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Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 24 November 2010

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE
32nd 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:

Professor Brian Ashcroft (University of Strathclyde)
Graham Bell (Scottish Chambers of Commerce)
Stephen Boyd (Scottish Trades Union Congress)
Iain Herbert (Scottish Tourism Forum)
Norman Kerr (Energy Action Scotland)
Elizabeth Leighton (WWF Scotland)
Michael Levack (Scottish Building Federation)
David Lonsdale (Confederation of British Industry)
Mark Ruskell (Scottish Renewables)
Jenny Stewart (KPMG LLP)
Alf Young

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 1

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 24 November 2010

[The Convener *opened the meeting at 09:31*]

Draft Budget Scrutiny 2011-12

The Convener (Iain Smith): I welcome colleagues to the Economy, Energy and Tourism Committee's 32nd meeting in 2010. We have apologies from Gavin Brown, who cannot be with us.

We have one item on the agenda, which is to hear from three panels for our scrutiny of the draft budget for 2011-12. I am somewhat disappointed that the Government has as yet failed to provide us with level 4 figures, although we asked for them to be with us before today's meeting. If the Government continually fails to provide timeously the information that it is required to provide us with, it is extremely difficult for any committee to undertake its important budget scrutiny duties.

I intend to take up that considerable concern with the Cabinet Secretary for Finance and Sustainable Growth, as this is not the first year that we have not received the figures. Given the tight timescale this year, it was more important than ever that committees were provided with information timeously. Does the committee agree that I should write to the cabinet secretary to express our concern at what has happened again?

Members *indicated agreement.*

The Convener: Our first panel will give us an overview of the economic situation and how the budget might have an impact on that. I ask our panellists to introduce themselves briefly, after which we will ask questions.

Professor Brian Ashcroft (University of Strathclyde): Hello. I am from the University of Strathclyde and the Fraser of Allander institute.

Jenny Stewart (KPMG LLP): I am a partner at KPMG, the head of our public sector business in Scotland and a member of our United Kingdom leadership team for the public sector. Several years ago, I was a member of the Howat review group, which some members will recall.

Alf Young: I am a—retired—journalist. In the context of the committee's work, it is important that I put it on the record that I chair one of the Government's pathfinder urban regeneration companies, Riverside Inverclyde, and that I chair Social Investment Scotland.

The Convener: I welcome the panel to the meeting. I will start with general questions. What is the outlook for the Scottish economy? What might be the impact of the expenditure reductions in the Scottish budget that result from the comprehensive spending review and of the proposals in the draft budget?

Professor Ashcroft: As members know, the Fraser of Allander institute makes forecasts on the Scottish economy. We forecast that the Scottish economy will grow by 1 per cent this year—we have upped our forecast slightly because of the strength of the recovery shown in the data for the second quarter in Scotland and the UK and for the third quarter in the UK. We predict growth of about 1.1 per cent next year. We should remember that trend growth is about 2 per cent, so we are still below the trend—we are just recovering. Growth is forecast to rise to 1.9 per cent in 2012.

We estimate that the impact on Scotland of the fiscal consolidation package introduced by the coalition will be that growth will slow next year by 0.5 percentage points. We have not changed that estimate for 2011 since the June budget. However, we have slightly reduced our focus for 2012, because one of the switches in the CSR was to take more out of welfare and less out of departments, so the departmental expenditure limit cut was somewhat less than we anticipated. We originally estimated a 14 per cent cut in the Scottish DEL; if you follow the Scottish Government figures, it turns out that the figure is 11.3 per cent, or, if you follow the Treasury figures, it is 10.5 per cent. That is mainly because of the switch that will take £18 billion of welfare spending out of the UK economy. Under the Labour budget in March, welfare was marginally increased—it had risen progressively from £10 billion to £18 billion. We think that, as a result, a maximum of about £2 billion will come out of the Scottish economy from around 2012 onwards. Clearly, that will hit the relatively less well-off and lead to a reduction in spending. We have slightly turned down our forecast for 2012 as a consequence of that welfare reduction.

That is the overall picture as we see it. Within that, however, we have tried to estimate the impact of the cut in the DEL on the Scottish budget. We have done revised estimates on the new assumption of an 11 per cent cut in the DEL, which leads to an overall loss of jobs that ranges, based on various assumptions about how the economy works, from 50,000 to 113,000 jobs, of which up to 60,000 to 70,000 are in the public sector. There is other private sector stuff there as well.

That is run through our general equilibrium model—I will not go into the technicalities—which assumes certain sets of behavioural relationships within the economy. Of course, it is open to the Government to take a different position; indeed, what we have seen is the potential for change other than simple spending cuts, which may affect those behavioural relationships and may mean that the cut will be less. I can talk about that, if you like. Basically, it appears from the budget that the Government plans to introduce three main non-spending-cut measures. One is a pay freeze for one year for staff earning more than £21,000. Another is the efficiency saving of 3 per cent, although it is not clear exactly what that applies to—we assume that it is the resource budget. There is also the increase in non-domestic rates for large, out-of-town retail properties such as out-of-town supermarkets and retail parks. Those appear to be the main elements. I have done some back-of-the-envelope calculations on their impact. I am happy to talk about that but perhaps I should shut up and allow my colleagues to contribute.

Jenny Stewart: I will add a couple of points to that comprehensive overview. The first is about the capital-revenue split and the impact at the UK level and in Scotland. In Scotland, of the £1.3 billion, about £600 million was taken in capital cuts for the coming year and the rest in revenue. If that continues through to 2014-15, it will have a differential impact on jobs and on the economy. It would be interesting to work that through. The UK Treasury figures from the CSR suggested a revenue cut for Scotland of 10 per cent by 2014-15—clearly, the majority of that will come next year—and a capital cut of 38 per cent. That split might be quite useful in thinking through the impact on the economy. There is a similar issue in relation to whether there is a differential impact on jobs, too.

Another economic impact, about which I have not heard much discussion, is how much increased charges will impact on people's capacity to spend. For example, at the UK level, rail fares are to increase faster than the rate of inflation, and local authorities might well consider a range of charging measures—they get a large part of their income through charges, so they might increase those. In the overall economic picture, that is probably small beer, but it is something to think about.

Because we have a one-year budget, it is difficult to see the impact over the period on capital expenditure. We can perhaps return to the Scottish Water situation to consider whether the fact that it is not getting any borrowing cover will impact on its capital expenditure and what the impact on the economic position might be.

Alf Young: I endorse Jenny Stewart's point about the capital-revenue split. As the Government acknowledges in its budget documentation, all the evidence is that a significant cut in the capital budget will have a much more direct impact on growth. The committee could usefully reflect on the fact that, in the pathway out of the recent recession since the beginning of this year, the contribution of the construction sector to overall growth in the UK and Scotland has been significant—remarkably significant to some observers, who heard a lot of anecdotal evidence of concern in the construction industry about future orders and the pipeline ahead. In the first two quarters of this year, we have had significant growth in construction in Scotland and, even in the third quarter, the construction contribution in the UK was fairly strong. As Jenny Stewart said, there is major uncertainty as to how infrastructure investment will hold up, given that the bulk of the spending cuts fall on it.

A more general point is that we are talking about the impact of the Scottish budget on growth, but we clearly cannot talk about that in a vacuum. Even with the best models that Brian Ashcroft and others can come up with, we are living in extremely uncertain times. It is important for the committee to focus not just on the budget and its impact on future growth, but on current events in Europe more widely. We are in complex and disturbing times. I will give just two numbers that are highly significant. We went into the recession on the back of a banking crisis in many countries in Europe. Those banks are now largely owned by Governments—in the UK, two of them are—and they are still struggling to resolve the issues in their balance sheets.

In Ireland, the Royal Bank of Scotland lends to the public through its Ulster Bank subsidiary, to the Government through the bond markets and to banks in Ireland, because of the complex interrelationships between banks. In total, that lending by RBS amounts to about 90 per cent of its current net assets. For Lloyds Banking Group, which includes the Bank of Scotland—or what is left of it—the equivalent figure is 60 per cent. So the current crisis in Ireland and the potential crises in Portugal and Spain could have direct and obvious impacts here and could trigger significant consequences for the banking recovery here.

On top of that, our economy and the Irish economy are closely intertwined, as the UK Prime Minister is fond of reminding us. The UK exports more to Ireland than to China, Russia, Brazil and India combined. The consequences for growth of the resolution of those problems are absolutely central to any discussion that the committee and Government in Scotland have about whether the budget that is before you will sustain growth going forward.

09:45

Professor Ashcroft: Broadly, I agree with Alf Young. In defence of our forecasting, we do indeed include estimates of demand from the rest of the United Kingdom and the rest of the world, so we are trying to include some of the elements that Alf mentioned. We are witnessing a much weaker recovery than we would normally witness after a recession. However, it is not untypical of a recovery after a major banking crisis.

There is a book by Reinhart and Rogoff—Ken Rogoff is an ex-head economist with the International Monetary Fund—called "This Time is Different", which charts the consequences of banking crises throughout history. Recessions driven by banking crises have a significantly different outcome from other types of recessions. The key point is that the recovery is more protracted before you can get back to your starting point.

The points about Ireland and the banks were well made. Deleveraging will be a major issue for the growth of the economy. With the advent of new capital regulations—Basel II and Basel III—banks will have significantly fewer funds to lend. Financing the recovery will be a big problem, on top of which we will have our own Scottish problem, because the banks in Scotland bore a major part of the credit crunch.

Jenny Stewart: I will try to give some context for the impact of the general numbers on the Scottish budget. The UK chancellor's forecasts are based on estimates of growth of 2.5 per cent next year and 2.75 per cent thereafter. If UK growth is below 2.5 per cent next year, either deeper spending cuts or more tax increases will be required. We have to keep the figures of 2.5 per cent and 2.75 per cent in mind, because they will impact on the UK position and therefore on the Scottish budget in future years.

The impact of the Scottish budget on the construction sector has been raised. I have done some back-of-the-envelope calculations over the past couple of days for the overall construction sector in Scotland. If we assume a cut of £600 million in the Scottish Government's capital budget next year—which the figures seem to suggest—that is about 3 to 4 per cent of the turnover of the Scottish construction sector. Construction by the private sector would have to grow by about 5 per cent to make up the difference caused by the cut in public sector capital expenditure.

Professor Ashcroft: I support that point. The National Institute of Economic and Social Research in London is forecasting significantly less growth than the Office for Budget Responsibility—its figure is about 1.6 per cent over the next couple of years. Real revenue issues will arise for the Government.

The Convener: I thank the panellists for their comments. I caution committee members that time is limited today, so I do not think that we will be able to have a full and wide-ranging discussion of some of the wider issues that have been raised by the panel. We will have to concentrate on the impact of the Scottish budget on the economy.

Before I invite comments from other committee members, I will follow up on the issue of capital. Professor Ashcroft suggested that forecasts of growth have been slightly amended because of the relatively strong position of the construction industry in the first two quarters. However, evidence that we have received from the Scottish Building Federation and comments that have been made about the impact of the capital budget suggest that growth is unlikely to be sustained in the construction sector. Is it realistic to predict that growth will be slightly stronger as a result of one sector having perhaps an exaggerated impact in the earlier part of the year?

Professor Ashcroft: The evidence of the second and third quarters is that construction contributed quite a bit to the recovery: it grew by 10 per cent in the second quarter. However, that was partly because the industry had suffered so much during the recession. It is the old argument: if you throw a ball hard on the ground, it bounces back harder than if you throw it softly. That is what is happening in construction. However, most of the anecdotal evidence from the industry is that the bounce-back is fairly short lived. I think that the UK evidence also suggests that the numbers on the construction recovery should be revised downwards.

Linked to that, I am concerned that cutting capital is very much driving what is happening to the budget overall in 2011-12. Some 60 per cent of the capital cut comes next year, which seems unsatisfactory. Even if we accept the cut, it seems to me that there is an argument for asking the UK Government to phase it in. We are relatively small—we are talking about only about £3.3 billion overall, which is a very small amount in the context of the UK budget. The impact will still be felt if the cut is phased in, but it will be greater if it is concentrated next year. That is a concern.

Rob Gibson (Highlands and Islands) (SNP): Last year, the Government took the decision to concentrate its spending on health, affordable housing, education and so on. Can we be clear that those areas contribute to spending in the construction industry?

Alf Young: It is obvious that big health projects that are still in build, such as the Southern general hospital in Glasgow, which is a major complex, have contributed, as have replacement social housing developments.

I facilitated a private discussion last week with about 45 people who represent various aspects of construction. The people who were optimistic about the future were those who had overseas exposure. They hoped that those markets would hold up better than markets at home, on which all the forward signals are quite grim and negative.

Jenny Stewart: On the scale of the cut next year, the percentage looks much worse in some budgets, because of the increase in the spend in housing. Housing takes a particular hit, but that is in the context of an historic high last year.

Of course, the impact of the one-year cut has been softened, because there has been quite a significant underspend in capital. The committee probably does not yet have the level 4 outturn figures, but it might want to investigate what the capital outturn was for last year, because that flexibility and transfer of funds has moved over, and from the budget it looks as if that has been put into Scottish Water. Scottish Water would normally need £150 million in borrowing cover to cover its regulatory settlement, but the budget says that there is zero support for borrowing in 2011-12 and that Scottish Water has sufficient cash. It might be that the overall underspend in the capital budget has been filtered to Scottish Water, to allow it to continue its capital programme. However, it is unclear as yet whether the numbers in the budget are constraining Scottish Water's capital expenditure programme next year—or indeed in the following years, for planning purposes—or whether there has just been a transfer of funds and Scottish Water can continue its capital programme, as expected by its regulator.

Alf Young: There is also a problem to do with longer-term planning for people in a sector such as construction. We have a one-year budget, which is indicating figures for only one year forward and has within it the aspiration to deliver £2.5 billion of additional programmes through a non-profit distributing model, the timescale for which is uncertain.

That adds to the questions that the industry will ask in future about how it can commit to a pipeline of projects that, in terms of what is actually happening, seems to be dominated by the completion of some motorway projects, a big hospital in Glasgow and the early work on the new Forth crossing.

Professor Ashcroft: The £100 million that is being brought forward into the capital budget is a relatively small amount of cushioning of the significant reduction in the capital budget, which would have been 24 per cent and is now 22 per cent.

I am an academic, and the academic evidence says that fiscal consolidation and starting to cut capital damage the recovery—work by Alesina and Perotti is the reference for that. To be fair to the Scottish Government, the cutting of capital has been driven by London. The Labour Government cut capital significantly in the March budget, and the coalition Government later held to those cuts and introduced further resource cuts. That is very worrying for the recovery, and the construction industry is the lead sector that will take the initial hit. I endorse all Alf Young's points about planning.

Rob Gibson: The Government is not changing the course that it took last year; it is maintaining the same tranches of spending in the hope that it can make some progress, helped by construction during the second quarter. It is also transferring a small amount of revenue to capital to ease the situation. Given the constraints, and leaving aside the chapter in the budget documentation about the powers that we require in order to build and grow our economy, what else should the Government do?

Professor Ashcroft: While areas such as the motorways, the Forth crossing and the Southern general hospital are protected, there are significant capital cuts elsewhere in the budget. Our submission shows that, in cash terms, the Scottish Prison Service will face a 65 per cent cut in its capital budget for next year, and higher and further education will face a 56.5 per cent cut. There has been a significant cut in capital spend in key areas. I argue—I would, wouldn't I?—that cutting capital spending in higher education is not good for the economy. We need to get the capital cuts into perspective.

Rob Gibson: Well, we are. We are asking what we should do. Should we continue along the same lines or could we take another route? You have not suggested another route; that is why we are asking these questions.

