for the Parliament. We followed that up by doing work for Scottish Enterprise in 2003-04, as did Fife Crichton Roberts Ltd for the Parliament and the training and employment research unit for the Scottish Government around the same time. We all came to the same conclusion: Scotland is fairly unique. It is very difficult to find anywhere else in the world that has a similar range of powers—that is not an independent nation—and that has an agency of this size and sort, with such a huge range of functions. The whole environment here is different.

Places such as Germany and America have a strong enterprise culture and strong employers associations and so on. Belgium is different and so is Sweden. Everywhere is different in its environment and so on.

Why did others begin to move away? They thought that there were benefits in having specialised-focus agencies, which had a lot of autonomy from central Government. That was the big difference. Previously, small authorities tended to be very close to Government and very closely managed. What we saw in this decade in Scotland and England was RDAs getting more and more powers up to 2007, with a lot of autonomy. It contrasted more and more with everywhere else in the world, apart from England.

Rob Gibson: The argument is that other people have moved away from the model that we have to achieve success and perhaps, as John McLaren said, we overestimate the success of our model out of hope more than sober expectation.

John McLaren: I am not quite sure what we mean by success in this case. In the past, part of the role of regional development agencies such as Scottish Enterprise has been to reduce the gap in growth between different parts of the country through regional selective assistance and things like that. The other week, Vince Cable said that that has signally failed in England, although it could be argued that it has not failed so much in Scotland over a certain period. We can discuss that later, if you like.

It could also be argued that Scottish Enterprise has improved the growth rate for Scotland as a whole, although it is difficult to determine whether that is true. There is not a lot of strong evidence for that or people out there saying that that is true, but that is partly due to the fact that the statistics are of a poor standard and we cannot take an awful lot from them.

It is extremely difficult to say what Scottish Enterprise has contributed to economic growth as a whole or even to economic growth in different areas. Ekosgen undertook a study of that. Although it came out with a very high cost benefit

ratio, it also found that two thirds of survey respondents said that Scottish Enterprise support had no impact on anything that they did—on employment, on increased growth or whatever. If that is true, there is a hell of a lot of dead weight there. Can that be taken away, or is it just an inevitable consequence of making fairly risky investments? I do not think that the research has been done to tell us how good Scotland's situation is in that respect.

There are areas that have had more successful regional policies, such as Ireland or post-war Japan. However, those tend to be examples of catch-up, using industries that already exist. For example, the automobile industry was taken from America to Japan, where it was done better. When a country is at the forefront of new technologies such as renewables, there is much more of a guessing game as to whether it succeeds.

Rob Gibson: There are differences in what is done and what is supported. The internationalisation of work and jobs, business start-ups, research and development and innovation, and commercialisation are four areas of spend that we have been looking at. We have compared Enterprise Ireland with Scottish Enterprise and have found that far greater amounts have been invested in those four areas in Ireland than in Scotland. Does that begin to answer the point that John McLaren has just made? Scotland is going into new industries and we are creating a very new economy at the moment. Are the enterprise networks coming under scrutiny because they are not placing emphasis on those areas? Is it even their job to provide support in those areas, or should somebody else be doing that? For example, should academe be given more money for research and development and innovation? I know that academics would say so. Some thoughts on that would be of interest.

Professor Danson: As I said, everywhere is different. Enterprise Ireland has had certain tax regimes and so on. You could also look at Finland and Sweden, which have been innovative in innovation. They disaggregated the regional development agency into different parts and gave them lots of autonomy, and they have been highly successful in supporting innovation and research and development. There are peculiarities in Sweden, such as the fact that professors retain intellectual property rights, patents and so on. That is quite different from the situation in many other countries. You need to look at the whole rather than just at the headline figures of how much is spent in different areas. That then leads to all sorts of problems with the attribution of successes, which John McLaren has described.

11:00

John McLaren: On things such as enterprise support and business start-ups, again, I struggle to think of an example of a policy almost anywhere that has improved things. We have been trying to do that in Scotland for a long time, but I cannot remember a startling success in those areas. That is probably also true of many other countries, although there might be individual countries such as Finland or Israel that we know less about. Some work was done in America that looked at business start-ups over a 20-year period and found that the numbers were virtually constant year by year regardless of the policies that were in place or the state of the economy.

The questions are difficult ones to answer and I do not think that we have got very far in answering them.

Lewis Macdonald: To go back to the fundamental principle, what is the objective of enterprise agencies? Under the current structure, we have Scottish Development International as a semi-autonomous agency, Scottish Enterprise with an apparently national remit, and Highlands and Islands Enterprise with an explicitly regional remit. What is your view of the fundamental purpose of the existence of such agencies? Is that tripartite structure the right one, either in practice or in theory?

Professor Danson: If we go back to first principles and consider why we have development agencies rather than putting the money into local government, central Government or the market, we could go on for hours about the rationales. There are good, strong academic reasons why development agencies perform some functions well and why they should work at the national and regional levels—for example, there are synergies in the sharing of experience and learning between areas, and there are economies of scale for certain functions.

