



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 2 February 2011

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Printed and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by
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ECONOMY, ENERGY AND TOURISM COMMITTEE
4th Meeting 2011, 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:

Norman Macleod (Scottish Government Directorate for Legal Services)

Alex Neil (Minister for Housing and Communities)

Archie Stoddart (Scottish Government Directorate for Housing, Regeneration and Commonwealth Games)

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 2 February 2011

[The Convener opened the meeting at 11:00]

Energy Bill

The Convener (Iain Smith): As it has gone 11 o'clock, colleagues, I will begin the fourth meeting in 2011 of the Economy, Energy and Tourism Committee. There are two items on this morning's agenda. Later, we will take evidence from the Cabinet Secretary for Finance and Sustainable Growth on the fundamental review of the enterprise agencies, but first we will continue our evidence taking on the legislative consent memorandum to the Energy Bill, which is United Kingdom Parliament legislation. I am pleased to welcome to the meeting Alex Neil, the Minister for Housing and Communities, and to ask him to introduce his team and make some opening remarks.

The Minister for Housing and Communities (Alex Neil): Thank you very much, convener. I am joined by Colin Imrie, Steven Scott, Archie Stoddart and Norman Macleod. Norman is the lawyer, Archie is the fuel poverty expert, Colin is the policy expert, and Steven is from the building regulations branch of the Scottish Government.

I thank the committee for allowing me to make some introductory remarks. As members will know, the UK Energy Bill was introduced and had its first reading in the House of Lords on 8 December 2010; its second reading was on 22 December and it is now at committee stage. I assure members that the Scottish Government is working closely with UK Government officials on the bill's content and has negotiated a number of changes to ensure that Scottish circumstances are taken into consideration and, indeed, are written on the face of the bill. In addition, I sit on the green deal ministerial oversight group.

As many of the bill's provisions are reserved to the UK Parliament, we will be principally concerned today with the provisions that fall within the devolved competence of this Parliament, particularly the legislative consent motion that is required to allow the UK Parliament to legislate on these matters. The committee should rest assured that the LCM is not a blank cheque that will allow the UK Government to implement the green deal in a manner that disadvantages Scotland. Right at the beginning of the process, I agreed with Chris Huhne that we would be actively involved at every

stage of policy development, and we will ensure that Scotland's requirements are recognised and are properly taken into account.

I want to give a very broad overview of the provisions and the Scottish Government's view of them. First, the green deal and the new energy company obligation provide the opportunity for significant investment in sustainable energy measures: we must ensure that as much as possible of that investment comes to Scotland. As many of the finer points of the initiatives will be outlined in secondary legislation following passage of the Energy Bill, we do not yet have answers to specific questions about targets and how, for example, they will work in rural areas. The committee should rest assured, however, that as the legislation is developed we will continue to work closely with the UK Government at political and official level to ensure that any such targets are designed and delivered to recognise issues that are specific to Scotland. Stakeholder input and the committee's views will be extremely valuable to us as we present to the Department of Energy and Climate Change what Scotland wants from the initiatives.

The key is to ensure that Scottish ministers are able to influence delivery in respect of key devolved aspects of the policy, including those that will affect the private rented sector. The Scottish Government is committed to ensuring that all Scottish building owners and tenants have full access to UK energy efficiency programmes, including the green deal. We note the UK Government's proposals to introduce new powers to regulate private landlords to ensure that private tenants can access energy efficiency improvements to their homes through the green deal; however, such regulation will not be in place in England until 2015 at the earliest. Under sections 63 and 64 of the Climate Change (Scotland) Act 2009, Scottish ministers already have their own powers to make regulation on energy efficiency across all tenures, including the private rented sector. The new powers that will be offered through the LCM would not alter or weaken our existing regulation-making powers but will expand the options that are open to us. As a result, we will consider the UK Government's proposals within the context of our own powers and the needs of the people of Scotland, and we will, by the end of March, make a statement on our position with regard to the use of our regulation-making powers under the 2009 act.