Professor Ashcroft: There are other routes. As Jenny Stewart said, charging is one, and raising taxes is another, as are cutting or freezing pay and making efficiency savings. The Government has taken some of those routes. There is a real issue about the pay freeze's contribution, which will be relatively small as far as I can estimate. However, the Government could go further on that front.

Rob Gibson: Are you asking us to risk our social contract with people by throwing more of them out of work? As they say in Ireland at the moment, the less people spend, the less they contribute to the economy. The balance has to be struck. Are there things that you would recommend the Government does that would make a difference?

Professor Ashcroft: The economics of the pay freeze mean that it would protect jobs, but the issue is about the nature of the pay freeze and whether, for example, recruitment is stopped or increments are paid. Like the UK Government, the Government has introduced a pay freeze for people who earn more than £21,000, but it is not clear what it is doing about recruitment, and it seems to be allowing pay increments. According to the independent budget review report, that would mean a £140 million saving, but the rising pay bill will cost about £320 million—the extra costs, when the pay freeze is brought in, will be £180 million. The saving of £140 million has then to be related to the overall budget cut in real terms, and is still relatively small.

10:00

If you add in the efficiency savings of 3 per cent, you are saving about £900 million. That is not insignificant, but you are cutting public services by half the amount by which you are cutting spending. The big issue is whether Government can deliver 3 per cent efficiency savings next year. It is a big task, because—as people keep saying—there is not so much low-hanging fruit these days.

Jenny Stewart: To continue the capital debate, it is clear that the underspend this year helps to cushion the situation. Bringing in some more from revenue, and the wider use in future years of the non-profit distributing model—which should be non-party political as the previous Administration introduced it and the current Government has continued it—would be helpful.

Other ideas could be considered to help to relieve the impact on the capital budget in future years. I am wandering into the lion’s den here, but if Scottish Water was to change its structure and become a public interest company that was non-profit distributing and owned by members of the community, as Welsh Water is, its debt could be refinanced. That would bring in £3 billion, which would be spread broadly, with £1 billion going to the Treasury and £2 billion going to the Scottish Government. That idea has been put forward in the past; I appreciate the political sensitivity of it, but it is an option.

Rob Gibson: There are options around the social contract, capital and so on. The Government has made a decision on Scottish Water, and I think a majority of members in the Parliament believe in maintaining it in the public sector, so we can rule out that option.

My fundamental point is that the Government has attempted to keep that social contract to avoid a meltdown in society. Given the constraints under which it is operating, can you expect anything else?

Professor Ashcroft: These are questions of value, but all I can say is that you could save more resources by extending the one-year pay freeze further. That would mean real cuts in income, but you have said that the social contract is also about trying to protect jobs, and extending the freeze would do that to some degree. It is clear that if people get less income they will spend less, which will have a knock-on effect on the economy, so there is no free lunch. Some judicious choices with regard to charging may also help to raise revenues.

There are options, but the Government makes its choices, and those are value judgments. I cannot praise or criticise it.

Ms Wendy Alexander (Paisley North) (Lab): I must declare an interest, as I am married to one of the panel members. I should perhaps declare that I know all the panel members, in fact.

Alf Young made the point that RBS’s total exposure amounts to 90 per cent of its current net assets, while the equivalent figure for Lloyds TSB is 60 per cent. Can you put a monetary sum on that for the record? The Scottish Parliament information centre might want to follow it up. How many billions is it?

Alf Young: No, I could not give that figure, but I am happy to provide it later in the day.

Christopher Harvie (Mid Scotland and Fife) (SNP): I can help you—it is £55 billion.

Jenny Stewart: It was on the news last night; I have no idea whether it is correct.

Ms Alexander: I want to raise two substantive issues. First, part of the purpose of this process is to elucidate what is happening, but the budget document does not make that easy in two respects. The document is prepared in the same format as it was before, but it is not clear on efficiency savings. If there are efficiency savings of 3 per cent, that means £750 million next year in revenue only and around £900 million in revenue and capital. It is impossible to tell from reading the budget document where the money is and what the efficiency savings are. They have been forced down to departmental level, so it makes any scrutiny of that impossible. However, an order of magnitude of £750 million on the revenue side alone more than covers the cut that Jenny Stewart highlighted as needing to be found next year. That is an issue for scrutiny because there is so little detail. It is possible to cover the entire cut that is needed in revenue with a 3 per cent efficiency saving and to say little more.

I will ask another question that relates to the same issue. The IBR exemplified a number of pay options and hiring freeze options for next year. On the pay freeze, it said that, if we went for what it described as option 1, which is to mirror the UK position, we could expect to save £140 million in revenue this year. However, it went on to say that, if we want to have no creep at all in pay, we must also have a hiring freeze, and it anticipated that 17,500 jobs would go. That would be the way to get to the £320 million or, indeed, the £500 million that would otherwise be the creep in the pay bill.

I can find no reference of any kind in the budget documentation to the policy on hiring, even though the IBR called for a decision to be made and put a monetary figure on the associated savings. Therefore, the committee must try to figure out whether the pay bill will increase because recruitment will continue or whether there is an implicit hiring freeze that means that there will be no increased contribution to the pay bill from the budget next year. We cannot know because the Government did not take the decision or does not make clear its position as the IBR called on it to do. Does anyone have any insight into which choice the Government has made from those that the IBR offered it?

Jenny Stewart: It is important to clarify whether the efficiency savings that are required are cash-releasing savings or performance improvements. That is, does the cash have to come out—is it £750 million or £900 million on top of what has already been taken out—or are we saying that we want 3 per cent more services to be delivered for the same resources? That is the first point to clarify.

Ms Alexander: Which is it, Jenny?

Jenny Stewart: It is not clear. I do not know what the answer is.

Ms Alexander: So the entire revenue cut is covered by efficiency savings, but we have no idea how they are being accounted for or made.

Jenny Stewart: It is not clear from the current document. However, from our experience, the required level of efficiency savings is absolutely achievable within one year. Delivering the savings will require absolute focus and drive from public sector management across the piece, but they are deliverable.

There also needs to be a clearer understanding of productivity in the public sector. Assessing productivity in the public sector is difficult, but numbers from the Office for National Statistics show that it dropped by 10 per cent from 1997 to 2007. We have looked at unit cost information where it is available, which shows that there is a huge disparity in costs across the public sector.

My contention is that the public sector can achieve the required efficiencies. If it was only to take the average performer up to the level of the top quartile, it could release significant sums of money. We are not saying that the public sector should get its poorest performer on cost up to the level of the best; we are saying simply that the average performer should get up to the level of the top 25 per cent. To put that in local authority terms, the easiest example to use is the cost of collecting the council tax. Audit Scotland keeps data on that. If a council sits at number 16 on the list out of the 32 authorities, council tax collection will cost it £X but, if it moves up to number 8 on the list, that will represent a 20 per cent reduction in the cost.

There is a lot to be done. It is boring management stuff, not big policy decisions, but a huge focus on the effective management of productivity could release a lot of resources. I suspect that some of the more difficult choices for politicians will not need to be made if everything is managed effectively. I urge a strong look at that.

The impact of the budget on hiring is different depending on which bit of the public sector people are in. Some bits have had a revenue hike of 10 per cent—certainly, the one that I looked at this morning had—and others have had a revenue cut. The issue is not about taking a centralised view that we cannot possibly recruit anyone else in an area; it is about getting the right resources to the right areas. In some areas, the level of activity will plummet and in other areas activity will rapidly increase. If we are to continue to provide effective, high-quality public services to our citizens, which is what we all want to do, it would probably be useful to take a more nuanced view than saying that there will be no hiring. It is about matching staffing resources to both the budgets and the services that are provided.

Alf Young: I make one observation on efficiency savings. On Monday afternoon, I was talking to a trader in the nearest town centre to where I live. The council in that area has decided to hand over the local public convenience to the traders for them to run, control and clean. There was even a handover process, which was covered by the local newspaper. The trader told me that the person who was previously deployed to maintain the toilet, on a salary of £15,000 a year, has been redeployed to another job in the council at £17,000 a year. Quite where the efficiency savings came in that exercise no one knows.

That is, in some ways, a metaphor for those of us who are observing the efficiency saving process. This is not a point about the current Government or about Scottish Governments as opposed to London Governments, but it is easy to announce efficiency savings and much harder to discover after the event whether the savings have been made.

Professor Ashcroft: I hear what Jenny Stewart says about the potential for productivity improvement and efficiency savings within government. I am sure that that is correct. However, this is a methodologically difficult area because we do not have priced outputs in the way that we do in the private sector. Certain changes that we would view as beneficial, such as cutting class sizes, are associated with a reduction in productivity. It is quite problematic to make sure that we are comparing like with like. We are also at the end of a period in which we have had significant efficiency savings driven through the system, and it is becoming harder to make efficiency savings, for obvious reasons. That is not to deny that they can be made, but it is difficult to make them. If we could realise them in the next year, that would be great.

On Wendy Alexander's general point about the pay freeze, it is not clear from the draft budget document what the consequences of the pay freeze will be, just as it is not clear what the consequences of the efficiency savings will be. It would have been helpful if the Government had provided an estimate of what the saving income return would be from the efficiency savings and from the pay freeze. The IBR set those options out, so, in a sense, the work had been done by the IBR. The draft budget is a 212-page document and I cannot say that I have read every page, but I cannot find anything in it about that.

The Treasury's red book tends to calculate estimates of the consequence of change. They are often wrong and fail to take into account the behavioural consequences. Nevertheless, they give us something to work with. We do not have that in the draft budget, which is disappointing albeit that one accepts that it has had to be produced in something of a rush given the timing of the CSR.

10:15

Jenny Stewart: Professor Ashcroft is absolutely right that there is no point in counting the cost of everything but not the value. To go back to the example of a local authority reducing the cost of council tax collection, at the same time we want to monitor how much income it is getting. There is no point in reducing costs but not collecting more income. That is why a focus on outcomes is important. To be honest, for me it goes without saying that we should focus on outcomes and continuing to produce a good service, while driving through efficiencies.

There is another point on the jobs side that the committee may find interesting. You will have heard that, in the private sector, there was a considerable amount of part-time working during the recession, to mitigate the impact of potential job losses. My firm introduced such a programme, with staff support. It is worth looking at that option. Clearly, it is not applicable to the public sector as a whole. Others will have heard me say that the current situation is not comparable to a private sector recession—it is not a public sector recession but a funding squeeze. Overall demand for services is still going up. In areas where demand is increasing, it would be hard to ask staff to work part-time, but there will be areas in which activity is radically reduced as a result of the budget and subsequent measures. It is important to have flexibility. Taking measures in areas where activity has gone down would mitigate the number of job losses.

The Convener: Four members still wish to speak, but we have only about 15 minutes of the scheduled time for this session left. I ask members to be brief and to concentrate on asking questions.

Christopher Harvie: I want to pursue an issue that Alf Young raised. In the course of our banking inquiry, we interviewed Stephen Hester, Archie Kane and Michael Kirkwood from UK Financial Investments, all of whom took the line that the banks should be able to increase share value by maximising their current performance. That was the big point of recovery—it was not to reorientate their loans towards encouraging the Scottish economy.

One of the reasons that all three of them gave for the problem was the withdrawal from the Scottish economy of foreign banks. Some of those banks were Icelandic, but to a great extent they were Irish. This morning, I checked Fintan O'Toole's book on the Irish economy, "Ship of Fools: How Stupidity and Corruption Sank the Celtic Tiger", but I could find in it no reference to the Royal Bank of Scotland or HBOS. However, now one realises that those banks have been significant players in Ireland. When did that start to be the case? We asked their representatives questions about the private sector in Scotland, for which the state sector is now supposed to substitute, to some extent. Was the banks' splurge on Irish bonds a means of recovering their losses or building up their portfolios? If so, was it undertaken after we questioned them?

The Convener: I ask you to keep your answers as brief as possible. Strictly speaking, the question is not relevant to the budget.

Alf Young: I do not know when the Royal Bank of Scotland and HBOS changed their approach to bond investment, but they have been significant players in the Irish market for a long time.

Professor Ashcroft: I hear from colleagues in PricewaterhouseCoopers, for example, that the Scottish economy did not depend much on foreign lending. We are unusual in that we tend to borrow mainly from our local banks.

In effect, the Royal Bank of Scotland and HBOS are now state-owned banks. It is up to the Government to choose whether they go for increased share value, further deleveraging and, in effect, less lending, or whether, in the short to medium term, they put the interests of the economy first by lending more and accepting a smaller rise in their share price. From the point of view of the economy, we do not want the Government to get out of owning the banks in the short term, because that pushes it to encourage them to push up their share price by further deleveraging. In my view it is not in the interests of the economy to go down that route. We own these banks. Why can we not get them to lend?

Christopher Harvie: That seems to be a continuing problem. The banks are reluctant to lend in the Scottish economy, thereby placing greater stress on Government expenditure, yet that contrasts with their apparent willingness to speculate on the bond market.

Alf Young: I agree absolutely with the point about these banks being reluctant to lend. Everyone I speak to who has a commercial relationship with them confirms that. Someone I spoke to the other day, who has had a good commercial relationship with one of these banks for 40 years, said, "They now treat me in a totally different way." Such an observation is commonplace.

Professor Ashcroft: Absolutely. However, I am not sure about the timing. There was a significant Irish property boom and I guess—although I do not know—that the Scottish banks had a role in that, as they had in property investment in our own economy.

Christopher Harvie: We are discussing a DEL of £29 billion, going down to £27 billion, yet RBS's indebtedness in Ireland alone is £55 billion, and we are not even thinking about HBOS at this point.

Lewis Macdonald (Aberdeen Central) (Lab): The Scottish Government's overall policy priority is still, in theory at least, to support sustainable economic growth. We have heard that capital spending in higher education is one area that might be seen as an obvious candidate for increase rather than reduction. On the overall balance of investment and commitments—to cuts and to increases—in real terms and in relative terms in the Scottish budget, can any of the commentators find any indication in the decisions that the Scottish Government has made that sustainable economic growth is indeed a priority?

Alf Young: I think that I have said before, maybe not to this parliamentary committee but certainly to others, that I never thought that having sustainable economic growth as its overriding objective was consistent with the powers and responsibilities of the devolved Parliament. There is a mismatch there, because the real levers to achieve sustainable economic growth—I think that the Government's own rhetoric about its relationship to the rest of the UK reinforces this—do not reside with this Parliament.

I think that some of the choices that have been made by both the UK Government and the Scottish Government effectively exclude sustainable economic growth from being a primary objective. Ring fencing the national health service almost as a totem is one example. Although there are bits round the edges of the NHS that are not ring fenced, the statement that we are ring fencing health when it is such a major component of the budgets in both Parliaments militates against sustainable economic growth being the primary objective of politicians both here and at Westminster.

Professor Ashcroft: I agree with Alf Young's second point about ring fencing health. You should not really be ring fencing anything. You need to employ a rational choice model, whereby you look at the marginal valuation per pound spent and choose according to your capital constraint. You should apply it to blocks of work—probably below level 4—to do that.

The enterprise, energy and tourism budget is set to fall by 7.64 per cent next year, which is greater than the real average DEL cut of 6 per cent, so there is a bigger hit on that budget. That is interesting. Obviously, other budgets, such as justice, have had a much greater hit. Within that, the resource budget is falling by 10 per cent in cash terms, whereas the resource DEL is falling by 2.5 per cent. However, the capital budget for enterprise, energy and tourism is rising next year by just under 10 per cent, from £87 million to £96 million. That prompts the question what is going on here—we have level 3 data on page 92 of the draft budget, rather than level 4 data. I suspect that the £70 million national renewables infrastructure fund—or some of it—is included in that figure. If that is the case, the capital budget is falling elsewhere. That might be good news, but it sends mixed messages.