You identified the three agencies. If we look back over time, the population of the Highlands and Islands has grown significantly and the economy has grown even more significantly. It is not difficult to suggest that the Highlands and Islands Development Board and then Highlands and Islands Enterprise have been critical in that turnaround. The problems in the Highlands and Islands are different from those in much of the rest of Scotland. As you know, Scottish Enterprise deals with the rest but, sensibly, it also has some functions that cover the whole of Scotland rather than just the areas outside the Highlands and Islands. Certain other activities, such as those of Scottish Development International, could be differently configured. They could be taken even further away from Scottish Enterprise or brought back into it. Again, however, there are some good,

rational arguments why having it as a semi-autonomous agency is beneficial across the board for business and so on.

That is probably an academic answer that goes round in circles.

John McLaren: The objective as it is seen in Scotland—and probably in the United Kingdom—has changed over time from being a regional objective to reduce inequalities to one that is more about improving the productivity of Scottish companies and, through that, improving economic growth. Scottish Enterprise is supposed to do those things, I guess, by solving some of the market failures that are involved in low productivity and low innovation. Whether it does that is a moot point. Does work on clusters really address market failure or does it merely involve trying to second-guess the market? I imagine that almost every city, region or sub-region of the UK is looking at the same clusters. Because of what Michael Porter said, or whoever is the new Porter, we are all going after the same things, and we cannot all win them. I do not think that the approach really addresses market failure.

On a wider scale, if you are thinking about improving productivity and innovation, an organisation that does not look to inward investment or even the private sector might offer greater returns. Such an organisation would consider productivity and innovation as a whole, including the public sector, where there are more clear-cut examples of how things are done in other countries to lean on. That might be more fruitful than continuing with a narrow band of private sector areas.

Lewis Macdonald: You have both redefined my question a bit, but you have not said that there is a simple, single answer, which I did not expect you to do.

Would it be fair, in summarising what you have said, to say that the HIE model has had a specific remit and a measurably successful process for implementing it? You mentioned growing the economy and the population of what was, 50 years ago, a highly disadvantaged area; there has been a demonstrable input from the enterprise agency and the development board in achieving that end. That seems to be the clear proposition that Mike Danson presented.

With regard to Scottish Enterprise, John McLaren said that its objectives have changed over time, and raised the question whether the agency is addressing market failure or doing something else. Perhaps it is doing something else, and I wonder whether that is legitimate. If HIE's work has been about addressing the market failures in the Highland regional economy, is the purpose and practice of the Scottish Development

Agency and now Scottish Enterprise to do the same on a larger scale for a larger area? Is it a regional development agency in the same way that HIE is, except on a larger scale?

Professor Danson: Both agencies have always addressed market failure and other aspects. They have constantly undergone change, with staging posts along the way such as changes of Government and the move from the SDA to Scottish Enterprise. The agencies acquired many more functions in the late 1990s and into this decade, which have partly been framed by UK and European changes. The problem in the Highlands was not so much market failure: the market was operating, but it created uneven development, which has become more and more uneven. That can be a problem, in which case we would want to intervene anyway.

John McLaren: In terms of economic and population growth, it looks as if the Highlands has done particularly well. It seems that HIE played a greater role in contributing to that, although it is difficult to be precise. That may have been because HIE had clearer objectives. Although it covers a large area, HIE was clear in what it was doing and had a better understanding of the industries on which it wanted to focus and which it thought could be built up. In that sense, it is more like Ireland was in the past, when it had a clear idea of and focus on what it was doing.

Scottish Enterprise covers the rest of Scotland; it is trying to save some industries that are declining and make bets on new industries that are expanding. It has had a more difficult task, and has arguably not done as well in achieving that.

Lewis Macdonald: You said in answer to my first question that we may need to think about different ways to promote productivity and innovation, rather than following the clusters route that you say has been common throughout the UK during the past 30 years. You are probably aware of the intermediary technology institutes. ITI Scotland was created a number of years ago but has now ceased to operate as a separate entity. Would it fulfil the description that you offered of an agency whose remit was not dispersed in the way that Scottish Enterprise's is but focused specifically on promoting, incentivising and encouraging innovation and backing winners—energy, life sciences and information technology—in a way that concentrated on technological innovation rather than wider economic market failure issues?

John McLaren: The trouble with focusing on any area in Scotland is that we do not really understand the Scottish economy well.

As an example, you might have seen it mentioned in the papers over the past couple of

weeks that the Scottish gross domestic product figures were revised last month hugely. It now appears that construction, for example, hardly grew in Scotland from the mid-1990s to the mid-2000s—that is not a popularly shared view, but it is what the statistics say. Before that, it had grown greatly—at about three times the current rate—and the UK still grows at that fast rate. Then, between 2005 and 2007, it suddenly grew by 17 per cent.

What happened? No explanation is ever given for the figures when they are published, and I do not understand it. The same happened in hotels and restaurants. They have not contributed to GDP growth in 10 years, so do we actually do tourism well? Financial services have fallen roughly 20 per cent since 2007 but did not fall at all in the UK. What are we doing so badly in Scotland? There is no analysis of those figures, and we can go through almost every area like that. If we do not understand our economy, why are we trying to pick winners? How do we know what the financial services sector needs?

The most obvious sector to pick is renewables. It is a risky one to pick because we do not know where it will go in the end and what the relative prices will be, but it seems to be the most obvious sector in which we have a relative advantage and it will be a growth industry in future. If we pick anything else, we are taking a stab in the dark. Perhaps that has been the problem.