The proposal to deliver the green deal by building on the current energy performance certificate assessment system is not a barrier to implementation in Scotland. The bill will enable delivery of that intention and the Scottish Government will continue to work with Whitehall to ensure that subsequent framework regulations

that implement the green deal recognise and accommodate differences in process in Scotland.

I can confirm that there is scope to look at improving the information that is presented in, for example, the energy report that the energy performance certificate process produces. However, until the requirements of a green deal assessment are set out in more detail, any additional measures cannot be specifically determined.

I realise that the repeal of the Home Energy Conservation Act 1995 and the replacement of the act with guidance is an area of particular concern to some people who have given evidence to the committee. I understand the worry that lower priority will be placed on improving the energy performance of housing if there is no longer a statutory duty to do so. However, we have already considered that and have consulted stakeholders through the energy efficiency action plan. Most respondents said that they do not want the Home Energy Conservation Act 1995 to remain as a distinct duty on local councils and that they support moves to address energy efficiency in housing through local housing strategies.

Some people called for HECA to be retained in Scotland and for us to go further by bringing in tougher legislation with mandatory targets being set centrally. It was widely agreed, however, that HECA has significant shortcomings and has not realised its potential. HECA's target-setting requirements are relatively crude and unsophisticated and do not align with the Climate Change (Scotland) Act 2009. We are therefore proposing the repeal of HECA because we consider that it is no longer fit for purpose in the 21st century.

Since 2007, we have been developing a new strategic approach to improving the energy efficiency of Scotland's housing that integrates other related strategies, takes account of the specific Scottish context, and reduces the burden of reporting that lies with local councils, all within the context of our energy efficiency action plan. I am confident that the outcome of that approach will be a reduction in the energy that is wasted in ticking boxes and filling in Government forms. We can now channel that energy into practical and co-ordinated action to increase the energy efficiency of housing in Scotland.

In closing, convener, I assure the committee that the detail of the LCM is not sparse on purpose. As I have said, much of the detail of the devolved provisions is still under development in London and Edinburgh, particularly in London, and we will be introducing through secondary legislation the detailed orders for implementation of the provisions in the Energy Bill if and when it successfully completes the parliamentary process.

The Scottish Government will continue to work closely with the Secretary of State for Energy and Climate Change and his officials as the bill progresses to ensure that the interests of Scotland are fully represented at the primary and secondary legislation stages. We have officials based in DECC who are actively and daily involved with the legislation, in addition to the joint working that is being undertaken by officials who are based in Scotland.

I thank the committee for giving me the opportunity to update it.

The Convener: Thank you for those introductory remarks.

I will start with one of the issues that concerned us about the legislative consent memorandum. There seems to be a lack of detail about the implications of the proposals in the UK Energy Bill for existing Scottish legislation and ministerial powers. Could you expand a bit on what analysis the Scottish Government has undertaken of the provisions of the UK Energy Bill and what impact they will have on the situation in Scotland?

Alex Neil: As it is drafted, the bill is a bit of a framework bill. A lot of the detail will come in the secondary legislation. Until we see that detail and have our negotiations, and the secondary legislation is consulted on and drafted, much of the detail will not be clear.

We already undertake modelling of the impact of the policies that we implement and of existing carbon emissions reduction target policies. On current policy provision, we have estimated that by 2020 the housing sector in Scotland will have made a reduction of 36 per cent in CO₂ emissions, as our contribution to the overall 2020 targets.

We are not in a position to update that modelling to cover the impact of the ECO and the green deal because the UK Government has not yet given us the detail of what will be involved. Once we get that detail, we will extend our modelling beyond the current period and look at the impact of the new policies as they are implemented practically. I will be happy to share that information with the committee at each stage.

The Convener: You made reference to chapter 3 of part 1 of the bill, which deals with the private rented sector. Some of the evidence that we have received expresses concern that the chapter is not necessary, because of provisions of the Climate Change (Scotland) Act 2009 that are already in place, and that having the private rented sector dealt with in two separate pieces of legislation, rather than one, might lead to confusion. To what extent are the provisions in chapter 3 necessary for the Scottish Government to make changes? Cannot that be done using the existing legislative framework?