Page 92 of the draft budget shows only level 3 data. If we view growth as being about becoming more international, innovating, investing and building up good business infrastructure to attract inward investment, where should we be spending the money to make a difference? Presumably, it should be spent on promoting innovation and research and development in companies. Page 92 shows us that the cash outlays on innovation and industries are falling by 1.5 per cent. That is a relatively small fall—it is less than the overall fall—so perhaps that is being protected to an extent.

The figure for energy, which we know is the big star, because of renewables and so on, is falling by 20 per cent. What does that mean? We just do not know what is involved there. We need to go down to level 4 to get further information. My sense is that the Government has tried to protect growth where possible but, as Alf Young has said, if a commitment is made to ring fence one third of the budget, albeit with some changes round the margins, that limits the options considerably.

Jenny Stewart: If we consider the overall balance and the headline numbers, we can see that the percentage share of the cake is not shifting radically. There has been no huge, radical shift. Having said that, I note that a small percentage change can equate to a lot of money in some areas. Health is now 40 per cent of the overall budget. Local government's share of the cake went down by less than a percentage point, but that is big money—£538 million. It is not clear where the £70 million transfer between health and local government sits. If it is still sitting under the health budget, that mitigates the £538 million figure.

When it comes to big choices, we can look at the UK CSR, which goes to 2014-15, and form clear views about policy shifts. We can say, for example, that there has been a clear policy shift in economic infrastructure over social infrastructure at the UK level, as transport capital expenditure has been protected and schools capital spending has fallen. However, for the draft budget before us, it is hard, using just one year's numbers, to take a view on any policy shifts, but there are some clear choices. The transport capital budget did not fall to any extent, so transport was protected, as others have mentioned, against local government, which has taken a £150 million hit, against higher and further education, which has taken a £120 million hit, and against justice, which has taken a £100 million hit. However, I reiterate that one year's capital expenditure figures do not necessarily tell us a great deal about policy. Even within the transport budget, the rail capital budget went down but motorway and trunk roads capital expenditure went up. I would not necessarily assume from that that there has been some policy shift to move from rail to road—a number of factors will be involved, with some schemes coming to an end. Without making any party-political points, I would say that it is difficult to take a view about any overall shift.

Although we have not talked about it, human capital is very important in the context of economic growth, too—not just capital expenditure. It would be useful to place more of a focus on human capital. It was announced that Skills Development Scotland's budget was going to fall significantly, but there are no numbers on that, because SDS does not have a line on its own. If I was looking at the likely impact on the economy, I might interrogate that a bit more. I know that SDS runs modern apprenticeship programmes and so on. I appreciate that SDS perhaps does not come under this committee's remit but, from an economic point of view, it would be useful to look at that.

10:30

Professor Ashcroft: On the level 3 figures, table 7.06 on page 92 shows £700,000 being spent on Scottish Development International over the two years. Clearly, that is not the spend on SDI, which I think is about £25 million, but we are not told that. There is no footnote about what is happening to the spend on SDI. I see SDI as a critical part of our development effort, because we need to continue to attract inward investment and promote exports. A lot of effort is going into that as the world economy recovers. We are not told in the budget document what the spend is on that key agency. The other two agencies are rolled up into the first heading, "Enterprise Policy and Delivery". I do not think that SDI is in there, but it might be. If it is, it should be pulled out. Presumably, when you get the level 4 figures, you will be able to see a little more. We are in a sense working in the dark when it comes to judging the outcome for economic development.

Lewis Macdonald: I would be interested to hear the witnesses' comments on the 17 and 12 per cent real-terms cuts in innovation and technology under the enterprise agency heading, which continues the pattern from the past two years. Brian Ashcroft mentioned tax as an option. The one taxation option appears to be a further increase in business rates on large retail premises, which seems to be one of the few areas of the economy that is currently growing. I would be interested in comments on either of those specifics.

Jenny Stewart: I clearly identified the drop in the technology grants, which I think is of about £5 million. I do not know what lies behind that, but it is certainly worth investigating further. As for increased retail rates, I read in the papers that some legal challenge is being considered, so that clearly has some way to go. I might have missed in the papers the level of revenue that that would be expected to raise. If that increase does not happen, then local government will get less. I just sound a note of caution on that.

Alf Young: It was not clear to me from reading either the finance secretary's speech or the documentation just how the retail rates plan would be implemented. Where do you draw the line between what is a large shed and what is a small shed? Does the plan relate to just out-of-town premises or does it also relate to large sheds that are closer to town centres? Is the purpose to stop the spread of retail to the periphery of conurbations and to support the high street, which has been suggested? Once you get into that, there are all sorts of challenges in how to define the process that you are going to undertake.

There is another challenge: all our big supermarkets, without exception, are UK or international businesses now. They have other choices. You might have a visceral hatred of the spread of big sheds—as a bit of me probably has—but by introducing a differential tax rate on those that are based in Scotland, you could chase that investment off to the rest of the UK or, indeed, to China or somewhere else, because many of these companies operate globally.

Jenny Stewart: I was going to make a separate point on the economy about the voluntary sector. I should declare an interest: I am a director of Volunteer Development Scotland. In the committee's consideration of the budget, it might be worth looking at the contribution of the voluntary sector to the economy, which clearly runs into billions of pounds. I was interested to see from the numbers that the amount for the third sector is dropping by 25 per cent because one particular time-limited fund is being reduced.

The voluntary sector and volunteering are supported through all sorts of other budgets, but it might be interesting to see whether the Government's budget helps the voluntary sector and volunteering to support the economy or limits it in any way.

Alf Young: I know that time is tight, but I can shed a bit of light on that because, as I said at the outset, I chair Social Investment Scotland. The fund that is dropping out of the calculation is the Scottish investment fund, which the Government introduced for a three-year period that will end in April 2011. It is not disappearing completely: from our discussions with Government, we understand that another £3 million will be available in the coming financial year. The original £30 million was reduced to £28.8 million because some money was diverted to other priorities—I will not go into that—but an extra £3 million is being provided. The fund is being extended, but because it drops out of the numbers, in the same way that inflation drops out after a year in the index, the impact will be that it looks as if the figures are dropping. The fund and the commitment to it are still there, and it is still being managed by my organisation.

Professor Ashcroft: In response to Lewis Macdonald's question, I am concerned about the ostensible fall in spending on innovation, although I am not sure what is happening because it is necessary to have level 4 information. The level 3 figures do not give a clear indication of what is going on. Given that innovation and improving business sophistication is seen by almost everyone who looks at such things as a key driver—if not the key driver—of growth, one must be concerned. Generally, we should be spending more in that area anyway; the amounts of money that go into it are relatively small.

The industry and technology grants budget has fallen. Regional selective assistance is part of that; there will be a forecast of RSA take-up next year, and it may well be that less investment is predicted. It is not clear exactly what the position is, so it is necessary to go further down into the detail.

I might be being a bit idiosyncratic, but I am not too worried about non-domestic rates increases. I will tell you why. The academic evidence is that business rates and non-domestic rates do not have a stable impact on employment and output. The reason for that is what economists call a capitalisation effect. As land is a fixed factor—it is not going anywhere—the impact is shifted on to the rentier—the owner who rents out the land, who has to take a lower rent. Work that was done at Cambridge in the 1970s makes that point. I tend to be somewhat sceptical of the argument of the Confederation of British Industry and others, which is that increases in non-domestic rates lead to disaster, although the issue of relative prices—which Alf Young referred to—may be more significant in the short term, in the sense that Scotland might be at a relative disadvantage.

The Convener: I ask Stuart McMillan and Marilyn Livingstone to keep their questions extremely brief.

Stuart McMillan (West of Scotland) (SNP): My first question is directed at Ms Stewart.

Earlier, when you spoke about efficiency savings, you mentioned the council tax and the ranking of councils as regards collection costs. The Arbuthnott report on the nine councils in the West of Scotland was published recently. In the budget statement, the Cabinet Secretary for Finance and Sustainable Growth explained that only a one-year budget had been produced because of the Christie review. Surely such a review makes sense. The way the world is going, less money will be available, so more public organisations will have to work together more closely. Surely that means that a review of how we should move forward, not just in the next one or two or three years, but in the medium to longer term, is a good way to proceed.

Jenny Stewart: Absolutely. We need to consider what the medium and long-term solutions might be for the public sector. After all, we have a one-year budget, but we are talking about 10 years, pretty much, of austerity for the public finances in Scotland. The Scottish Government's chief economist's figures show that we will not get back to 2009-10 levels of public spending until 2025, so we are clearly at the start of the process.

I do not think that my points on efficiency and productivity are mutually exclusive. I have been clear and consistent that we need to tackle the problems on all fronts. We need a short-term drive on efficiency to make savings in-year, and at the same time we should start to look at the medium-term and long-term solutions that will help us to ride out the longer-term problems. I do not see those things as being mutually exclusive.

Stuart McMillan: Does anyone else want to comment?

Professor Ashcroft: I support an effort to examine the delivery of public services. The sooner that is done, the better. It seems to me to be an excellent idea.

Stuart McMillan: We have heard in evidence this morning various options, and we have heard suggestions as to what could and should have been done. What one thing would you recommend be changed in the budget? Obviously, there would be knock-on effects, but if the Government was to change one thing, what should it be?

Professor Ashcroft: Can I get in first? The Government should not ring fence spending on health. That could free up significant resources elsewhere and it would subject health spending to the efficiency scrutiny to which all other parts of the budget are subject. Clearly, in the end, we would highly value key parts of the health budget and they would be protected, but the perverse incentives that are being set up by ring fencing almost the whole health budget seem to me to be difficult to justify, based on any rational choice model.

Alf Young: I would choose the same thing.

Jenny Stewart: I am trying to narrow it down to just one thing. If we could get more clarity around efficiency, it might be possible to drive a higher efficiency target. That would be worth looking at. In efficiency programmes, it always happens that a certain amount is identified but less is delivered in practice. Aiming higher might mean that we would achieve more.

If I could choose one extra thing, it would be greater transparency through the publication of more information on public sector performance. I mentioned the Audit Scotland figures, but there are very few areas in which we have consistent data. If everyone had to publish all their information and it was all available, that would drive up performance through a process of scrutiny and through everyone competing with one another—not in a bad sense, but because the information was available.

The Convener: We might need bigger briefcases.

Marilyn Livingstone (Kirkcaldy) (Lab): I should maybe declare an interest in that I chair the Parliament's cross-party group on construction. I could spend the whole meeting asking about the construction industry, but I will not do that.

You talked about the cut in Skills Development Scotland's budget and the cuts in further and higher education. We have seen in previous recessions that further and higher education have helped us through the recession by ensuring that we have the skills that are required to take us through. They could be construction skills or skills in other areas. Because we only have level 3 data, I am not sure that we can measure the impact that taking funding out of further and higher education and Skills Development Scotland will have on our economic recovery. I have another question, but my first question is about that.

The construction industry is saying that it does not have enough skilled people, and that people are leaving at 40 and 50 to find other jobs and are not coming back. It is saying that not only does it not have adult modern apprenticeships, but it will not have any adults to train the modern apprentices, if we are not careful. Have the panel looked at the impact that that will have on our economic recovery?

10:45

Professor Ashcroft: Again, I am not sufficiently well briefed on this, but as it stands it appears that the roles will remain unchanged as the resource budget is cut. In other words, there is an expected efficiency saving in higher and further education such that, if the cut is delivered, the outcomes will remain the same, even though the resource expenditure is less. Of course, it remains to be seen whether that will happen but, as Jenny Stewart said, efficiency savings appear to be possible.

I am also worried about the cut in the capital budget: it is not clear from the documentation what it will mean. If, for example, state-of-the-art laboratories were to be cut, that would be bad for Scottish science and, potentially, for commercialisation, and it would have long-term knock-on effects in the economy. If the cut means not having a building for staff to have tea in, there will be less of a problem. However, it is not clear what is happening. I have a vested interest, as part of the academic higher education sector, but it is concerning that the expenditure cut is so large, particularly the cut in capital expenditure.

Marilyn Livingstone: I am very concerned. We do not have the level 4 information, but we all have local colleges and we see what is happening to them. There is increased demand for bursaries and there are big class sizes, for example. Colleges play an important role all the time, but they play a particularly important role during a recession, and I am not convinced that we can go forward. There is more pressure on colleges, and we are asking them to cut budgets.

We had the business in the Parliament conference recently. I was in the working group that looked at banking and finance for industry. One of my local companies is Burntisland Fabrications. It is a world leader in offshore technology, and has asked what the Government will do to ensure that industries and companies such as BiFab—it could be any other leading company—have long-term funding. Those companies need funding to help them through the next 10 years, but no one is providing it. If they cannot get the innovation and technological support to maintain their part in the market, there will obviously be an impact on jobs just now and on our country's future success. What can the Government do to support companies such as BiFab, which need long-term investment to reap the rewards of the work that has been undertaken?

Alf Young: The Government already has a strategy for longer-term renewables, which is in part directed at identifying sites around the coast that would be appropriate centres for development, particularly for offshore wind.

We have old industrial infrastructure in Inverclyde. We still have one working shipyard, a deep dry dock and some waterfront that clearly has potential. It is maybe not in absolutely the best place, being some way up the river rather than on the coast, but we have already seen a number of companies come into our area. As a URC, we built some open-market office space, which brought in some green energy companies that are interested in expanding their capacity.

As you say, however, all that work is a very long-term proposition. As a URC, we were given a Government remit four years ago to develop a piece of waterfront over a 10-year period. I do not know what our budget will be next year. I could try to deconstruct the housing and regeneration budget to come up with some idea, but I note that the minister Mr Swinney says that the Clyde gateway will be a priority because of the Commonwealth games, so I presume that, of the money that is available, a sizeable slug will go to Clyde Gateway URC.

Other URCs, such as mine, will have to get what is left. As we are funded partly by Inverclyde Council, partly by Scottish Enterprise and partly by the Government, we are unclear about what will happen next year, let alone in the year after that or 10 years out. That is the backdrop against which companies come to us to say, "Here is potential—here is a growth point for the future." It is no way to plan that future to have such uncertainty across the board for the public intervention vehicle and the people who might play an important part in creating the infrastructure and the jobs that will go with that development. The Government must be better at building in a longer-term view. In the inevitable day-to-day pressures of crisis and one-year budget reviews, that longer-term view goes, by default, which is bad for all of us.

Jenny Stewart: I return to Marilyn Livingstone's original question on Scottish higher and further education. The big hit is of about £120 million of capital. The explanation for that might be that the Glasgow colleges scheme is to become a non-profit-distributing structure. Capital funding might have been in the budget for that, but now that it will become an NPD scheme, it will be funded through revenue. That might be the simple explanation when the committee sees the detailed figures, but we will have to wait and see.

When capital is squeezed, that constrains the ability to make operational efficiency savings. I advised Greater Glasgow and Clyde NHS Board on the ambulatory care centres, which are now running. One advantage of such centres is that people can be in and out in a day—day-case surgery has ramped up because the facilities for it are available. Investing in capital can help people to provide better services and to reduce overall costs. That is another aspect of reducing the capital programme.

I will make a point of detail about long-term funding. I advised Scottish Enterprise on the joint European resources for micro to medium enterprises fund, which was European Investment Bank money that was sitting waiting. The key problem was that, had that fund been accessed, Scottish Government funding would have been cut somewhere else: there was no prospect of additionality. That fund would have supported small to medium-sized enterprises over the longer term, but because of obscure Treasury rules on how the money scores, the Scottish Government had no incentive to access it, because doing so would have meant a cut elsewhere. That might be worth investigating further.