Ireland had a better idea of what it was doing, plus it was getting American companies in much of the time or taking in well-established practices from Japan and doing them better. That is a different ball park.

Lewis Macdonald: The uncertainties that you describe in relation to the revised GDP figures could be an issue for economists. Perhaps it is for you guys to provide better data so that policy makers have more to go on.

John McLaren: The Scottish Government provides the data. Let us put it this way: economists should be analysing the data but, if we had analysed all the old data, we would have come to the wrong conclusions because they were so wrong. If we analyse the new data, which I think are wrong, we will come to the wrong conclusions again.

What are we supposed to recommend for policy if we cannot rely on the data? That is a fundamental point, because the purpose of this Government—and, obviously, previous Governments—is to improve the sustainable growth rate. For a start, we have outgrown the UK economy in four of the past six years and, in terms of GDP per capita, we have outgrown it for the 2000s as a whole quite easily. We have achieved

that, allegedly—or have we? Those are fundamental points. If you are going to put economic and industrial policies on top of that, we need to know what is happening.

Lewis Macdonald: That is a fundamental point, but you will appreciate that you are not necessarily adding to the clarity and certainty with which we can approach the issues, as you simply highlight the fact that no statistics or data on the matter are, in your view, reliable. That makes public policy formulation quite a challenge.

John McLaren: It does, but the point is important, because it means that policy makers should not have false certainty in what they try to do. If there is little certainty in one area, they might want to think about spending the lower funds that will be available in the future on sectors in which returns are more certain, such as infrastructure or education.

11:15

Professor Danson: Even with all that uncertainty, in evaluating or looking at the development agencies, we have the counterfactual question of what would have happened in their absence. Would the Scottish economy have grown less quickly? Rather than look for direct outcomes from what development agencies have done, we need to second-guess that or have an idea of what would have happened if the agencies had not been there and to consider whether we have good benchmarks elsewhere. Again, that is problematic for data reasons and so forth.

The Convener: Were the changes in the methodology for calculating GDP UK-wide, which meant that they had an impact on Scotland, or were they specifically Scottish changes?

John McLaren: They were specifically Scottish changes. New information that is available on input-output studies is supposed to be better than the previous information. The only trouble is that the profile that is provided makes less sense than the old profile—construction is the classic example. We have the usual issue, in that the data might tell us something but, if they do not make sense, we need to understand why they tell us something. We might find out something interesting or we might find that the data are wrong.

The Convener: If GDP figures are not necessarily a reliable indicator of growth, should we consider using alternative indicators?

John McLaren: In a country the size of Scotland, I would not have thought that it would be too difficult to know what is going on in some areas. For example, it is alleged that no growth

has occurred in hotels and restaurants in Scotland in 10 years, although that has been one of the fastest-growing sectors in the UK. From walking down any high street in a major town or city in Scotland, we can tell by our own eyes that that claim is untrue, unless all such establishments make no money, which could be true. I presume that people in the industry could give the committee better information.

I imagine that people who are involved in the construction industry—not many big firms exist—should be able to give members a reasonable idea of whether the profile is sensible. Until we can overhaul the statistics and make them more reliable, perhaps we should rely a little more on expertise, industry by industry. The financial services are another sector of which our understanding is woeful.

The Convener: So is the understanding of people in financial services. [*Laughter.*]

Ms Alexander: The issue is really important. David Roberts's review of where we have reached in the inquiry shows the risk that we will become lost in the minutiae of the institutional architecture and not lift our eyes to what is happening in the Scottish economy. I am mindful that we are about to leave the inquiry for two months and focus on the budget, when we will look closely at some of our agencies and how they are supported. As members will remember, we spent years on trying to persuade VisitScotland to give us 10-year trend data on spend and so on as VisitScotland understands it.

I will make a suggestion, to which we can return when we are in private session. As the committee that deals with the economy, it is a test of our seriousness to hear about major and profound revisions to the GDP figures. I say this on a cross-party basis. It is inconceivable that, in a sovereign nation—were Scotland to be such—we would allow the GDP figures to be wildly inaccurate and change enormously, or allow the Treasury of the day or those with responsibility for public finance not to comment on why the changes were significant. All that is a plea for discussing in private session the wisdom of inviting John McLaren to provide a brief paper on the subject, which I think would attract widespread interest and attention.

We should seek from the Scottish Government its views on the matter, in the context that we are aware that significant changes will occur to VisitScotland, Scottish Enterprise and HIE because of the reducing budget, which we want to understand. I say that not least because it would be easy to identify 10-year trend data in the tourism, financial services, food and drink and energy industries. That would obviously be more difficult in the creative industries and universities

but, for four out of the six big industries, we could have clear trends. I put that on the record and I am happy to return to that.

I have another question about financing. A difficulty that we have had in the inquiry is Scottish Enterprise's opaqueness on its actual spend on functions. Our assessment is that on a like-for-like basis, Scottish Enterprise is spending 16 per cent less than it was three years ago. In the case of HIE, the figure is 43 per cent less.

The evidence seems to indicate that Scottish Enterprise has moved from being a national economic development agency to being more of a business development and business support agency for 2,000 account-managed companies. Does the panel have any idea which area has borne the brunt of those 16 and 43 per cent real-terms cuts in the budget in the past three years? The cuts are without precedent in the Scottish public sector. Below the institutional changes, has there been something of a transition from a national economic development agency towards a business support agency for key companies?