Alex Neil: In our view, chapter 3 provides us with an additional tool. The private rented sector is governed by three different sets of legislation. The first is housing legislation. As you know, the Parliament is considering the Private Rented Housing (Scotland) Bill, which passed stage 1 last week. Although the bill does not cover energy, we have particular forms of regulation that are specific to the private rented sector in Scotland. We also have building standards, which apply to all sectors in Scotland, irrespective of tenure, and we have the 2009 act, which contains the powers that we think are necessary to deliver in the private rented sector in Scotland.

It is important to understand—I have discussed the matter in detail with Chris Huhne—that the private rented sector in Scotland has a different profile from the private rented sector south of the border in two major respects. First, it is much smaller. In Scotland, the private rented sector represents about 8 per cent of total households, compared with more than 16 per cent of total households in England. Secondly, it is a much more structured industry in England; in Scotland it is still much more of a cottage industry.

We have set the pace, in that before Christmas I announced that the boiler scrappage scheme would be extended to the private rented sector in Scotland. There was rapid and substantial take-up of the scheme after we announced it. I have also charged the private rented sector strategy group—which reports to me and is made up of representatives of the private rented sector, tenants, consumer groups and other interested stakeholders such as the Convention of Scottish Local Authorities—to produce an overall development strategy for the private rented sector by the summer of this year. I expect it to include any additional measures that the group thinks we need to take to ensure that we can deliver our energy targets in the private rented sector.

The Convener: For the sake of simplicity, will you indicate to the committee what additional tools in the toolkit the provisions in chapter 3 will give to the Scottish Government that it does not already have, or for which it could not legislate in Scotland?

Alex Neil: Chapter 3 will give us a specific power to regulate the private rented sector. We believe that, in effect, we already have that power under the 2009 act. If we did not, we could take it easily under private rented sector legislation. It is probably too late to do so in the Private Rented Housing (Scotland) Bill, but all parties probably envisage there being another housing bill after the election, irrespective of who wins it. The Energy Bill may be a bit more powerful in certain circumstances than our legislation, but we see it as in no way undermining our legislation. Rather,

we see it as another way of achieving the objective that we set in the 2009 act.

Rob Gibson (Highlands and Islands) (SNP): It appears that the ECO does not take account of the fact that the weather in Scotland is more severe than that in England and that, therefore, the cost of fuel bills is higher. Energy Action Scotland, in particular, has asked that ECO payments be calculated in relation to the amount of energy that is used. Would you care to comment on that point?

Alex Neil: I agree absolutely with Energy Action Scotland's point. I have already made the point to Chris Huhne that the secondary legislation that follows the bill must recognise the peculiarities of the situation in Scotland. First, it must recognise the level of fuel poverty in Scotland and the fact that that has a rurality dimension.

11:15

Secondly, we have a high percentage of hard-to-heat homes—especially pre-1919 homes—in Scotland. Thirdly, as a consequence of those two issues, we have higher fuel bills. We also have lower incomes, so the fuel bills are, on average, a much higher proportion of people's incomes in Scotland than they are south of the border. I have exchanged letters with Chris Huhne—which I am happy to make available to the committee—in which I have made it absolutely clear that it is a prerequisite for our supporting any secondary legislation that Scotland's issues, including the hard-to-heat properties, the fuel poverty issue and the energy bill issue, are properly addressed in the secondary legislation from London and within our Parliament.

Rob Gibson: We are talking about potentially £10,000 to £15,000 per household, which is quite a lot of money in circumstances in which there are lower pay and higher energy bills. With the reduction in the budget for the warm deal likely to kick in at around £350 million out of the fuel poverty budget in the next three years, do you think that the passing of the Energy Bill could lead to the unintended consequence of a reduction in the number of properties that are treated?

Alex Neil: The warm deal is the English programme and the coalition Government has cut the warm deal budget by 69 per cent. We have had to cut our budget because of the cut in our overall budget, but our cut has been less than one third of that. Next year, the Scottish Government will still spend something in the order of £50 million on fuel poverty and energy-saving measures.