I support absolutely the point that others have made that long-term planning is really difficult. That is an issue not just for the Government but for all politicians, post-election. I am realistic enough to know that the matter will have to wait until after the election but, after that, more clarity must be given on the long-term position.

Professor Ashcroft: I will make a quick response to Marilyn Livingstone. You put your finger on an important point about venture capital funding. Scotland has a venture capital funding deficit that is not properly addressed by the private sector, for market failure reasons. We are moving towards the Scottish Investment Bank and a Scottish loan fund, for which I believe extra money will be provided and which will use successful funds such as the co-investment fund. We need to put more effort into that. Essentially, that involves loans, although they need to be funded in the first place. Market gaps appear to exist at the small to medium-sized enterprise level, so such measures should be encouraged. In stringent times like now, such areas can be subject to cuts.

The Convener: I am afraid that we have run out of time, although I am sure that we could carry on for a considerable time. For example, we could ask whether anyone has found the Scottish Investment Bank in the budget document yet and what the panel's views are on Professor David Bell's comments on the growth implications of the council tax freeze, but we do not have time for those questions. I thank the panel very much for coming along.

I suspend the meeting for a few moments to change the panel.

10:54

Meeting suspended.

10:58

On resuming—

The Convener: We are running half an hour behind schedule; I am afraid that we cannot carry on like that. I urge members to keep questions as brief as possible by including as little preamble as possible, and I ask the panel members to keep their answers as brief as possible.

I invite the panel members to introduce themselves, although most of them are regular attendees.

Stephen Boyd (Scottish Trades Union Congress): I am the assistant secretary of the Scottish Trades Union Congress.

Iain Herbert (Scottish Tourism Forum): I am the chief executive of the Scottish Tourism Forum.

Michael Levack (Scottish Building Federation): I am the chief executive of the Scottish Building Federation.

David Lonsdale (Confederation of British Industry): I am from the Confederation of British Industry Scotland.

Graham Bell (Scottish Chambers of Commerce): I am the policy spokesman for the Scottish Chambers of Commerce.

The Convener: Chapter 2 of the budget document, which is headed "Our Economic Ambition", starts with the key message that

"The key principles of our Economic Strategy have governed the allocation of resources in this Budget."

Do you agree?

Stephen Boyd: I listened intently to the extremely interesting discussion that you had with the previous panel. We need to be clear about the levers that are available to the Scottish Government, particularly when unemployment is high and rising and growth is extremely weak—there was a surge in growth during the second quarter of 2010, but there is widespread consensus that that is likely to weaken.

I tend to agree with what Alf Young said about levers not being available to the Scottish Government. There are a number of levers at the Scottish level with respect to long-term growth, but in addressing the immediate economic difficulties that face us, the levers are extremely weak. A number of things in the budget demonstrate that the Scottish Government is doing what it can to sustain the weak growth that is evident. The Government is doing certain things in relation to longer-term growth, such as the delivery of the renewables infrastructure plan. That is welcome. However, as the previous panel said, a few areas are somewhat inconsistent with the explicit aims that are stated in the budget strategy.

11:00

Iain Herbert: Although we would always like there to be more investment, in the first look at the budget, we saw the cuts that are coming. With regard to tourism, we were quite pleased that the marketing side has not dropped by a huge amount—I think that the overall drop is around 6.9 per cent.

From industry's point of view, efficiencies are key and it is important that more and more investment goes into front-line marketing, particularly given the current economic situation. Around 80 per cent of our market comes from domestic customers. South of the border, the regional development agencies are closing up shop as of next year. The majority of the marketing spend for tourism comes through the RDAs. From our point of view, to take a short perspective, that presents Scotland with quite a good opportunity to present itself in a joined-up way and market itself heavily in the domestic market next year.

The traditional measurement for tourism is the £4.2 billion figure with which we are all reasonably familiar. However, recent research by Deloitte & Touche indicated that the reach of tourism in Scotland is nearer to £11 billion. To fully understand the potential for growth that can come from the sector, we need to focus on that £11 billion figure, because there are some real opportunities that, to date, have not been focused on as priorities. To assist with that, the forum and the tourism leadership group have developed a set of priorities that I suggest we bring to the committee around the end of February or the beginning of March.

Obviously, cuts have been applied to the budgets, but they could have been worse. We find that encouraging in terms of recognising tourism's potential to help with the short-term economic situation.

With regard to people being made redundant or coming out of public agencies, I should add that there are opportunities for small start-up businesses in the public arena. We are keen to get people to realise those opportunities.

Michael Levack: The construction sector welcomes the transfer of £100 million to capital programmes, although there will never be enough money and we will always want more. The situation with regard to the £2.5 billion NPD programme is all good and well.

However, with the construction sector in such a critical position, what will those programmes do to support the small and medium-sized businesses that employ people directly in their local areas, provide apprenticeships and so on? When will those projects get going? Public sector procurement is slow, unfortunately, and unless the projects are moved forward and the investment decisions are made quickly they will have little positive impact in the short to medium term with regard to protecting capacity in the industry.

I will make more comments as we move through the evidence.

David Lonsdale: As Stephen Boyd suggested, given the financial situation the budget was always going to be difficult. I am sure that subsequent budgets will also be extremely difficult. There are a number of positives, in relative terms. Michael Levack has just talked about capital expenditure, and there are a number of business support aspects to the budget. On the negatives, I highlighted in our written submission the issue of cuts to planning. Planning authorities may assume that that has broader implications, which would be a concern. There is also the increase in business rates on retailers, which came up towards the end of the discussion with the first panel this morning.

Graham Bell: Five main aspects of the draft budget have a bearing on the answer to your question. The short answer is sometimes aye, sometimes nay. The public sector control mechanisms that were suggested seem to us to be sensible, from the point of view that it is better to keep people in work and to restrict expenditure than for people to lose their jobs, because the latter has an impact on people's personal economy and, therefore, a negative effect on the national economy.

We do not agree that the business rates issue will not have much effect on enterprise and we have been involved in a long process of discussing the matter with the Cabinet Secretary for Finance and Sustainable Growth and all parties. One of the earlier witnesses was right in saying that there is no definition of a "large retailer", so we do not yet know what that means. However, given the figure of £60 million, it looks as if there are some low-hanging fruit, this one being that retailers are doing reasonably well at the large scale and are considered a source of funding. We do not believe for a moment that that increase in business rates will encourage town centre investment. If someone wants their child to do well in maths class at school, they achieve that not by punishing people who are better than them but by encouraging their child. We need to invest in town centres and not penalise other people.

There is some good news on the capital spend. I agree with Michael Levack on the £100 million—it is worth while, and it is good to see that efforts are being made to move funds into the capital budget. As we heard from the economists on the previous panel, capital spend is key to generating wealth and revitalising the economy. A further, fascinating aspect is the £2.5 billion proposed additional investment through the Scottish Futures Trust and so on, although I wish that there was more detail on that. However, those measures are extremely welcome.

The First Minister talked about renewing the social contract with the people of Scotland. Chambers of commerce have a long and honourable history of being part of that. We are not just about business; we are also about developing the communities in which we are based. Some aspects of the social contract that are talked about in the budget are positive, while there are some aspects that we have questions about.

The fifth category, which is extremely positive as far as we are concerned, is the plans for energy. We would like those plans to be extended to other sunrise industries, such as life sciences, in which we have real potential for growth.

I will mention three issues that are probably not discussed in the budget as much as we would like. We have already discussed innovation funding. The second issue is the length of the plan, which was mentioned previously. As a country, we need longer term planning than one year. The third issue is inward investment. Many of the other issues impact on how attractive Scotland is for inward investment, which is crucial to the recovery.

The Convener: I want to expand on construction, which is seen as a key sector for growth. Is the concern that because we are coming to the end of the current spending review period, people have been expecting severe cuts, so there is very little coming through the pipeline on new capital projects, for example in local government or the health service? The budget does not indicate that there will be much that is new happening in the short term either, without knowing what will happen two or three years' hence. The problem is that the pipeline might be blocked.

Michael Levack: The pipeline is blocked—or, at least, it is certainly not flowing as it was a few years ago. That is perhaps to be expected but we need to update the current infrastructure investment plan, which was published way back in March 2008 and is now obviously out of date, to give clear confirmation of the projects that will proceed and to identify realistic procurement times, start-on-site dates and, indeed, which of the projects have committed funding. Obviously, we will have to wait some time for local authorities, housing associations and a host of public sector purchasers of construction services to examine how the draft budget will impact on their budgets, so it will be well into the next financial year before we can get some projects moving.

Some of the larger projects that have been announced in the £2.5 billion programme were already in the infrastructure investment plan; some might well be delayed for other reasons; and we have yet to see the budget's impact on local authority schools programmes. After all, councils have to come up with a chunk of money for those schools. However, existing schools are being shut and the local authorities that are implementing those widespread school closures are unlikely to have much money to put into new building programmes.

A host of questions remains unanswered. For example, despite the benefit of some accelerated capital expenditure, affordable housing will take a real hit and it is an area in which a year-to-year system of funding just will not work. I appreciate that the Scottish Government had been driving towards a four-year funding plan and the industry would welcome such a move, but year-to-year funding is a major hurdle to efficient procurement for affordable housing, simply because of the gestation period.

The Convener: What about the capital funding mechanisms in the budget? The funding for the £2.5 billion programme is based on the non-profit-distributing model but a couple of the biggest projects, such as the Forth crossing and the Glasgow hospitals, are being built under traditional funding mechanisms and are eating up a very large chunk of the available money. Should those funding options be reconsidered? Related to that, I wonder whether you agree with the previous panel's suggestion that Scottish Water be examined with a view to freeing up money.

Michael Levack: I will give a quick response and then let my colleagues have a say.

We are extremely concerned that projects built under traditional funding mechanisms will, as you say, eat up a large chunk of a shrinking capital budget. I will leave others to debate the need for a new Forth crossing, but I have to say that I am surprised that it has not been pursued on a design, build, finance and operate model through some form of concession, even if the Government wanted shadow tolling instead of real tolling. I find it incredible that we are investing in a traditional capital funding mechanism in that respect. I appreciate that John Swinney had asked the Treasury in the previous UK Government to smooth out the profile of expenditure, but I would be interested to hear the current UK Government's view on the matter. If the project takes the traditional route, it will be a grave concern.

David Lonsdale: We have consistently advocated the use of the variety of options, levers and sources of funding. Obviously, the current Government has views on public-private partnerships and the private finance initiative, but we feel that the panoply of funding mechanisms should be on the table for different types of projects. After all, you will come to a different view depending on the project, the length of construction time and so on.

On Scottish Water, as we say in our written submission—and as we have consistently made clear for years—we feel that the organisation should become much less reliant on the public sector for funding. As a result, money would be available for spending on other gross domestic product-enhancing capital projects.

Graham Bell: Michael Levack's point about the Forth crossing is correct. If the Forth crossing were to be put up for private funding tomorrow and the operators were allowed to charge for its use, there would be no shortage of bidders to take over the project. The political decision to do away with tolling has affected the whole process, but there are other mechanisms that could be explored more fully. I suspect that it is too late in the day for that to happen with the Forth crossing, which I believe is essential and which I would hate to see delayed any further.

11:15

The issue of other funding mechanisms has been raised. In this climate, we need to consider everything that is available. Mr Gibson made the comment that making Scottish Water a community company would take it out of public ownership. That is not necessarily the case. A community company is owned by us, the people, as opposed to you, the Government. That does not mean that it is taken out of public ownership—quite the opposite.

Such mechanisms have been used well. Network Rail's funding solution was to be able to borrow against its existing assets. That was achieved by a community company mechanism. The company has a small number of private shareholders but, effectively, it is still in public ownership and is able to borrow against its assets. At present, Scottish Water is not able to do that. We have written papers describing how the mechanism can work.

There are other places where such an approach would be useful. For example, the capital budget of Caledonian Maritime Assets Ltd, which is the asset owner for Caledonian MacBrayne ferry services, is being cut, but it has six ferries that need replacing. The lead time to buy a ferry at the moment, in a world market in which shipping is undersupplied, is about six years. If we do not get the company funded properly, we will start to run out of working ferries, which is a huge problem for the remoter parts of Scotland. Creating a community company would easily solve the issue and enable Caledonian MacBrayne to move into other areas.

The last point that I will make about capital funding is that a great deal more detail on what the money will go into would be welcome. For example, doing up our ports so that we can actively service offshore wind is a key consideration in stage 2 of the national renewables infrastructure plan. We need to do that now. We need early decisions on where the £70 million that is available will go to leverage in investment. In the present climate, we should invest with confidence in things that will grow the economy.

Rob Gibson: The constraints within which the Government is operating are made more artificial by the fact that we do not have some of the levers that you suggest. The budget continues to emphasise the protection of health and certain social spending, while cutting sharply in some other areas with much smaller spending power. In the previous year, that allowed us to invest in some construction and so on. Do you see the potential for us to continue to support the economy in that fashion, within the constraints that I have mentioned, as the only means of moving forward, or are you suggesting that we make a fundamental change that will affect people? The previous panel suggested that we could charge more for services and place even greater constraints on the ability to spend in the economy of members of the public who are still in work.

David Lonsdale: In our submission, we say that a bolder approach could have been taken to savings; that is the gist of your question. On several occasions, in writing and in person, we have set out to the Finance Committee and the Scottish Government ideas for making greater savings. We have talked about getting Scottish Water off the books and about whether there is scope to generate more savings through outsourcing. In our submission, we highlight some areas in which we think that the Scottish Government has taken the wrong decision on outsourcing. We have talked about the contribution that pay restraint can make to the overall pay bill and have proposed further rationalisation of local authorities and use of shared services.

We appreciate that some of the ideas that we have put forward are politically challenging. The Government has taken up some of them; the report of the independent budget review in July adopted quite a lot of them. There are lots of good ideas out there. The question is whether Government and Parliament wish to implement them. We have proposed several ideas. They are not necessarily everyone's cup of tea, but if some of them had been implemented, that would have generated greater savings that could have been invested more in the economy and wealth creation.

Rob Gibson: Your suggestions are in a narrow band and seek efficiencies in a system that does not have full control over its development and which has outside pressures on it. However, you do not address the chapter in the budget document that suggests that we need greater powers to borrow so that we can set up investment banks. You do not address those issues, despite the fact that they are the huge elephant in the room that makes Scotland much more constrained. If you are not prepared to address them, why should we go down the hair-shirt route?

David Lonsdale: We have to live within our means and consider the powers that we have. We contributed greatly to the Calman commission process and the national conversation. The Scotland bill will be published shortly and powers will be devolved in the next few years. The reality is that the committee has a budget in front of it for the next 12 months. We need to consider what you are trying to do and whether you are making the right decisions. We have put on the table a range of ideas. As I say, some are more palatable than others. The reality is that that is what is on the table now and the question is whether the Government and Parliament are doing enough to protect wealth creation and the aspects that can take forward the economy.

Stephen Boyd: I have a couple of general comments on the previous two questions. On Scottish Water, it looks as though we will have a new Scotland bill on St Andrew's day, which could include additional borrowing powers for Scotland. If that allows Scottish Water to borrow against its considerable revenue stream, that might remove at a stroke the claimed rationale for selling off Scottish Water, which is to remove the £150 million that, until the current budget, the Scottish Government provided to Scottish Water annually.