John McLaren: The figures are pretty difficult to follow, especially if they are over a number of years, because there are so many changes. There are big changes, such as Skills Development Scotland, but there are smaller changes even within that. Over a longer period there will have been a move away from funds for inward investment and so on. That was quite big a decade ago and will now be smaller. However, that is demand driven, so it is not necessarily up to the Scottish Government where it puts that money.

I am surprised that HIE's spending has fallen by 43 per cent. That seems extraordinarily high compared with the Scottish Enterprise figure. Unfortunately, I do not know the details. If that is true, I would be interested to find out where the reduction occurred. I know that I am supposed to tell the committee that—if you find out, I would be interested to hear it.

Professor Danson: It is not clear to me either what was stripped out but had not disappeared—for example, what had gone to Skills Development Scotland—so it is difficult to answer that.

You mentioned food and drink. We did a study a few years ago of the Scotch Whisky Association and the unions. When we asked Scottish Enterprise for data on the whisky industry, it stonewalled us and eventually admitted that the area is so big that it cannot handle it and so it ignores it. It is interesting that Scottish Enterprise has nothing to say about the biggest, and in some ways most important, part of the food and drink sector in Scotland.

Ms Alexander: We have had a lot of evidence on institutional arrangements, but there has been

less about the character of governance. Those of us who have been in the field for a long time get the impression that both agencies—Scottish Enterprise and HIE—have become much closer to Government. That is evidenced by the fact that there has been no public comment by the chairmen or the boards about the budgetary changes that I have mentioned. The boards appear to have moved to an operational rather than a strategic role. There seems to have been not only greater risk aversion, but proximity to their being simply reflections of governmental policy in the enterprise field rather than strategic drivers of governmental policy. Does the panel share that perception? If so, is that good or bad? Where should strategic leadership on enterprise policy lie?

Professor Danson: I mentioned at the start the rationales for a regional development agency. A major rationale is that the agency is semi-autonomous—it is arm's length from Government. There were times in the late 1980s when that appeared to be under threat. That would have been unfortunate, because there are good reasons for development agencies to be arm's length. Overall strategy can be set by Government or the Parliament, leaving the agency to make difficult day-to-day decisions and so on. If we start eroding that distance, we lose the benefit of having a separate development agency and we might just as well take it into central Government as the Welsh Assembly Government did, although that has not been an overwhelming success.

The other side of governance is about who is doing the governing. The RDAs in England were established with the involvement of trade unions and other social partners, and that has never automatically been the case in Scotland, either at the national level or in the local enterprise companies when they were around. That was a failure to make full use of the development agencies and to ensure that they were embedded into the regional community at the Scottish level or the lower levels.

John McLaren: It is interesting to consider what has happened in Wales since the enterprise agency was taken back in-house and to see how that has affected where Wales invests its money and what its approach has been. It is too early to say whether that initiative has been a success, but it will be interesting to see how it changes the character of the body. There has been a move away from risk aversion, possibly because of earlier controversy. When Robert Crawford was head of Scottish Enterprise, the agency was in the news quite a lot; sometimes Governments do not like that, so they might say to the agencies, "Keep the noise down. We don't want you to be in the news quite so much."

Strategic leadership is important in such a body, especially when it is semi-autonomous, but that has to go hand in hand with the Government's strategic leadership in the area of the economy. They have to be synchronised to be most effective. There is probably a lack of balance there. Strong leadership might mean that you will be in the press a bit more because some people will not like what you say, so you have to make your case and the people who do not agree with that case will criticise you. However, if you do not make your case, people will be less sure about what you are trying to do, and the pace at which you make progress will probably be slowed.

Ms Alexander: Obviously Scotland has had a tougher time recently with attracting inward investment. It was never going to be possible to maintain the 100,000 electronics jobs a year that were being attracted in the 1990s. However, when the Locate in Scotland joint venture between Scottish Enterprise, HIE and the Scottish Government was set up, the Government was essentially a sleeping partner. The joint venture was very much led by the enterprise agency and that continued in the early days when SDI was formed.

It is interesting to note Scotland's relative slippage in performance on inward investment. I do not think that SDI has had a dedicated head for a number of years now. The role has been combined with the Scottish Enterprise chief operating officer role for some time and it has been vacant for the past year, when there has been a critical change in leadership. The chief executive is answerable not just to the joint venture but to each individual Cabinet member, with a wider ambassadorial role. There is some concern that that might take the focus away from single-minded pursuit of inward investment.

I invite your comments on that sort of governance change, in which what was essentially a sleeping partner role for the Government has become much more active, and whether that has a detrimental impact on the body's trade and investment responsibilities, given the significance of export growth for our future prospects. Are you aware of any work or any thoughts on that?

Professor Danson: There is not a lot of work being done on that, or on many other parts of the Scottish economy. As an aside, John McLaren and I could mention a handful of economists who are working on the Scottish economy, and there are not many more than that. The committee might want to address that situation at another time.