The answer to your question must also be placed in the context of our having our own programmes, which we will continue with—the

energy company obligation and the green deal. The ECO is, in effect, a replacement for the carbon emissions reduction target and, at the moment, we estimate the value of the CERT programme to Scotland as being roughly £100 million a year. We expect—especially if we get the secondary legislation right on the hard-to-heat homes and the related matters that we have just discussed—to get a much higher figure for Scotland under the ECO.

I will make two other points that I think are relevant. Neither the Scottish Government nor the previous Scottish Executive was ever involved in the discussions on the CERT programme and how it was designed. To be fair to the coalition Government—and to Chris Huhne in particular—we have been involved from day one in the discussions with it, and we have been heavily involved. We have two people working full time for us in the Department of Energy and Climate Change, one of whom is working exclusively on the ECO while the other is working on the green deal. We reckon that, through the replacement of the CERT programme with the ECO, we will end up substantially better off than we were under the CERT programme.

Rob Gibson: Thanks very much. That has covered that area.

Lewis Macdonald (Aberdeen Central) (Lab): I welcome Alex Neil to the committee. I want to follow up the convener's final question, which related to whether there are any additional benefits in chapter 3 of part 1 of the Energy Bill that are not in section 64 of the Climate Change (Scotland) Act 2009. Your answer was that the bill might give us a power to regulate the private rented sector, although we probably have that power anyway. My reading of the 2009 act is that it definitely confers on Scottish ministers the power to regulate the private rented sector. That being the case, what on earth is additional about the Energy Bill?

Alex Neil: I ask Norman Macleod to explain the legal niceties.

Lewis Macdonald: I am sure that, as a politician, you will then add a political take on them.

Norman Macleod (Scottish Government Directorate for Legal Services): There are significant areas of overlap. However, the main distinction is in the powers relating to the private rented sector, which are contained in two separate provisions that will do two things. One will enable local authorities to serve notices on properties requiring certain works to be done, and the other will enable tenants to make reasonable requests for landlords to carry out certain works. Both of those provisions will operate in the context of the

overarching green deal finance package. I understand that the provisions are to be viewed in that context and that that is why they are in the UK bill. Our provisions mirror the provisions in England and Wales.

Lewis Macdonald: So, those elements are not in the 2009 act. In your view, the local authority's power to serve a notice is new and is not implicit in that act.

Norman Macleod: The 2009 act requires owners in some circumstances to do assessments and to carry out steps that those assessments identify. I do not dispute that the powers are broad. Chapter 3 of part 1 of the bill specifically enables us to confer powers and duties on local authorities to serve notices that require steps to be taken and it also deals with tenants. The tenants provision marks a distinction. I have not discussed with anyone the context in which such powers would be used in a similar way, so I cannot talk about that.

Alex Neil: The important point is that the powers in the bill underline rather than undermine the 2009 act's powers.

Lewis Macdonald: Is it your view that the powers in the bill provide a formal shape, without which—I presume—the 2009 act's provisions would not operate?

Norman Macleod: The important point is that the powers in the bill are part of a package that relates to the green deal. Green deal finance is a key element of the private sector housing provisions and we must be able to tie into that. The purpose of the English and Welsh provisions is to enable people to build on the back of that. To mirror those provisions and to tie the general green deal legislation together, we will have additional powers to those in the 2009 act. If we do not have those additional powers, a discrepancy will exist between the powers that are available north and south of the border.

Lewis Macdonald: As a non-lawyer, I am struck that, although chapter 3 of part 1 of the bill contains a couple of new points, it rehashes at great length provisions that are on the statute book in Scotland. The minister said that he had been involved in the bill from the beginning, but it struck me that the bill's drafters had not read the Scottish 2009 act.

Alex Neil: I could not possibly comment on whether the drafters had read the 2009 act. We are not hung up on the issue. The provisions are another minor string to the Scottish Government's bow, but the 2009 act that the Parliament passed will remain the major piece of legislation that governs matters.

Lewis Macdonald: That is helpful.