Interestingly, when Scottish Water was established in 2002, its assets were valued at £16 billion. We are now talking about potentially selling it off for £1.5 billion, which makes no sense to me whatever. We were extremely encouraged by the First Minister's speech in presenting a legislative programme this year, when he spoke about Scottish Water as a dynamic water and renewables agency. That is absolutely consistent with our vision for Scottish Water and we look forward to the forthcoming consultation on that.

I have a couple of general points on the pay freeze and the social contract issues that Mr Gibson raised. I am somewhat constrained in what I can say today about the wage freeze; I hope that the committee does not take that as evasion, but the issues are sensitive industrial ones and we have had only a week since the budget was announced. The STUC has not had an opportunity to discuss the issue and there has been limited ability to discuss it with our affiliates. However, I can make some general points. We are talking about a significant real-terms wage cut over the next year. Retail prices index inflation is about 4.5 per cent, but energy and food inflation are contributing over and above that to the final inflation total. We are about to have a VAT rise, which will impact on low-paid workers more than on the rest of the working community. We are likely to have another substantial rise in pension contributions and there will be housing benefit cuts. All that amounts to significant real-terms cuts for low-paid workers in Scotland.

That is bad from a fairness point of view, but it also has a macroeconomic impact. At a time when the most recent Fraser of Allander report talked about £2 billion of demand being withdrawn from the Scottish economy by 2014 through benefit cuts alone, we must bear in mind that those measures will have a macroeconomic impact and will likely constrain growth.

There was an interesting conversation with the previous panel about public sector productivity. It would be nice if we compared like with like on that. If we compare labour-intensive personal services in the public sector with those in the private sector, that tells a different story from that in the top-line figures that we hear bandied about. If we want quality-enhancing investment in our public services, we must recognise that, with labour-intensive personal services, such investment is bound to have an adverse relationship with productivity. If we are going to employ classroom assistants, productivity in the classroom will go down. That is a matter of fact. We must bear in mind the climate in which we are working. If we are to discuss such things, we must have a mature, evidence-based discussion. The chucking about of statistics that we heard from certain members of the previous panel was extremely unhelpful.

The report of the independent budget review panel was quite fair on public sector pay and included the type of analysis on productivity that I described. It noted that when we compare like with like in the public and private sectors we get stories that are very different from the stories that we get when we just compare general statistics in the sectors. However, on sickness absence, for example, the panel did not pursue the same approach but just compared top-level figures in the public and private sectors, without accounting for factors such as the size of organisations. In large organisations, sickness absence levels are almost exactly the same in both sectors.

The panel also made a ludicrous suggestion about a recruitment freeze for all but essential workers. If someone can tell me what an essential worker is in the public services, we can have a sensible debate about whether a recruitment freeze is necessary. My general point is that we are hearing a lot of ideologically motivated stuff about comparisons between the public and private sectors and inefficiencies in the public sector, but we need an evidence-driven debate.

During the past few weeks, I have presented the STUC's economic strategy to a range of workplace representatives from the trade union movement in Scotland. I was at an event at the weekend, I spoke to an audience of 300 low-paid Unison members at the start of last month and I spoke to 100 people from South Lanarkshire Council the other day. At all those events I have talked about the big challenges that we face. If we tell people who deliver front-line services that 3 per cent efficiencies can easily be achieved in their workplaces, they will laugh in our faces. They do not think that that is realistic or achievable.

Iain Herbert: I want to talk about income generation, without riding across previous comments. Tourism can help to drive money into the system, which can then help to support very relevant public sector jobs. Given the current economic situation, it is important that we consider the income that is made and where it then goes.

For example, let us consider the retail sector—I probably picked on retail unfairly and I might regret doing so. When a product is sold in a shop, where does the money go? It is obvious that a percentage goes to the shop chain and another percentage goes to the manufacturer and so on, so a lot of money probably ends up abroad, where items were manufactured.

That is not the same for the tourism offer—I am being selfish and focusing on tourism again. Of course, there are retail elements in tourism, which make up part of the whole, but tourism generates income that stays in Scotland. It is important that we recognise the opportunity in that regard. That takes me back to the £11 billion that I mentioned. The ripple effect from not just what we would regard as the direct industry but the whole supply chain network and so on that underlies the direct industry is such that there are opportunities.

Local authorities can be the holders of quite a lot of the estate that makes up tourism, so it is important that there is prioritisation in investment. Other leading world states are investing huge amounts of capital in tourism. In particular, there is huge investment to develop opportunities and infrastructure in the Chinese market. We cannot necessarily keep up with that, but we can develop the assets that we have to the best possible advantage.

I give a small example of thinking on what is more of a national issue. The high-speed rail link is of obvious interest to the tourism sector, in that it will get people in and out of Scotland. However, although the Eurostar currently goes into St Pancras station, I understand that high-speed rail will come out of Euston station, with the result that we can never hope to achieve integrated transport to Europe through high-speed rail. We are setting ourselves up to trip ourselves up in relation to future development opportunities.

Of course, all that is a long way down the road. However, we should put together our shopping list for capital expenditure. Local priorities and tourism priorities are similar and can be complementary. We must be realistic about the priorities and about the return to the Scottish economy that there is from the drive to keep money in Scotland rather than watch it disappear to somewhere else.

11:30

Graham Bell: I will return to Rob Gibson's question about the social contract. We are all part of the social contract; however we work and earn our living, or do not, it matters to us. It matters to the economy because, if we get it right, it makes Scotland a desirable place in which to live and work. That is crucial for attracting inward investment. One reason why people will want to move to our economic centres to work and be part of a team that is developing a new business, product or service is that there are good schools for their children, a reliable health service and adequate housing.

We had a report four years ago that Edinburgh alone was short of 10,000 affordable homes. Since then, 30,000 people from the new accession states of the European Union have arrived here to work, but we have done nothing like catch up with that shortage of housing. The comments in the budget about building more homes are welcome, but they are far short of the numbers that we need to make this work. The ability to provide the social contract must be based on growing the economy. If we increase tax revenues, we increase our ability to pay for the social dimensions of the economy. It is also desirable to keep the workforce that we need in Scotland. The social contract is very important to the economy.

Marilyn Livingstone: My first question is about the construction sector. As I chair the cross-party group on construction, I obviously have an interest in that area. In light of its economic importance, what do you think Government could best do to help recovery in the construction sector?

Michael Levack: Government could get the pipeline of jobs or projects flowing quicker. The Government refers to the new pipeline of work, but many of those projects were in the original infrastructure investment plan that was published in 2008. The unanswered question is why those projects could not have been moved forward a couple of years ago under NPD. They will take a hell of a time to get to the point where we are putting a shovel in the ground. As I have said to this and other committees when giving evidence, the only time when construction employers can protect jobs and apprenticeship training is when we are putting the shovel in the ground.

The hub initiative is one example of the bundling of projects. There might be benefits there—I must be careful what I say, because we represent everybody from major contractors down to small sole traders. However, the whole procurement chain is so slow that I urge the Government and local authorities to look at every possible place where they can accelerate the procurement process, obviously while still complying with the law, because we must get those projects moving.

The retrofit programme is absent, but could be turned on fairly quickly if we had just a small amount of money. I am talking not just about domestic dwellings, but existing non-domestic premises, such as libraries, schools and Government buildings. I believe that a retrofit programme could be put in place very quickly and that it would sustain employment and, importantly, training. It would also make a massive difference to reaching the 2020 and 2050 carbon reduction targets. Increasing building standards on new build housing will make very little difference to that, particularly when we are building hardly any.

Graham Bell: Previous recessions show that the people who win after a global recession are those who hit the ground running. That means that you need a workforce in place that can deliver. That is why the first key issue for me is training. Recently, a major offshore wind developer put 35 apprentices through, I think, Carnegie College in Fife, only because Fife Council subsidised them at £5,000 per person. When they were told there was no cash available to do that again, they said "Oh, well, we'll just bring in our own people from abroad." We need a better contract between industry, Government, local authorities and the education system to deliver on issues like that.

In the Borders, 50 per cent of the manual trades workforce is within 10 years of retirement. If those people are not replaced, it will not simply be a question of not being able to find a plumber for your house, we will not have people who, as well as being competent plumbers, electricians, bricklayers or whatever, have the skills to work at heights, for example, or the health and safety skills that are used on major building sites. We must get away from the idea that there is a hierarchy of academic excellence and vocational excellence. We need both. If we have well-educated people, we can have people at the top end—the high-flying engineers we need—and the people with vocational skills who, at the end of the day, deliver our economy.

My second point is about the planning process and getting the spade in the ground quickly. The major changes that were made through the recent planning legislation were, by and large, very welcome, but we are currently suffering many problems in planning because of multimember wards. I suppose that the committee cannot do much about that, but I simply want to share the thought with members. Individual councillors are deciding not to support projects in their ward because ward members who are not in the same party will automatically go into opposition. I talk to developers a lot, and many of them are complaining that planning committees are turning down projects that have been approved by planning officials because of that concern. Local councillors need to take a bolder approach in planning to enable projects.

My final point is about rates and rents, and making rates punitive. I will put things in context. Many people are looking at their rates being doubled as a result of the rates revaluation—we talked about tourism. It now costs £5 a night more per person to stay in Prestonfield House hotel. I do not suppose that that is curtains for that hotel, but such increases are a serious issue for many industries. People are losing their jobs right now. Five people have been laid off at Stobo castle, for example, because of the increase in business rates. I know of shopkeepers who are in similar circumstances.

I do not agree with Professor Ashcroft, who said that if non-domestic rates go up, landlords compensate by dropping rents. They might have to do that, but developers will be deterred. That is the problem that we have at the moment. If we want people to invest in construction, they have to be able to see a return on that investment. If they cannot see a return, they will not go to their financiers to get things set up. It is crucial that we are careful about that area.

Iain Herbert: I will pick up on the transitional rates picture. That has certainly had an impact. I can point to various hotels that have seen £10,000 to £12,000 per month increases. That money will, unfortunately, come out of somewhere because of their bottom line—they will probably cut staff or trim back. That is what we have heard.

There is also nervousness about investment at the moment. Normally, there is quite a bit of reinvestment in stock, but I think that there will be a slight nervousness about undertaking a great deal of investment in stock over the coming year. Around two years ago, when things slowed, there was quite a bit of investment, but I think that people will hold back a bit in the coming year to see how the market will come through.

Marilyn Livingstone: My other question is on the totally different subject of the social contract, which the previous panel discussed. We are all seeing the voluntary sector taking quite a big hit in our constituencies. Projects are being cut back and that has a huge effect on the economy. For example, a very good project that has been lost in my constituency offered affordable child care in an area of multiple deprivation. It is quite easy to cut the third sector—that seems to be what is happening—and that takes away not only the workforce, but volunteers from the sector. What are panel members' views on that?

Stephen Boyd: I agree with the proposition underlying your question. It is another, often hidden, impact of cuts, wherever they are implemented, that there are adverse labour supply effects. For instance, at the school in Glasgow where my partner works, there is talk of removing the breakfast clubs. In the grand scheme of what is happening out there in the economy, that might seem a minor issue, but there is a labour supply effect. That may stop some low-paid women who are just getting back into the labour market from accessing work opportunities. We are also hearing back from our own structures, particularly our women’s committee, that there is great concern about the lack of affordable child care provision at the moment, and the situation seems to be getting worse almost by the month.

Marilyn Livingstone: One of the issues with the business rates revaluation was that it hit nurseries. I am concerned about the loss of affordable child care in the voluntary sector affecting the labour supply. That will hit the private sector—it definitely hits the tourism sector.

Stephen Boyd: We have seen a rapid growth in unemployment. A lot of the people who have been made unemployed are ready to go back into the labour market should the opportunity arise. Long-term unemployment has increased rapidly in Scotland during the recession, however, and the longer that people stay unemployed, the greater the danger that a hefty component of unemployment in Scotland will become structural. If there is not the right child care support to help people back into the workplace, we will live with the consequences of that for years to come. In essence, we will repeat the mistakes of the 1980s and 1990s.

Iain Herbert: Undoubtedly, a lot of small businesses have started up very successfully in the tourism arena that are sometimes underrated. They have benefited from the introduction of the rates-free side of it, but there is concern in our sector about social housing and the lack of volunteer resource.

Stuart McMillan: My first question is for Mr Bell. You gave the example of the procurement of ferries having a lead time of up to six years. I spoke to some people in that sector only a couple of months ago and they did not talk about a six-year procurement process. In 2007, there was a delay in obtaining ferries because the propulsion systems were about a year and a half in the pipeline, but they said that the market is different now and that it would not take six years to procure a ferry.

Graham Bell: The figure was given to me by CMAL three months ago. That is its view at the present time.

There is a wee bit of proof of it. The Rosyth ferry disappeared off to the Mediterranean because, although the route was profitable, the company could earn more money by running it in the Mediterranean and could not get a new ferry. It withdrew the ferry in order to make more out of its capital, which was bad news for us.

Stuart McMillan: I will talk to the people in the sector again.

Graham Bell: I would be happy to converse with you further on the matter, if you get more information.

Stuart McMillan: Okay, will do.

My second question is for all the witnesses. In the previous evidence session, I asked the panel what one thing they would change in the budget. We have heard a few ideas from you already, but, if there was one thing that you could change in the budget, what would it be?

Michael Levack: I told you my choice earlier. I would switch money into a retrofit programme. We must start to do that at some point. We keep putting it off, yet we hear more and more political rhetoric about the need for a low-carbon economy and cuts in carbon emissions. We must get started on the retrofit. Everybody thinks about housing, but it is not just about housing. We must have it throughout the built environment, in the public and private sectors.

Graham Bell: I concur with that. I also support the SBF’s campaign for Westminster to change the VAT on repairs so that, in the present climate, we can encourage that activity to take place. I would drop the non-domestic rate for large retailers, which—as has been said—may prove to be illegal anyway. It does not send a good message to business, especially as the draft budget says that we should look to the private sector to create the recovery. I would go further than that, and revisit the rates revaluation and the problems that it is causing. That can be done within the extra money that has been raised from the revaluation. The third step is that we should completely reconsider how we charge rates on commercial property.

11:45

Iain Herbert: This is more of a Westminster issue, but I encourage the committee to consider joining us in lobbying on the current thresholds for VAT, which are viewed as a real barrier for small businesses, particularly in tourism. I could give you quite a few examples of very good small businesses that closed during the peak season because they hit the artificial barrier for entry to VAT.

The threshold is such that businesses perceive that they would have to work about £20,000 harder to reach it, so they take the alternative route and do not bother to open for a week or so. We could work around that artificial barrier in some shape or form and grow a lot of the industry reasonably easily. We are campaigning to see whether we can get any movement on that.

David Lonsdale: I mentioned a number of policy options for the Scottish Government and devolved institutions. A number of those are in our submission to the committee, which went out to you only last night, so I do not expect that you have had a chance to digest it fully. It is tempting to come out with one option, but I will give you three; you can ask questions and I will give you my answers.

First, if we can get Scottish Water off the books, we can use the money for other capital expenditure. Secondly, we need a completely different attitude to outsourcing public service delivery, which can bring benefits in service provision and savings. Thirdly, as Graham Bell said, the rates rise for retailers is completely and utterly the wrong approach, and we have set out a number of concerns and arguments in our submission with regard to why that is the case.

Stephen Boyd: I will just give you one option, because the STUC is a far more efficient organisation than CBI Scotland. [*Laughter*.]

I found it difficult to reduce the complexity of the budget to one issue, but I will throw the cat among the pigeons with a suggestion that sits comfortably within the committee's normal remit.