11:30

The response to the question is similar to the one that was given earlier. Although elsewhere we

have seen a disaggregation of larger development agencies into smaller ones that are focused on and dedicated to particular areas, but with lots of autonomy, it appears that Scotland has gone the other way. In the past decade, more and more functions were thrown at Scottish Enterprise, and many of them were then taken away again, but it appears that a lot of autonomy was also taken away. We have gone in a direction that is different from that which many development agencies, regions and nations throughout Europe and beyond have taken. That raises issues. John McLaren said that some of that is to do with the Government and the Parliament overscrutinising day-to-day decisions and announcements, which has an impact in the short term and the longer term on how those who are operating feel that there is freedom and space to make difficult strategic decisions.

John McLaren: I do not have much to add to that. At the moment, it is difficult to know what inward investment policy to have, and it will probably be difficult to know that for some time. I guess that China to some extent will be doing the investing around the world, but even its position is uncertain. Before, we knew what was happening—America and a few other countries such as Japan would invest—but the game is different now.

The significance of exports is little understood. We have some statistics—I am not sure about their quality—that cover a very narrow range of manufactured exports, which are dominated by drink and electrical engineering. They account for more than 50 per cent of all exports in that area. The statistics do not give us a very good picture of Scotland's export performance as a whole, where its performance has been growing and where it might have a competitive advantage.

Professor Danson: Both of those sectors are totally dominated by multinational organisations, which results in problems with data and so on. That also tends to squeeze out or crowd out Scottish indigenous operations.

Stuart McMillan: Earlier in the discussion, Professor Danson highlighted that, in the past, it was difficult to compare Scotland with anywhere else. He highlighted why making comparisons was difficult in a number of areas. Do you know of any work in which Scotland has been compared with places such as the state of Victoria in Australia? I know that the Australian states have a tremendous amount of power. Obviously, that area is a lot larger than Scotland, but its environment is probably quite similar to Scotland's.

Professor Danson: Comparisons were made in the studies around 2004 by Firn et al, the University of Glasgow and ourselves that I mentioned earlier. Comparisons have probably become more rather than less difficult over time

because, for reasons that I gave earlier, the environments are very different. Individual projects and programmes, what they do and what the institutions are might be considered, but one will often end up saying, "Well, let's look at the high-level statistics such as GDP per head." We have heard why that is problematic. Things are even more problematic when we cross international boundaries, because of purchasing powers and so on.

An interesting aspect of our research is that we asked agencies around the world to reflect on Scottish Enterprise. Ten years before, they could have had no problem at all with that. Although we contacted hundreds of agencies around the world, well fewer than 100 were able to make any comment. In some cases, one in 20 of those who responded were able to say anything about Scottish Enterprise. That indicates that conditions have changed a lot, and that development agencies around the world and other authorities are so different from one another now that they cannot benchmark. They cannot say how others are doing, never mind comparing themselves. It is a simple question, but it is difficult to answer.

Stuart McMillan: Where do you see the likes of the enterprise agencies in Scotland being in, say, 10 years' time? We hope that, in 10 years' time, we will not still be in the current economic climate. What should the Scottish situation be in 10 years' time?

John McLaren: The economy might not be in the same situation, but it has a downturn every 10 years, on average, so we should just be entering the next downturn.

Stuart McMillan: Hopefully not.

John McLaren: The economy might have improved, but I do not think that the funding that is available will have improved. We will probably have five years of negative real-terms funding growth. Even if things get better, that will still leave the UK with a fairly high level of debt compared with GDP, which will have to come down. So, there will be at least another five years of only small real-terms growth, which will certainly be way below the 5 per cent real-terms growth that we have had, on average, so far post devolution.

There will still be pressure on funding from long-term care and health services because of the demographic impact. Because the enterprise agencies are one of the areas that can most easily be squeezed, I do not think that they will have built themselves up—in fact, I suspect that they will get a significant cut in the next few years, and I am not sure that they will get that funding back.

That leads me to the conclusion that what enterprise agencies do should be seen in the wider context of where the best place is to put the

money to improve productivity or innovation as a whole. Is it universities? Is it some other kind of research and development? Is it transport infrastructure? Is it inward investment or training? There will not be much money around and those things must all be considered together in deciding what will bring the best return. That sort of holistic approach would be better than putting them all into silos and salami slicing a bit here and a bit there.

Professor Danson: The environment will be different. The constitutional arrangements and so on will be different from what they are now. We might have Calman, Calman plus or something beyond or less than that. As I keep stressing, what is important is what is done, who does it and so on, as John McLaren has just said.

The development agencies have been especially important in periods such as this, as they can take a strategic view, looking forward. They have often been under pressure to support lame ducks, yet they have said, "No. We need to invest in the future." SDA, Scottish Enterprise and HIE have been very important in times of difficulty; therefore, one could argue that those are not the times in which to cut their budgets.

Will economic development agencies still be around in 10 years' time? They are well embedded in all regions in Europe apart, ironically, from England, which appears to have been the last to get them but the first to be getting rid of them. Everywhere else in Europe and beyond has development agencies in one form or another. Undoubtedly, we will still have them; the question is what form and function they will have, and that will evolve just as it has evolved over the past 30 years or more.

Stuart McMillan: Do you think that our expectations of the enterprise agencies are too high? I base that question on what you said a few moments ago about politicians perhaps sometimes having overscrutinised the day-to-day operation of enterprise agencies.