You mentioned the repeal of HECA. It is clear from your opening statement that you are aware of the view that was expressed last week by, among others, Elizabeth Leighton from Scottish Environment LINK that if HECA is repealed, it should be replaced with a duty on local authorities to have a target for reducing emissions from the private housing sector and to report on progress on that. You said that you do not wish to create such a duty. What will be the consequences of that for the work that local authorities currently do?

Alex Neil: It is always useful to remind ourselves that HECA, which is 16 years old, placed a duty on local authorities to set targets—that was about it. I have checked how many local authorities set targets under HECA. Of the 32 local authorities, nine set targets and 23 did not set targets—they did not achieve targets, rather. That suggests that HECA is not particularly effective.

In recent years, the previous Scottish Executive and the current Government have placed importance on each local authority's local housing strategy and the guidance that is issued on that strategy. It is clear that such strategies and guidance are the driving force to determine levels of investment in housing in each local authority area.

On top of that, we have the Scottish housing quality standard, which every local authority and every housing association must achieve by 2015, on which they will spend an additional £1.5 billion over the next three years alone. Overall, the standard has been achieved in pretty well 40 per cent of cases, which means that it still has to be achieved in 60 per cent of cases between now and 2015. The average standard assessment procedure rating resulting from that investment is in excess of 7, so the Scottish housing quality standard is proving to be a much more effective weapon in achieving our desired objectives than HECA ever was.

Furthermore, as I will outline in the next few days, the view of the Scottish Government is that after we have achieved the Scottish housing quality standard for 2015, we should aim for a Scottish housing quality standard for 2020 that reflects the enhanced energy efficiency requirements. In any case, as you know, further changes will be made to building standards for new housing in 2013 and again in 2016. We believe that that total package of measures is far more effective than HECA, which, quite frankly, did not deliver.

Lewis Macdonald: Will you clarify the first part of that answer? Did you say that 23 local authorities did not set targets or that 23 local authorities did not achieve targets?

Alex Neil: I am sorry. Let me get my wording absolutely right: nine local authorities achieved the agreed target and 23 did not achieve it.

Lewis Macdonald: So, they were all working to targets and some did better than others. I presume that that would be true of guidance, too.

Alex Neil: Nine out of 32 does not represent a very good record.

Through the local housing strategies, there is much closer monitoring. Especially now that we have reinstated the subsidy for council housing, we have a very positive dialogue with councils about energy efficiency standards. The Scottish housing quality standard, which was set by the previous Scottish Executive for 2015, is clearly driving up SAP rates far more quickly and effectively than anyone expected. The average SAP rate on the houses that have been completed for the quality standard is 7.2.

Lewis Macdonald: I come back to HECA and the issue of targets. I have a particular interest in the situation in Aberdeen. Later today, SCARF will conclude its schools calendar competition for schools in the north-east of Scotland, here at the Scottish Parliament. That agency and the good work that has been done in Aberdeen over many years have their origins in HECA, because the targets and the enabling work that came from it allowed progress to be made.

As another witness at last week's meeting said, there is a real concern that if a statutory duty is not put on councils, councils that find themselves struggling to fund the meeting of their statutory duties—I suspect that Aberdeen City Council is a classic example of such a council—will not do things that are no longer statutory duties, so will repealing HECA and not replacing it simply lead to the removal of the requirement on councils to do something about energy efficiency?

Alex Neil: As we have seen with HECA, the existence of a statutory duty did not result in outcomes.

Lewis Macdonald: It did in Aberdeen and some other places.

Alex Neil: With all due respect, I recognise the importance of Aberdeen to the world economy, but we cannot decide policy for the whole of Scotland on the basis of what happens in one local authority area. We must look at Scotland across the piece: across the piece, HECA did not deliver. The local housing strategies, along with the guidance and the Scottish housing quality standard, are delivering far in excess of what HECA ever delivered. A superior system is now in place.

I thought that it was quite interesting that Norrie Kerr did not share some of the other witnesses' enthusiasm for HECA and, of course, he is the

director of Energy Action Scotland and a prominent member of the Scottish fuel poverty forum. I share his point of view.