A substantial amount of money is spent every year to pay for the small business bonus scheme, which is of dubious value to the Scottish economy. The impact—such as it appears to be—is negligible, and there has not been any proper evaluation of the scheme. I would remove that funding and give it to the Scottish Investment Bank, to produce a step change towards long-term, patient investment in Scottish industry, for which we have been calling for years.

The Convener: I will open that suggestion up for debate among the panel.

Stuart McMillan: It is interesting that, despite all your answers, not one of you appears to agree with the previous panel on the ring fencing of the health budget. Would you agree or disagree with the proposal not to ring fence the health budget?

Michael Levack: I agree that all areas of the budget should be open to scrutiny. The bigger issue is whether capital expenditure is cut within NHS budgets. The move to the hub initiative has resulted in a threshold of £750,000 for projects that are going into the hub bundling. We have written to Jim Mather to ask for that threshold to be increased to £5 million, because the current limit will deprive many of our small and medium-sized companies of work that they have done for NHS boards for many years. There is a slightly different issue there.

David Lonsdale: First, I am not aware that any of the Opposition political parties have said, "Let's cut the health budget", although perhaps I just do not know about it. An element of realism is required. That is why, as I said in my earlier response to Mr Gibson, we have focused on saying, "This is the budget for the next 12 months. What can we tangibly do about it? What powers do the Scottish Parliament and the Scottish Government have to do something about it?" The reality is that politicians across the spectrum have decided to protect health spending.

My other point is that, as we have said in our submission and elsewhere, we believe that things could be done much more efficiently and cost effectively in a number of areas of health spending. We give some examples in our submission of where we believe that there are opportunities for outsourcing. We disagree with the Scottish Government's decision on that.

Graham Bell: I concur with David Lonsdale. There are a couple of other issues. It is clearly possible for the NHS to make efficiency savings. NHS Lothian has made efficiency savings of £20 million for three years in a row by bringing in outside consultants to look at what it does, by working with teams of people, and by having somebody in every department who is responsible for keeping an eye on efficiency.

One way in which we can increase that efficiency is by giving more people more responsibility for budgets at a local level. If somebody on a team is responsible for the maintenance of a property, they know what works and what does not. If they are just told what to do by somebody in an office 20 miles away, that is not necessarily the best use of the funding that is available to them. If savings are made in that way, more money is created in the capital budget to be reinvested in the NHS—in the properties that it needs and so forth.

There does not seem to be a great will at large to start cutting the NHS, but when we speak to people in the NHS, they tell us that they are making cuts all the time. The incentive that what they achieve can be turned into a reward to reinvest in the sector is probably the best approach.

Stephen Boyd: I will make a couple of general points. It is important to remember that health is being protected relative to other areas. Rather embarrassingly, I have the figures for the UK to hand, but not the figures for the Scottish budget. I have not had the chance to absorb those properly yet. However, at the UK level, capital has been cut by 17 per cent and the real-terms cash increases are 1.3 per cent over the course of the spending review. We all know that inflation in the health service, which is mainly due to drug costs, runs far in excess of inflation in the general economy, but the budget is not being protected as I understand that word. It is being protected only relative to other areas, and my initial reading of the Scottish budget suggests that that is also the case here. Health spending is protected relative to other areas but not in terms of receiving the increases that will be required to deliver the same quality of service.

On efficiencies, have the so-called efficiencies that are claimed by various health authorities been properly audited? I am not aware of any efficiency programme that is claimed by the public sector in Scotland that has been properly audited. Very often, when we drill down, we see that there have been cuts to the quality of the service or the number of services that are delivered. We have to be careful about that. If I thought for a moment that there were huge efficiencies waiting to be derived in the NHS in Scotland, I might look at the issue slightly differently, but I do not believe that that is the case.

Michael Levack: My understanding is that the cut to health sector capital investment is about £89.5 million, or 15 per cent.

Iain Herbert: My opinion is probably more personal. A number of members of my family work in or through the NHS. As others have said, people are currently driving to make efficiencies. That work is under way. Would it be fair to say that health should be excluded from looking for efficiencies? No, but we need efficiencies coupled with effectiveness, so that we ensure that the NHS is as effective as possible and runs at the most efficient level.

Savings are difficult to talk about in relation to the NHS budget, but that is also true of the defence budget, which can equally be seen as quite challenging to look at and review. If we look at the impact that that is having in, say, Morayshire, I am sure that the long-term effect there will put more stress on the NHS, given what is happening and the economic impact that it is having.

Stephen Boyd: It is important to bear it in mind that the Scottish Government's statistics show that employment in the health and education sectors—the big employers in the public sector—has been falling for the past year. It is important to bear that in mind when we consider the social contract that is associated with the pay freeze. People are not confident that the contract will hold in areas outwith the direct control of the Scottish Government. When jobs are already being lost and that type of efficiency is being talked about, people who are working in health, education and local authorities are not confident that the trade-off between a pay freeze and jobs will hold over the course of the coming year.

Lewis Macdonald: My first question is about capital. Ferry services were mentioned a few moments ago. There has been a substantial cut in capital for prisons and further and higher education, as well as the 15 per cent cut in health sector capital investment that was just mentioned.

On the other hand, there are increases in spending on motorways and trunk roads and, in theory at least, there are prospects for additional funding in future under some of the other budget headings.

In terms of the impact of capital spending by Government on the wider economy, does the panel have a view on whether the balance between those increases and reductions is appropriate? It is a one-year budget and I recognise that that is not a long horizon but, given where we are, which decisions do the witnesses believe are the best—or not the best—for capital investment?

Michael Levack: The cut to capital investment that gives us most concern is the cut to the affordable housing budget, because of the backdrop of need, and the fact that the demand for social housing is so great. Such schemes, even the small ones, can benefit the whole of Scotland. We are not talking about volume, or building thousands of units. Even small schemes can protect local communities and employment with local companies. The smaller local companies often do the smaller schemes. That is our gravest concern and we would like to see the issue revisited and reviewed.

David Lonsdale: I am sure that if you asked the economists back they would verify that, whenever there is a period of fiscal retrenchment in the public sector, capital expenditure takes a hit, because it is less politically damaging, or explosive, to cut capital than to cut current spending on concessionary fares or prescription charges or whatever. Cap ex always takes a hit.

Obviously there are a number of elements within the draft budget to mitigate that, particularly on the transport side, and we find that encouraging. In our submission, we make a point that we have made before, and one that this committee's precursor committee made after its business growth inquiry four years ago: in the long term, we need to shift the balance of spending overall within the devolved settlement to focus on infrastructure, capital expenditure, and skills development rather than on current spending. I appreciate that that is a difficult long-term goal, but we think that it is a worthy target and a timescale for it should be considered.

Graham Bell: I recommend reading Andrew Marr's "A History of Modern Britain" if you have not done so already. It gives a telling insight into the growth of the public sector since the second world war and the attempts of successive Governments to reform the public sector, up to when Tony Blair said that he had scars on his back from attempting to do it.

We are left with no option at the moment other than to look seriously at how to reform the public sector. That has to be about the services that it delivers and not just about the money that it spends. One of the ways to change the viability of capital investment is to look carefully at which services can be delivered in different ways. There are many examples around the world of people who do things much more economically through that process. There might be no fewer people working or doing the job, but because it is done differently, it is done more economically. The most heartening figure in the budget shows that the Accountant in Bankruptcy's expenditure has dropped by 40 per cent, so I assume that fewer people are bankrupt, which is good news.

12:00

Lewis Macdonald: We would like to think that that follows logically, but perhaps not.

Iain Herbert: With my tourism hat on, I was pleased to see some of the investment in roads. The A9 is a key arterial route. Any reduction in the number of accidents that happen on that stretch of road is welcome. We are pleased that funding for the dualling that was due to go ahead is still in the budget.

Stephen Boyd: I find the question difficult to answer. I listened to the discussion with the previous panel about whether the budget is consistent with the Scottish Government's main priority of increasing sustainable economic growth. It is quite easy to pick away at the budget and to identify areas in which there are clear inconsistencies in relation to capital spending. Having increasing sustainable economic growth as your main objective is completely inconsistent with cutting capital spending on further and higher education so dramatically. However, if you are not to do that, you have to be prepared to say where you will cut the resource budget, especially at this time.

We need to bear in mind the position of the economy at the moment. We have high and rising unemployment. If we jump to UK level, we find that interest rates are already up against the zero boundary, that we have already devalued by 25 to 30 per cent over the course of the recession, and that there is austerity or weak growth in all our main export markets. How do we get out of the current mess? Do we do it by driving down demand even more by cutting jobs and wages in Scotland? I do not see how that can be reconciled with sustainable economic growth and recovery from the immediate troubles in which we find ourselves. I guess that that is a long-winded way of saying that I do not have a concise answer to an extremely complex question.

Lewis Macdonald: I have a narrower question that is focused specifically on the public agencies for which the committee has oversight responsibilities: the enterprise agencies and VisitScotland. All of them have taken cuts in the budget, as they have done over the past two or three years. Do you have a view on the impact of the most recent cuts? We heard from the previous panel that the one bit of good news—an apparent increase in the capital allocation to the enterprise agencies—may simply reflect the national renewables infrastructure fund and that there may be no capital increase for anything else. How might the changes impact on the ability of the enterprise agencies and VisitScotland to do their respective jobs, to support business and jobs?

Iain Herbert: There has been a reduction in VisitScotland's budget. The sector will continue to encourage VisitScotland to seek efficiencies, to allow its budget to fund a higher degree of front-line marketing. There should be a clear focus on VisitScotland's role and on outputs. I encourage Malcolm Roughead and Mike Cantlay to reassure us that their focus is on direct front-line marketing. We have a great opportunity next year and should make a consolidated effort to ensure that we do not miss it, at a time when others may be struggling on the domestic front.

I do not know all of the detail behind the cuts to the budgets of Scottish Enterprise and Highlands and Islands Enterprise, but we are seeing evidence of some of the efficiencies that closer working between the two organisations is producing. Tourism intelligence Scotland is bringing together good, solid information through a good partnership between them. It would have been less useful and less efficient for them to do things separately. Partnership between the two organisations is important from our point of view.

The capital budget has been reduced, although the SECC is going ahead, which brings advantages. In the longer term, it is down to having a shopping list. We in industry need to be clear about what we see as the real potential and what the priorities should be. Hopefully, the Government will respond by supporting us in that.

Michael Levack: As I said when giving evidence to the committee a few weeks ago, construction businesses tend not to receive much support from or to have much involvement with Scottish Enterprise and HIE, as construction is not seen as an area of high growth and potential export. However, the relationship is slightly more important in the Highlands. HIE's capital expenditure is very much welcome and needed in the Highlands and Islands. We have all heard about the recent demise of Rok, and we can only hope that another locally based company or companies can pick up the projects so as to sustain employment in the Highlands.

Graham Bell: The SCC's views on the matter are on record in its submission to the committee on the future of enterprise support—which I wrote—and I have spoken about the issue with lots of people all round the country. The majority of people probably feel that locating business support in local authorities has been beneficial at the SME level. However, there is not an even landscape across the country, and resources are at different levels in different places. People in Caithness, for example, will say that they are marginalised because people in Inverness think only about what is happening in Inverness. It is not just a question of being Glasgow-centric or Edinburgh-centric—the same applies in peripheral areas, too.

If a reduction in funding for any of those bodies takes people out of the camp that they support, it is important to consider other mechanisms to support them. The Scottish Government's support for SDI's investment in the smart exporter programme—which has also attracted European funding—has made a valuable contribution to picking up businesses that are expanding but fall just below the ceiling for getting an account that Scottish Enterprise will take on board. It remains to be seen what the outcomes will be with regard to HIE. As I said, our views are on record.

David Lonsdale: I noticed this morning that submissions from HIE and Scottish Enterprise were on the committee's website. I had only a brief look at the Scottish Enterprise one, and I got the impression from it that the export assistance side of things looks as if it has been protected. I have not properly digested all of that, but that is one of two or three areas that we have said—in our submission to this committee and in our enterprise network submission, as well as previously—should be priority areas. That goes back to Iain Herbert's point about outcomes and focus when there is less money. There will always be less money, so do you give money to business support, to concessionary fares or to the health service, for instance? In reality, business support will be an area that gets looked at closely.

Stephen Boyd: A point was made by Brian Ashcroft, in the previous panel, about the demise of the RDAs in England. We should be approaching Scottish Enterprise now with opportunity in mind. Professor Danson told the committee a couple of weeks ago that England is the only part of Europe, if not the developed world, that now has no regional development agencies. There is a huge opportunity in that for Scotland.

To attack Scottish Enterprise's budget again at this moment in time is unwise. We have to remember that it has been through massive organisational change. It has lost an awful lot of staff, and that is not just down to taking skills out of the organisation—it has lost a lot of core staff. I work closely with various colleagues at Scottish Enterprise, through industry advisory groups, and I cannot see where there are quick efficiencies to be derived there. There is obviously an issue around executive pay, but that is not a big issue in terms of the whole budget. I regard some aspects of Scottish Enterprise's work as being particularly valuable, including the work that has been done under Crawford Gillies's leadership on leadership and management, which I think is hugely positive for the Scottish economy as a whole. We can see how it might be a quick win for someone to decide that that area of work is not entirely important, is not core business and can be done away with, but that would be massively disappointing.

The previous panel discussed the importance of SDI, which I very much hope will be protected. It would be a tragedy if the co-investment funds of the Scottish Investment Bank were raided in any way, shape or form, as they relate to some fundamental areas for Scotland.

Christopher Harvie: This might change with the next panel, but I have noticed no reference in any of the correspondence that I have looked at to the looming actuality of peak oil. According to calculations for peak oil set out in the *Financial Times*, people expect the $100 barrel to come in about 2030; however, it could happen within a couple of months, and I wonder about the extent to which that is taken into account in one's calculations, particularly with regard to capital investment, the renewables programme, training factors and the extremely lumpy nature of our forward investment. The new Forth road bridge, for example, might not be around until the end of the decade. Surely the wherewithal for all that—cheap hydrocarbons—is simply fantasy.

Graham Bell: The Scottish Government is a major advocate of renewable energy and is working extremely hard to achieve a low-carbon economy. Electricity generation represents the largest part of what is going on at the moment, but the issue has become completely dominated by offshore wind, which offers a lot of capacity and is in the process of being delivered. On the other hand, wave and tidal power are still at the experimental stage and it is difficult to advance such projects any faster than we are at the moment.

Coming back to the real issue that you have raised, I think that if we are to bring in a low-carbon economy, we need to concentrate on heating, which is a very major energy user—and we should not forget that domestic heating forms the largest part of that—and motor vehicles. We are a very long away from having hydrogen fuel cells that are capable of ensuring that vehicles take us wherever we want to go. The electrification of the rail network has been a help, as the electricity used can be produced from sources other than carbon. The Scottish Chambers of Commerce endorses the carbon capture programme as a way of extending the life of our coal resources, but if we are going to go down the renewable energy route, we will have to think about baseload. The fact is that all energy sources, not just wind, are intermittent and, given our heavy dependence on a nuclear and coal-fired baseload, any change will need to be incremental.

If we are serious about the issue that you have raised, we will need to deal with the questions of how we provide heating and how we power vehicles more quickly than we are at the moment, and the best way of doing that is to create a climate that encourages inward investment and gets more businesses and universities involved. We lead the world in a few of these sectors and must capitalise on that advantage while we can.

David Lonsdale: I have only one thing to add to that comprehensive response. I acknowledge that our submission to the committee does not refer to peak oil but I point out that apart from a reference to what, if I remember correctly, is called the low-carbon vehicle investment scheme—I cannot remember the exact title—the draft budget does not mention it either. That scheme's budget, which has increased, benefits a well-known manufacturer in a certain part of Glasgow in some taxi work that it carries out. As a result, there is some assistance for the low-carbon vehicle agenda.