Professor Danson: One way in which their *modus operandi* changed, in the 1990s in particular, and on into the following decade, was that they had to work more and more in partnership. Ironically, they got more and more powers but, more and more, they were not stand alone. They worked with local authorities, businesses, Europe, the Government and so on. The point goes back to the leverage that they claim, although others also claim some of that. How do we measure the benefits of partnership working or networking, and how do we evaluate what the counterfactual would have been? The situation has become much muddier and more difficult. Therefore, when you try to identify inputs and targets that you want to achieve, you might not be comprehensive and might miss some of the

important activities that the enterprise agencies undertake. That might lead you to focus on particular things, as we did in the past on job creation, rather than on an enterprising culture or better networking between or clustering of companies. On the 100,000 foreign direct investment jobs that we all welcomed every year, there were alternative ways of investing in the Scottish economy, which were traded off for those jobs.

Stuart McMillan: My final question is on exporting. A few moments ago, we heard that more than 50 per cent of exports are attributed to a couple of sectors—food and drink, and one other.

John McLaren: It is just drink, and electrical engineering.

Stuart McMillan: I grew up in Port Glasgow, where shipbuilding was important. There is still a yard there and there is still shipbuilding on the Clyde, but the industry has declined tremendously in the Inverclyde area. One thing that has been interesting for me in the inquiry, and prior to it, has been the point that Scotland and the UK cannot manufacture things because doing so is way too expensive. However, taking the shipbuilding industry as an example, we should compare the costs of shipbuilding and the cost of living here with those elsewhere. The average wage per hour for manufacturing in Sweden is £17.25, but in the UK it is £13.49. There are other costs in Sweden that make it more expensive, but Sweden can still manufacture ships, as can Finland. However, in Scotland and the UK, shipbuilding involves predominantly naval orders rather than commercial ones.

I find it bizarre that we lose out on that market. The shipbuilding market globally is extremely buoyant, if you will pardon the pun. It is not as if nothing is being built, so we are missing out on something there. I am sure that a range of factors is involved. I do not know whether there is an element of the enterprise agencies not playing a full part in promoting the industry in Scotland and what it can do. There might be other factors. I am really at a loss to explain the situation, because we can do things more cheaply here, but we still lose out on orders. Are there any comments on that?

John McLaren: Generally, we do not do manufacturing because most less skilled manufacturing can be done more cheaply elsewhere—it was eastern Europe for a while and now it is Asia. On your examples of Sweden and Finland, I do not know, but I suspect that it is probably very specialised shipbuilding that is done there.

The most obvious example is Germany, which still manufactures quite a lot, but it is very highly skilled manufacturing. China imports quite a lot from Germany because it cannot produce those things. Germany has kept at the forefront of technology and is still better in a number of areas of manufacturing. We have not really done that in Britain, although some companies in Scotland have, and they export all over the world—they probably do not need any help. They are engaged not simply in manufacturing but in manufacturing at the very top end, where the more developed countries, if we can call them that, can still win. However, companies need to be focused and to be world leaders in what they do.

11:45

Professor Danson: A lot of those industries were nationalised when they disappeared. The SDA was not allowed to intervene in nationalised industry areas, including steel, shipbuilding and heavy engineering. I am thinking of Rolls-Royce, British Leyland and so on. When those industries were destroyed in the early 1980s it was difficult for the SDA to get involved. It was difficult to reproduce the skills, the equipment and so on.

The industries of Sweden and Finland have shrunk from what they were in the past. Considering how shipbuilding has evolved and how oil rig production has developed, we might observe how Dutch and Norwegian companies have their own capacity at home. There is strong evidence showing how they took over yards in the 1980s and 1990s to take out the competition. We should consider matters of ownership and control—we used to do a lot more of that in previous decades.

Stuart McMillan: The largest cruise liner in the world was launched only a few months ago from a yard in Finland, which is not perceived to be a cheap country to live in. That is one of the points that I am trying to make.

John McLaren: It is probably a very specialised ship, and its manufacture will have been at the very forefront of technology. Companies will not be building oil tankers there—nobody is doing so at the minute, in fact. They will not be doing the more basic construction, anyway. Defence is a bit different, with national elements involved.

If our yards were able to do such work, we could compete, but we do not have the skills, and perhaps we do not put in the investment in areas into which it might be possible to attract specialised investment. That would mean putting in quite a lot of money. How many big ships of the sort that you mention are built every year? There is a reasonable amount of risk that, even if the investment was made, Finland might still win the

order. We would need to be careful and bet on a winning industry.

Stuart McMillan: The liner is certainly high tech, although it is more high tech to build a naval vessel than it is to build a commercial vessel. We have the skills base. I take your point, however, that, because that sort of work has not been done here for some years, we are very much behind countries such as Finland and Germany in that game.

The Convener: Talking of Germany, Christopher Harvie is next.

Christopher Harvie (Mid Scotland and Fife) (SNP): About three weeks ago, I employed an idle hour on an aircraft flying back from Stuttgart looking at the *Handelsblatt* calculations of gross domestic product per capita in Europe. I will not go into the figures for the small nations yet, but I noted that the UK comes in at fourth among the large nations, behind Italy and just above Spain. The UK's GDP is \$35,300 per capita. France is top of the list. Germany comes lower down, as it is still paying off the investment in the neue Bundesländer—the east—and it comes in at \$40,900 per capita.