Stephen Boyd: Graham Bell's response was very helpful. However, in the context of the budget, I hope that as we move beyond this recession certain issues that emerged in the course of it will be factored into the continuing debate about Scotland's fiscal powers. Despite all the papers, submissions and so on that have been produced, those matters remain underdeveloped. For example, we need to come to a far better understanding of what the eurozone crisis will mean for a country such as Scotland, whether it remains in monetary union with the UK or goes into monetary union in Europe, and what peak oil will mean for Scotland's finances is a fundamental aspect of that.

Christopher Harvie: Surely there is much to be said for a more flexible and piecemeal approach to, for example, high-speed rail links to England. Modifying the existing system to get travel time down to three and a half hours could be achieved in seven years rather than 15. We could also consider ways of training the people we require, because it costs about €70,000 to train a qualified technician in turbines, whereas to put a man or woman into a call centre costs about £6,000. We should focus on those elements. My fear is that we might end up investing in types of infrastructure that, within 10 years, will become totally unsustainable. I have a track record on that, because I covered the North Sea oil episode in my book "Fool's Gold: The Story of North Sea Oil" and a television series, 14 years ago.

12:15

Graham Bell: The fastest train from Glasgow to Euston, which is a Virgin train, currently takes four hours, six minutes. With improvements in signalling and various track improvements that are going on, Virgin believes that it is capable of getting the time from Glasgow to Euston down to three and a half hours. Those things are under way without doing high-speed rail.

One problem that we have with the hybrid suggestion is that it is assumed that, if we stick a high-speed train on the line to Birmingham and then take it on to Glasgow, that will be great but, actually, it would be slower, because high-speed trains cannot tilt. Therefore, time would be lost between Birmingham and Glasgow, so that would not work. The real solution for high-speed rail is to go the whole hog. Given that studies show that the payback from a line from Manchester to Glasgow and Edinburgh is 13.5 fold, there is an argument that, if we can find £7 billion to lend to the Irish, perhaps we should think about finding £7 billion to build high-speed rail.

Of course, the difficulty is that it is relatively easy for Westminster to make such judgments, but it is difficult for the Scottish Government to do so given the capital budget that is available. The insistence from the previous rail minister was that Scotland must pay for its part of the deal, but Scotland cannot do that unless we know that the line will connect to an English system when it gets to the border. If we knew that, the proposal could be advanced.

The incremental measures are happening anyway but, in the long run, a high-speed rail through-route from Scotland to London would take 6 million journeys a year off air travel and on to trains. That is not deliverable on regular train routes, because there simply is not sufficient capacity. The present capacity of the east and west coast lines combined is 1 million journeys a year. Only high-speed rail can deliver that higher figure.

David Lonsdale: I will add just a quick note. In addition to the good news on low-carbon vehicles, there has been a hefty reduction in freight facilities grant support, the purpose of which is to change modes of transport. The committee might want to reflect on that in the coming days.

Christopher Harvie: I would like your opinion on that, because it seems a retrograde step.

Stephen Boyd: It is important to emphasise that, through the industry advisory groups, a lot of work is already under way on managing our longer-term skills needs, particularly in energy. I am sure that colleagues on the next panel will be able to elaborate on that. The issues are being addressed.

The Convener: I want to protect that issue for the next panel. Some of the questions are drifting into the work of the Transport, Infrastructure and Climate Change Committee rather than ours.

Ms Alexander: I am aware of time, so I will invite the panel members to think about making a supplementary submission to our deliberations in the next couple of weeks on the issues of capital. We have options, but not a single school, hospital or transport project is in the pipeline. Given procurement lead times, that is a terrible position to be in. We need to consider how to build up that pipeline under the NPD model.

Page 42 of the budget outlines what the new £2.5 billion through NPD will be spent on. As I say, written submissions on that would be helpful. The first three projects are transport ones, all of which were in the future deals programme until last week, when the spreadsheet was removed. The project on the M8 from Baillieston was meant to be signed off last February, but it was not and is now rebadged as involving new money. Of the £2.5 billion, the entire £1 billion of transport money is not new, as it involves projects that have not gone ahead according to timetable. I would welcome your observations on whether NPD is appropriate for roads projects, given that every road that we have ever built by non-traditional procurement has been under the design, build, finance and operate—DBFO—model. I do not understand why, in current circumstances, we would not want to use that tried and tested methodology in a competitive market.

In education, which accounts for £750 million of the £2.5 billion, £500 million of the money relates to the schools for the future programme. Again, that is a rebadging, wisely, of what was meant to be traditional capital spend into NPD. The risk is with the timetable because, unlike the rest of the UK, through policy choice, there is a pipeline of nothing on health projects and hospitals. No matter who forms the new Administration in May, there will be a lead-in time to get projects under way, given the obligations relating to the *Official Journal of the European Union* and others.

We must collectively reflect on the information and consider whether the £2.5 billion is new and whether anything can be done to deal with a pipeline that has absolutely nothing in it as regards future deals. You will see that on the Government website. We must consider the implications of that for trying to use public sector construction to step up activity in Scotland in the next couple of years. We must consider whether we need to be a bit more broad minded about the types of non-traditional procurement that we use to try to accelerate the pipeline as quickly as possible. I am mindful that the committee will want to dwell on the issue in its report. Frankly, nobody has time to understand how much of the £2.5 billion is new and how much is rebadging of projects that were not completed on time.

Michael Levack: I commented earlier on the need to have the infrastructure investment plan updated with specific, accurate and realistic timescales and committed funding.

Graham Bell: We are happy to make a further written submission on those issues.

The Convener: That exhausts the questioners, if not the panel. I thank the witnesses for coming along to give evidence. We have had a helpful session. I suspend the meeting for a few moments while we change panels.

12:22

Meeting suspended.

12:25

On resuming—

The Convener: We move on to our third panel of witnesses. In this evidence-taking session, we will examine primarily the energy aspects of the budget. We are also considering whether and how “Low Carbon Scotland: The Draft Report on Proposals and Policies” ties in with the budget before us.

I ask the witnesses to introduce themselves briefly and then we will ask questions.

Norman Kerr (Energy Action Scotland): I am the director of Energy Action Scotland.

Mark Ruskell (Scottish Renewables): I am the director of communications at Scottish Renewables.

Elizabeth Leighton (WWF Scotland): I am senior policy officer at WWF Scotland.

The Convener: I will start with a general question. Will the budget that the Government has proposed help it to fulfil its commitments under the Climate Change (Scotland) Act 2009?

Elizabeth Leighton: The budget is a vital lever for securing a low-carbon economy for Scotland. It is essential that we aim for every pound that is spent to be a low-carbon pound so that we lock ourselves into a low-carbon infrastructure rather than a high-carbon one.

When we match the budget with the draft report on proposals and policies, it is not clear in several cases where the budget commitments are to the policies that are written into the RPP. We have some questions about that. I can go into more detail on that and into the specifics on energy efficiency.

Overall, it is commendable that the RPP provides us with a plan of action that, for the first time, sets out how proposals and policies can help us to achieve our annual emissions targets up to the 2020 emissions reduction target of 42 per cent. We now need the committee's support, and cross-party support, to turn those plans into action.

However, I stress that the plan only just meets the legislative requirements. Therefore, we call on the committee to consider how we can make it more credible, transparent and ambitious so that we can guarantee to meet those requirements.

Mark Ruskell: I echo the point that it can be difficult to see how the RPP reads across directly to the Scottish budget. As the previous panels said, the lack of level 4 costings in the budget can make scrutiny of the energy budget and some of the other budget headings quite difficult.

For example, one of the biggest opportunities that we have to cut carbon, which is reflected in the RPP, is to increase renewable electricity generation, particularly focusing on offshore generation. To achieve that and to deliver the maximum economic growth for Scotland—the maximum number of jobs in that area—investment in ports and harbours infrastructure is needed. That is in the budget, but it does not come under the energy heading.

It would be useful to have from the Scottish Government more of an explanation of how expenditure on energy and low-carbon investment is reflected across the entire budget, not only in the energy line but in the lines on Scottish Enterprise and Highlands and Islands Enterprise.

12:30

Norman Kerr: It is hard to see, at this point and given the information in the draft budget, how we can meet the aspirations that are set out in the RPP. For example, the line in the housing budget for support for the energy assistance package, which is the main fuel poverty programme, has been reduced by £20.5 million. As yet, we are unaware of whether some or all of that money will come from the energy assistance package, as the departmental budgets have yet to be agreed. At the same time, the £41 million of non-recurring budget consequentials—and, within that, the £10 million that went into support for the universal home insulation scheme—has gone. So, we have seen somewhere in the region of £20 million to £30 million go from energy efficiency. We will know how that will pan out when we get the detail under those headings, but that is a significant cut given the aspirations that are set out in the RPP. I do not understand how we can achieve those aspirations with the budget as it stands.

The Convener: Let us look specifically at the information that we have—the level 3 figures. The energy line in table 7.06 shows a reduction from £43.2 million to £34.6 million, and the paragraph on energy on page 93 refers to

"investment in the £70 million National Renewables Infrastructure Fund."

At this stage, we have no idea which budget lines the national renewables infrastructure fund will come from. We have asked specifically for that information from the Government, but it has not yet provided it. Do you think that the money is intended to come from the reduced energy budget line, or will it come from somewhere else?

Mark Ruskell: That is not clear to us. Across the whole budget, there has been a shift from revenue to capital. We need to invest capital right now to attract the large manufacturers to sites in ports such as Nigg and Methil and to create jobs there. However, you are correct in saying that there is no clarity about where that budget of £70 million comes from. Our impression is that it is a refocusing of existing Scottish Enterprise and HIE budgets. From our perspective, that is a welcome focusing, or refocusing, on where the jobs potential could be in our coastal communities over the next 10 years. We have estimated that we could create 28,000 direct jobs in offshore renewables. However, the detail of how that has been choreographed within the overall budget is not clear. We do not know whether there has been a transfer from the energy budget. More detail on that from the Scottish Government would be very useful.

The Convener: The total profile for the £70 million is not yet known, but the indication is that £17 million of that is profiled for the next financial year. Do you think that that is sufficient for the next financial year? Indeed, there seems to be a suggestion that £17 million will be profiled for each of the four years of the programme. Is that sufficient going forward? Do you think that the £70 million that has been allocated is appropriate?

Mark Ruskell: It is a very welcome part of a wider package that needs to be put in place, which will also require private sector funding. The First Minister's announcement was received very well by industry, but the national renewables infrastructure plan identifies a requirement of well over £200 million of investment in our ports and harbours infrastructure—and it is required now, not in three or four years' time. We need to see investment now to bring in the large manufacturers.

Part of the issue is the fossil fuel levy and whether the green investment bank will be up and running sooner rather than later—that is, within the next 12 months. To bring forward a meaningful package that matches what the Scottish Government is prepared to put forward, the money from the fossil fuel levy needs to be released. A settlement must be reached between the Treasury and the Scottish Government on that issue. The money that has been promised under the green investment bank must materialise and match what the Scottish Government is putting forward and what private sector investors will—we hope—be prepared to bring into Scotland.

Rob Gibson: Following on from that, a number of issues that the UK Government and the Scottish Government have not resolved make the budget much more limited than it might have been. I will concentrate on the carbon reduction commitment, which obviously has a big effect on energy efficiency schemes. We have been told in the draft RPP that the UK Government has announced that, in a change to the previous policy, revenue from the CRC will not be recycled back to participants. That means that £1 billion a year from the sale of allowances will go to support UK public finances by 2014-15. Does the panel have a view on that?

Elizabeth Leighton: WWF does not have a view on that matter just now, but we could look into it and provide something in the written evidence that we will submit.

Norman Kerr: We are in a similar position.

Rob Gibson: It would affect the funding that might be available for home insulation and so on.

Norman Kerr: Home insulation is currently funded through the carbon emissions reduction target programme, which will come to an end in 2012 when it is replaced by the green deal. The energy company obligation programme—like the carbon emissions reduction target programme just now—will be paid for by you and me. That funding comes out of our bills, so the changes will not necessarily be funded by the UK; they will be funded by people who have an energy supply in Scotland. It is the same with the green deal, which will move from using money gathered by suppliers to an attempt to get investment from the high street. The green deal will look to B&Q, Tesco and Marks and Spencers to bring in low-cost loans for homes.

The energy company obligation is still under construction, but there is recognition that the programme will need to target fuel-poor households that would be unlikely to take up finance. It is unlikely that the issue that you raised will have an impact on the carbon emissions reduction funding as it stands.

Elizabeth Leighton: We would support ways in which the public sector and, in particular, local authorities could recycle or generate funds that they could put into energy efficiency. Without a doubt, it is right to look to local authorities more and more to lead on the issue, because evidence shows that we get better results when local authorities are engaged with the energy efficiency agenda.

Recommendations are made in the RPP on the Scottish Government's powers in relation to the CERT programme and how it could have more influence over delivery of the programme or what comes after it. In principle, we support the recommendations in the RPP that allow more flexibility of delivery in Scotland, that suit Scotland's climate and housing stock and that ensure a truly pro rata delivery of funding to Scotland, which we have been sorely lacking in the past few years.

Rob Gibson: Yes, I noticed that point in your evidence and in the Government's discussions with London.

The enterprise agencies have an important role to play in the delivery of a greener electricity future. Are the enterprise agencies, which have been given a cut, although it is a relatively small one, adequately resourced to deliver business development of the sort that we are discussing?

Norman Kerr: When you look at business development, you have to ask what the enterprise companies have already been doing and, in the case of home energy efficiency, that is not apparent. On the proposals in the RPP about the expansion of things such as combined heat and power, the driver has been local authorities. There are very few CHP or district heating schemes in Scotland. If we want to move on, we need to encourage the enterprise companies to look to how they can support the growth of those schemes.

We have changed the set-up and are now allowing local authorities to sell the electricity that they generate, but for them to generate electricity, significant capital infrastructure will be required. I am a trustee of the Aberdeen Heat and Power Company, and such a company could not be started in the current climate. Aberdeen Heat and Power was started many years ago because we attracted significant funding from Aberdeen City Council. That would not happen today. We need to examine the role of enterprise companies and how they can support the growth of local businesses. Whether the cut in their budget will allow them to do so has yet to be seen.

Rob Gibson: But they could use the relatively small funds that they have to give a particular emphasis and focus to the way in which they operate.

Norman Kerr: Yes.

Mark Ruskell: I will follow up briefly on that. We have major opportunities with offshore wind, but we need to respond to those opportunities within the next six to 12 months, which means that the enterprise agencies need to focus on making the best case for investors to come to Scotland. I am unclear about whether cuts in their budgets will have a direct impact on that.

I will give you an example of the competition that we face. Earlier this year, a delegation from a major turbine manufacturer was shown around a Scottish port and met Scottish Enterprise officials and members of the Government. The delegation was highly impressed, but the next day that same delegation was flown into Dunkirk, where it was met by President Sarkozy. We are in a highly competitive environment in Europe. Other countries are lining up to secure investment and to secure the jobs potential. The enterprise agencies must have a continued focus on the potential for Scotland.

Elizabeth Leighton: On the energy efficiency side and the skills agenda, the fact that green deal finance is coming down the road means that systems such as certification systems will be put in place and audits will be carried out. That work can be delivered by Scottish firms or by companies brought in from down south. We have a choice to make. If we invest in that sector now, we will be able to deliver on solid wall insulation, for example, but massive upscaling needs to take place. We need to finish off loft and cavity insulation. That is an agenda that can win thousands of jobs—we have predicted that if we maximise that benefit, some 10,000 jobs a year could be secured for the next 10 years—but neither the RPP nor the budget provides the money, the programmes or the prioritisation to achieve that.