Turning to the smaller nations, with the exceptions of ex-imperial Portugal, and Greece, which has its own problems, per capita incomes run from that of Belgium, at \$43,500, up to that of Norway, at \$79,100. Of course, there are particular reasons why Norway should have that level of income. Denmark is at \$56,100. They are all nations with a population below 10 million.

It might seem that I am grinding an old SNP organ here, but an amalgamation of Government enterprise effort in a single, sovereign authority—as sovereign as it is possible to get, anyway—seems to be more efficient, and seems to work. Stuart McMillan has mentioned examples from Scandinavia that prove that.

At another level, is it right to say that the paradigm for the regional development agency goes back to the Cassa per il Mezzogiorno in Italy? It is not the best paradigm, because it was used as the milk cow of the local elites, but I cannot help seeing certain parallels with it in Scotland. Here, we keep together a cosy element of the upper professional classes to compare reports, do presentations and go to international meetings, but there do not seem to be any inputs from banking, from training or from entrepreneurial experiment and activity. We hear comments such as, “We have not really done that,” and, “People do not really know what is happening,” but surely a state that had its own responsibility for organising the economy would make damn sure that such statistics were there.

I produced my history of North Sea oil very fast in 1994. I do not want to claim any particular credit for that, but the official history of North Sea oil that was started at that time is yet to appear. The historical logging of past economic developments is of crucial importance. A general who does not study military history will not be a general for very long. It seems to me that, as far as the notion of the recording of past performance and the making of statistical projections is concerned, what you have told us is pretty shaming.

One or two areas have come up that meet Stuart McMillan's criteria for areas of substantial innovation. Renewables is one such area. The opening up of the north-east passage from the far east, which will provide a route that is 7,000km shorter than the voyage through the Suez canal, will have obvious implications for break-bulk cargo handling, and Scotland is about the only country that can do that. What sort of—let us say—previsionist economic analysis is being done of those possibilities?

I know that Voith, which is the biggest producer of marine turbines in the world, wants to set up in Scotland but has found it extraordinarily difficult to get through the one-door entry into the Scottish renewables field. The same could be said of Siemens. There are various factors. Alongside the areas that we can exploit, there are barriers to innovation and to attracting foreign investment, which in my view ought to be at the head of any serious economist's agenda. Let us face it—we are back to serious economics because financial services have gone phut.

John McLaren: I will try to go through bits of that. On the issue of small versus large, I notice that you did not mention Iceland or Ireland.

Christopher Harvie: I did, in fact. Ireland's GDP per capita is still \$44,300, which is quite a lot higher than Scotland's—

John McLaren: GDP does not make sense when we are talking about Ireland. Its gross national product is at about the same level as the UK's.

China is quite big and it is doing quite well. [Laughter.] An important point about small countries is that, potentially, they have a better idea of how their economies work. That is not true of Scotland. Because we do not have good statistics and have almost no analysis by economists or anyone else of how our economy works, we are stabbing in the dark. Countries such as Ireland and, I suspect, Denmark and Norway know what they are good at, so it is easier for them to direct money the right way.

If Scotland were independent, a host of things would happen. Inevitably, it would have to take its statistics and analysis more seriously. That does

not necessarily mean that better decisions would be made, but people would be better armed to make them. However, there is no reason why we cannot collect better statistics and do better analysis now. I admit that that would be forced on us if we were an independent country, but we could still do a lot better than we are doing at the moment.

Professor Danson: A lot of academic research suggests that in recent decades coherent, consensual societies and economies have been far more successful than larger nations. You have been given some figures on that, and the International Monetary Fund, World Bank and so on give the same overall impression over and over again. There appears to be something in that: being able to present one view to the world, getting things working quickly and so on.

Over the decades, one area for which Scottish Enterprise has been praised is its one-door approach. When an inward investor appears, they are not swamped by every local authority—or, in the past, every local enterprise company—in the land trying to attract them. That work is done at the national level by Scottish Enterprise, which filters it down to where the universities, the local authorities, the water board and so on all come together. That coherent approach exists, and it has been a great success of the Scottish partnership approach. With new sectors, such as renewables, that approach takes a while to be formalised. It needs leadership from above, which is perhaps the place not of Scottish Enterprise or HIE on their own but of the Government.

Development agencies in Scotland have been extremely good at innovation. They have been extremely innovative with a series of policies, programmes and approaches. Clusters have been mentioned. Scotland was the first place in Europe to import the concept of clusters from North America. Like many other innovations, they did not work here, and we passed them on elsewhere where they worked. That does not mean that it was not right to experiment, but because of factors such as ownership and control it was perhaps not possible for the cluster approach to work here: if a country dominates in certain sectors with branch plants of multinationals, a cluster approach cannot work.

I will leave it at that—I have spoken about the issues elsewhere. However, what comes through is that coherent nations or states within federal countries tend to perform better than parts of big nations. The UK has suffered from that for a long time.

John McLaren: Two of the countries that Christopher Harvie mentioned were Norway and Denmark, and I suspect that Finland and Sweden are not doing too badly either, in terms of GDP per

capita. Those Scandinavian countries are obviously taking a more socialist approach. On the other side are Ireland, Luxembourg and Switzerland, which are small nations with low taxation. They are different types of economies, succeeding in their own different ways. It is important to understand the drivers. For example, if Nokia goes down, Finland is in big trouble, but who is to say that Nokia will go down? Switzerland has an extremely high standard of living and an extremely low growth rate. Is that good or bad? How long does it take to go from good to bad?

Christopher Harvie: May I come back on one or two of those points? One thing that Switzerland has is a very strong transport sector, and it will become even stronger when it becomes Europe's central railway hub, with the construction of the alpine tunnels. Our public transport in Scotland is lamentable. As an article in *The Scotsman* showed recently, public transport is essential to innovative company thinking because, with good public transport, people are not futilely driving around in their cars but working in high-speed trains. That aspect counts.

Transportation preceded the industrial revolution in Japan: the Shinkansen lines started in 1961, before the Japanese economy really got into its commanding position. The system was based on up-to-date, modern public transport. Here, we have a railway line to Aberdeen that is still single track in places—and Aberdeen is the centre of our oil and offshore industry.

12:00

John McLaren: A tourism-centred country is one in which you feel that you can come to a city and easily hop on and off public transport. I do not know why we consider transport such a bad investment, when many other countries consider it a good one. That even applies to roads. I do not know whether any of you live in Glasgow, but it is like navigating a rural Mexican town these days. You have to keep your eyes on the ground for the enormous potholes everywhere. It is not good.

The Convener: That concludes the questions to John McLaren and Mike Danson. Thank you for coming along today—your input has been extremely interesting and will, I hope, add valuable data to our inquiry.

On the data, it would be useful, if the committee agrees, for us to write to the Scottish Government to ask it for a briefing note on the changes that have been made to the GDP statistics. We can ask what the changes are and what the rationale behind the changes is so that we can at some future date consider whether we wish to do any further analysis.

Ms Alexander: I would like to pursue that, but I am happy to do so in private, if you want. The Government has chosen not to produce any evidence. We should undertake some research at our own hand, but I am happy to discuss that now or—

The Convener: I suggest that we ask the Government for that information so that we can, as a committee, decide whether we wish to pursue the matter further.

Ms Alexander: The Government has published the revisions and has chosen not to give any explanation. That has been well documented in the media. The enterprise agencies will come before us in the next three weeks. The opportunity for analysis by a third party of what has happened in the past 10 years would be valuable, given the timetable that has been forced on us. It is a highly specialist area, which is why I suggest that we seek expert advice on it. I suggest that those who have raised the issues should be allowed to produce a briefing paper to allow us to judge the enterprise and tourism budgets, as they will be presented next Wednesday. Our commentary on those budgets will be informed by an understanding of the changes to the GDP statistics that were made public by the Government some three weeks ago.

The Convener: I note your point but suggest that we ask the Government for a full briefing on the matter. Without that, we cannot do the analysis. If John McLaren is willing to provide us with his take on it, he is more than welcome to do so.

John McLaren: I have done some analysis. Tourism is an important and interesting area because there are such conflicting views on what it contributes—or does not contribute. We are not overly funded at the CPPR so it would take a bit of time to do any analysis.

The Convener: I am conscious of the timescale.

Ms Alexander: There are two timescales—

The Convener: I need to get the information from the Government about what it has done and why it has done it—

Ms Alexander: It is published. It is publicly available.

Rob Gibson: The explanation is not.

The Convener: The explanation is not. That is the point. We do not know why it was done. The figures have been published but we do not know the rationale behind the changes. We need to get that from the Government in time to use it as part of our budget process. No further analysis would be possible, given the timescale for the budget,

but it may be an issue that the committee would wish to address once we have the Government's response. That is the programme that I suggest. It is the only logical way forward.

Lewis Macdonald: Is it possible perhaps to do a parallel process, in which we seek the Government's explanation while at the same time considering whether we might ask the CPPR or another body to consider the matter? That would not happen in the two or three-week timescale that you have been describing for the budget process, but it would happen in advance of our return to the issues under investigation in this inquiry in the new year.

The Convener: That is a possibility, but I would rather discuss it next week, once we have asked the Government for an explanation. We should ask for the explanation for next week, ahead of the publication of the budget.

Ms Alexander: I am happy with that. Perhaps the clerks could liaise with the Scottish Parliament information centre on what might be possible and what has been said. The Government has been repeatedly asked for an explanation and has gone on the record about what it is and is not prepared to say. A briefing paper from the clerks would be helpful for our budget discussion next week.

John McLaren: What the Government will be able to give the committee is a technical explanation of why it has changed the GDP statistics. It can tell you what has happened with its own statistical collection, but not the real economy.

The Convener: That is why I want the Government to give us a rationale for what it has done, as well as a technical explanation.

That brings us to the end of the public part of the meeting. I remind members that the business in the Parliament conference starts tomorrow evening and continues on Friday. It appears that there will be record attendance at the conference this year and that it will be an extremely successful event.

Next week, we will consider the briefing from our budget adviser on our budget scrutiny report. I hope that we will also consider the draft stage 1 report on the Protection of Workers (Scotland) Bill and a draft submission to the independent commission on banking.

12:05

Meeting continued in private until 12:50.

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