Rob Gibson: The green investment bank, which Mark Ruskell mentioned, will not come into being until 2013-14. You talk about getting money now. Do you see any signs that the Government in London recognises its responsibilities in that direction, given that the achievement of the UK's carbon reduction targets will be aided by the development of offshore renewable energy?

Mark Ruskell: Investment in Scotland's offshore renewables opportunities can proceed. The key question is whether we want that process to achieve the maximum value and to bring the maximum number of jobs to Scotland. If we are prepared to see investment coming in to develop the Crown Estate rounds, that process can proceed, but if we want to invest in ports and harbours infrastructure or to create a compelling case for the establishment of 28,000 jobs in Scotland, that means that we need to capture the majority of the supply chain opportunities; to get large manufacturers to come in; to secure the transfer of skills from the oil and gas sector; and to encourage the manufacturing and service industries that are connected with the oil and gas sector to reorientate towards the renewables opportunities that exist. That is the question for the green investment bank.

Renewable electricity generation can proceed and finance can be found, but if we want to capture the economic opportunities behind that, the green investment bank needs to provide the package, along with what the Scottish Government is committed to, to attract the bits of the supply chain that we need.

12:45

Lewis Macdonald: I will follow up a couple of points. Norman Kerr suggested that the answer for combined heat and power and for district heating was for the enterprise companies to take a hand in that. It seems from different Government consultation documents that the Government recognises that such initiatives are important, but no indication has been given that capital investment will be made or that incentives will be given to local authorities or enterprise companies to address the situation. What is being suggested? Is the suggestion that the public sector needs to take forward the responsibility or that a commercial opportunity is available—that public agencies should stimulate other people to make the investments?

Norman Kerr: The answer is a mixture of both elements. From a very small start-up, Aberdeen Heat and Power has expanded. However, investment is needed, which might well come from the private sector, to stimulate the growth of small companies, which can then expand. Aberdeen City Council has continued to support the growth of Aberdeen Heat and Power by working with it to consider new areas into which it can expand. However, the capital that is needed now must come from other sources. Something such as the green investment bank might well allow such capital to be raised and paid back over a period.

Mark Ruskell: The market can respond to a certain amount, if the right financial incentives are available. In the summer, whether we would have a renewable heat incentive was considerably uncertain, but that is now certain—the RHI will be consulted on from December. The industry is gearing up to maximise the opportunities of the RHI. Energy service companies—whether they are private, co-operative or public sector—will be able to use those opportunities with housing associations and individual domestic customers.

A gap exists in loan funding for capital investment. That is particularly acute for individual domestic customers, who might benefit very much from an RHI payment but would still have to invest up front in the infrastructure, such as a biomass boiler or stove, solar panels or an air-source or ground-source heat pump. Perhaps what is missing in the Scottish budget is a commitment to loan funding for the capital element of renewable heat. If we could put that in place, that would particularly benefit people who are in fuel poverty or who live off the gas grid and who do not have the capital to invest up front in the technology. Unless such capital funding was in place, they could be excluded from the RHI's benefits. A budget ask would be to put in place capital loans, which would enable the market to do what it can with the RHI and start to deliver the benefits to more people throughout Scotland.

Norman Kerr: On the individual scale, that will go only so far. We are pushing more and more into the high street to look for funding. The whole green deal is to be funded by the high street. Even a low-cost loan for someone who lives off the gas grid or who lives in fuel poverty is an issue. We might tell such people that they need solid-wall insulation and something such as a heat pump. A heat pump costs £8,000 to £10,000 and solid-wall insulation might cost another £8,000 to £10,000.

We have to ask how people would be able to repay a loan of £20,000, and over how long a period they should be allowed to repay it. We do not have the answers to those questions yet. That figure of £20,000 is indicative—it is not a figure on which we have done a lot of work. However, even if the cost were £10,000, having to repay it from savings made in your energy bill would be quite a big ask. Someone might be considering repayment over a period of 10, 15 or 20 years. If that is the case, the assumption is that they would save £1,000 a year. That will not happen. Many fuel-poor households ration the energy that they use, and they need to use more energy, not less.

Some questions remain to be answered to do with how the green deal will work for individual households and whether there will be a return on investment for the high street. If any one of the big three companies that I mentioned earlier is to make an investment of £20,000 in a home, we have to ask what its return will be on that investment.

We are talking about people who are rationing their bills and who are already in debt, so is it reasonable to expect them to take out a loan of that magnitude, given that they probably will not have a good credit rating in the first place?

Elizabeth Leighton: On the energy efficiency side of things, we have to break the budget ask into two chunks. The first chunk is to consider where we are now in the CERT world, pre-green deal finance. The second chunk is to consider what to do once we know what the energy company obligation and the green deal finance will mean for us.

On the first chunk, we have called for an upscaling in a national retrofit programme to be fully integrated with an adequately funded fuel poverty programme. We should not continue to have stop-start energy efficiency programmes—the kind of programmes that mean that businesses cannot invest because they do not have long-term investment horizons. We have called for £100 million a year, which would rapidly increase the area-based programmes, and we have called for a soft loan programme to be brought back. Such programmes will not serve all people, but they have proved successful. We are awaiting a Government evaluation—apparently it is in draft form at the moment—but the programme was successful. The programme should be put in place while we are waiting for green deal finance to come our way. That would allow people to invest in the more expensive measures.

In other countries with loan programmes, for every £1 that is invested by government, £5 is levered in from the private sector. That is a real boon to the economy.

Once we know what the UK programmes will be, we will want to maximise the investment here. How can Scottish money be used to maximise delivery and to fill in the gaps where people are falling through the net, and how can we maximise the number of jobs that can be created? We will need to focus the budget, asking what we need to do now, and what we will need to do in the post-CERT world.

Lewis Macdonald: Earlier, we heard the construction industry's concern that, from its perspective, the biggest negative in the budget is the hit on affordable housing, and its consequences for business and employment opportunities in carbon reduction, and for fuel-poor households. When considering the RPP, and reading across to the budget, do you share the view that there is a glaring gap between what is said in the RPP and what has been committed in this year's spend on the housing side?

Norman Kerr: It is hard to see where there is a read-across. I am looking at two particular lines in a paper in front of me: one says that every home that is heated with gas central heating is to have an efficient boiler with appropriate controls; and the other says that at least 100,000 homes are to have adopted some form of individual or community-based renewable heat technology. As Elizabeth Leighton said, that would involve a great deal of upscaling. The construction industry will have a big part to play in that. As we see it, the line in the housing budget will not support that and, at the same time, support a continuation of the energy assistance package and the home insulation scheme at the levels suggested in the RPP.

Mark Ruskell: There are also still uncertainties about how the renewable heat incentive will be configured. We know that there will be an RHI, but we do not know whether someone who receives an RHI will have to substantially invest in energy efficiency in their home. If that is the case, considerable capital spend will need to be put up and people will need to be able to access considerable loans.

I agree with Norrie Kerr and Elizabeth Leighton that there are uncertainties over how to create an optimal package of energy efficiency and renewables within housing, including retrofitting. Some of the uncertainty lies in decisions that are still to be finalised at Westminster rather than Holyrood.

Elizabeth Leighton: I agree that the cut in the housing budget will have a knock-on effect. For example, housing associations, which are already strapped for cash, will have even less money for refurbishing their housing stock. They are already well aware of the issue and they want to do the right thing; they are trying to meet the Scottish housing quality standard, which has a 2015 deadline, but many of them are struggling to do so. The cuts will have even more of a knock-on effect on the housing associations, in addition to the effect that they will have on the energy efficiency budget for the home insulation scheme. The universal scheme has been knocked out altogether for next year despite the fact that research shows that it leads to a higher take-up of measures in houses. The fuel poverty scheme is also expected to be knocked as well. This is not a time to step back from energy efficiency programmes; it is a time to invest in them further.

Ms Alexander: I am interested in the question of how we focus the budget on what it will take. The Government has made the policy choice to do the RPP at the same time as it is doing the budget and, as has been demonstrated, it is a woefully inadequate way of focusing on the issues.

When the Climate Change (Scotland) Act 2009 was passed, the expectation in good faith was that there would be 60 days after the publication of the RPP for reflection thereon. This experience has perhaps taught us that there might be merit in shifting it to a different point in the cycle from the budget; perhaps the organisations that are involved could reflect on that. The IBR speculated that the costs that are associated with the RPP would be £8 billion. I look in vain at the RPP for that kind of candour about the hearts-and-minds exercise that we need to win.

Looking forward, I wonder whether parties and environmental organisations need to think about when in the budget cycle they would like parliamentary committees to discuss what it will take to reach the 80 per cent target, and to give that discussion the priority that it requires to shape budgeting decisions. Perhaps we should ask committees to look at the RPP at the start of every financial year, from April through June, before the autumn rush and the budget preparations, so that it does not become a poor relation in a fiscal climate that is going to get tighter and tighter. That might merit some collective reflection. I do not want an answer now but, maybe, during the rushed two weeks that you have in which to submit evidence to this and other committees, you might reflect on when you want the Parliament to think about the RPP so that it is given the priority that is required for us to reach the sort of targets that we have set.

Mark Ruskell: Perhaps it should be at the start of the three-year spending review, and we should ensure that the RPP that is connected to the climate change programme closely matches that three-year budget. There should be an identifiable read-across between aspirational policies and the programmes that are in the RPP, and the budget lines that are progressing from one year to the next. It is quite possible to read through the RPP and pick out programmes that exist now and spending that will happen in the next six to 12 months. It is perhaps harder to see the longer-term trajectory of that work and how it pans out across the whole Scottish budget. I do not know whether that is an answer, but a longer-term view would be useful.

13:00

Norman Kerr: What Mark Ruskell suggests would be ideal. At some point later this month, the latest Scottish house condition survey figures will be produced; there is only a week or so left of the month, so we expect that to come out very soon, along with the minister’s fuel poverty statement. We have two important documents coming our way, and we should use them to understand where we are in relation to levels of housing, energy efficiency and fuel poverty. We can then look at what is needed in budgets for future years.

Elizabeth Leighton mentioned the figure of £100 million a year. In 2006, Energy Action Scotland calculated that, with 10 years to go to reach the statutory target of eradicating fuel poverty by 2016, it would take £170 million a year for 10 years. We have not had that investment over the past four years, and the amount needed continues to build up, so we are moving significantly further away from the investment that we need if we are going to meet the 2016 target.

Elizabeth Leighton: On the budget process, we certainly did not wish it upon ourselves that we would have to consider the RPP and the budget at the same time, and my sympathies go to you.

How does the carbon assessment of the budget tie into the budget process and the RPP? They should all be stitched together. We would suggest that the way in which the budget is carbon assessed at present is not taking us to the next stage—although it is a good first step—in understanding the carbon impacts of our budget decisions.

Next year, we would like to see a genuine carbon assessment and an appraisal of policies at the next level down. That would help to tie those documents together.

Ms Alexander: Setting departmental budgets is a bit like putting rocks in jam jars. If you put the big stones in at the beginning and pre-commit to them, they tend to stay in the budget. If you put all the little stones in first, there is not a lot left over. We need to think about the best structural way to avoid that with regard to meeting our carbon reduction targets.

Christopher Harvie: When I looked at the energy efficiency action plan, I found myself focusing on the transportation habits of the employees of Stirling Council. Of those employees, 82 per cent drove or were driven to work; 2 per cent went by bicycle; 11 per cent went on foot or ran, which was encouraging; and around 4 per cent went by bus. I recollect that when the committee visited Copenhagen, the number of people there who commuted by bicycle or walked to work was 39 per cent.

We have a problem here. Yesterday, statistics appeared on the use of different types of transport, which showed that the Scots are more car-obsessed than any other nation in Europe—probably even more so than the English, because London, as the big generator of traffic, is remarkably rail-oriented. How can we see in the budget a consciousness that that must be changed?

The Convener: Strictly speaking, that is a matter for the Transport, Infrastructure and Climate Change Committee but, if the panel members wish to make any brief comments, they can do so.

Christopher Harvie: We handle energy, and the one unbudging bit of energy is transport rather than domestic heating.

The Convener: But we do not deal with transport.

Norman Kerr: Given that Energy Action Scotland is a fuel poverty charity, we do not have a view on transport.

Elizabeth Leighton: I can make a brief comment. It is interesting that the energy demand reduction target in the energy efficiency action plan includes transport. There is an interesting cross-over in that regard. We and the UK Committee on Climate Change think that transport has the greatest abatement potential outside the traded sector, and the Government's research has shown that best value for money can be achieved in reducing emissions through widespread introduction of travel planning. We hope to see more in the RPP on, for example, the smarter choices programmes—much more can be done there—the introduction of and increases in parking charges, reductions in road speeds and improvements in bus services. Much more could be done in the transport sector.

Christopher Harvie: A point that I think is valid in the context of the committee's remit is that people very often talk about the number of jobs that will come from renewable energy. The number that is quoted varies from 16,000 to 60,000. The German turbine firm, Voith, which is the biggest firm of its kind in the world, said that the average cost of the four-year training for turbine engineers is €70,000. In our plans, is cognisance being taken of our ability to train people up or get people who are trained to migrate here from elsewhere in the world? We have a fixed time in which to make progress, before peak oil hits us. We have to factor the issue into our public expenditure if we are to succeed.

Mark Ruskell: It is important to invest in what an earlier panellist called human capital. Skills development in the renewable energy sector is extremely important. It is unclear from the budget how the changing budget for Skills Development Scotland will impact on the area. SDS has done work on a demand statement, in which it considered the kinds of jobs that will be required, with a focus on offshore wind, and the opportunities for training that need to be created in further and higher education and through skills transfer for existing workforces in the oil and gas sector, who might migrate to renewables in time. The impact of the budget on that is as yet unclear.

However, the industry is increasingly focusing on the issue and is working with the education sector. There has been interesting innovation. For example, Christopher Harvie and Marilyn Livingstone will be aware of developments in Carnegie College, in Fife. The important point is that jobs will be created, but if we capture the supply chain there is the potential for 28,000 jobs. If that is to happen, we need to skill up. The forum for renewable energy development in Scotland subgroup on skills is looking at the issue. We need progress on linking the right courses to the right trainees, so that we can start to deliver what companies such as BiFab, in Methil, need.

Christopher Harvie: About six months ago we met OPITO, which is the training body for offshore engineering, in Aberdeen. The organisation was in touch with me recently, because its flourishing system of training people from all over the world is threatened by the Government’s migration clampdown, which will mean that people cannot get visas to come and study here.

Given that rapid recruitment of skilled people will be needed if the North Sea is to become our centre for renewables—I think that everyone regards that as a logical conclusion—the migration policy could be a major barrier to expansion. Many trained people come from the far east, for instance. What is your view on the issue, given the need to expand the industry as rapidly as possible?

Mark Ruskell: We are not aware of the issue, but the important point is that there is on-going dialogue between the renewables industry and the oil and gas industry. The oil and gas industry is much more mature and has been through a process of learning over many decades, and it is important that we do not reinvent the wheel. If there are issues such as you mentioned, which affect skills development in the oil and gas industry in Scotland, it is important that we learn about those concerns and understand them from a renewables perspective.

The Convener: That concludes questions. I thank the panel for coming. It would have been useful to have had more detailed expenditure figures, because we would all have known more about what we were talking about, but the discussion was nonetheless helpful. I hope that we will have level 4 figures by next week, when we will take evidence from Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland.

Meeting closed at 13:10.

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