Funding is available locally, as well. Just before Christmas, I announced an additional £1 million for local authorities to expand the energy efficiency programmes in their areas.

The fact is that what we now have in place in the local housing strategies, the guidance, the housing quality standard, the new building regulations and the new housing programme is getting results. The first time I opened a new housing development as a minister was in Dumfries. I remember that the lady who was the tenant in that house had moved from a two-bedroom old flat to a four-bedroom new house and her energy bills had gone down from £40 a week to £36 a month because of the standard of insulation in the new housing. That is getting results. With all due respect, HECA did not get results in Scotland. I recognise that it has had an impact in Aberdeen, but its replacement will do far more for Aberdeen and the rest of Scotland than HECA would.

11:30

Lewis Macdonald: I am glad that you quoted Norrie Kerr, because last week he did not say that we can scrap HECA and do nothing; he said that if we scrap HECA we should consider amending the legislation to set a tougher quality standard for housing. Do you agree with what he said last week?

Alex Neil: As I have just said, we have set a tough quality standard for 2015 and we will set a tougher one for 2020. We do not need to keep HECA to do that—that is the point. More than two thirds of those who responded to our consultation on the energy efficiency action plan did not think that HECA was important in promoting energy efficiency. That came from a lot of people who are professionally involved in the sector.

Marilyn Livingstone (Kirkcaldy) (Lab): My questions are on the green deal and fuel poverty. The minister will have looked at the evidence that the committee has taken. We have heard a lot of concern about the onus being on individuals to apply for the green deal. We have been told that energy companies and advice centres that promote the CERT programme are struggling to get people to take up grants, but there are concerns that fewer people will apply for the green deal. Friends of the Earth raised the possibility that the finance schemes that are made available through the green deal might be manipulated by unscrupulous developers, as has been the case with the feed-in tariff. That is the background to my questions.

Are you concerned that fewer people will apply for the green deal than apply for existing grants?

Alex Neil: The existing grants that we deliver will continue. As you know, our main programme is the energy assistance package, but we also have the home insulation programme and a range of other programmes, to which I have referred, that involve local authorities and other bodies. The important element in the energy assistance package is the independent advice that is provided by the energy advice centres, which are part of the Energy Saving Trust. When people contact the programme, they get advice on which tariffs to switch to, which suppliers provide those tariffs and what benefits are available. People tend to equate the programme with just the central heating element. That is stage 4, but a lot goes before that, and that will continue. The independent advice role of the programme will be to give consumers independent advice, with no axe to grind, about the green deal, the ECO and everything else. We will continue to fund that work.

We must be clear about the distinction between the ECO—which in effect replaces the CERT programme and the community energy saving programme—and the green deal. The green deal is not a replacement programme; it is an entirely new programme that has never been tried before. I am not saying that if we had control of all those issues in the devolved Parliament we would necessarily have done things in the same way, but that is the reality that we are faced with. I want to ensure that Scottish consumers, and particularly tenants, get a fair share or more than a fair share of the money that is available under the green deal.

The system is not perfect, and there is clearly potential for some people to try and manipulate it, but it will be regulated. If there are any such problems, the regulators will be able to deal with them.

The added value of the green deal is that it is a completely new programme. Although it is private money, it is new money that is not available at the moment. The green deal is separate from the ECO, which replaces the CERT money. As I have said, I think that we will end up with a far better deal under the ECO than we have had under the CERT programme.

Marilyn Livingstone: You speak about the green deal being monitored. Will that be independent monitoring?

Alex Neil: Yes—there will be an independent certification and accreditation framework for green deal advisers and installers. Overall responsibility for monitoring all aspects of the programmes lies with the Office of the Gas and Electricity Markets. Consumer Focus Scotland and the Scottish fuel

poverty forum also monitor such things, and we monitor them to ensure that they are working well. Furthermore, we work closely with local authorities, the Energy Saving Trust, Energy Action Scotland and all the other stakeholders to ensure that, if there are any problems or if anybody is trying to manipulate things unfairly, those issues are dealt with quickly and robustly.

Marilyn Livingstone: I will be a bit parochial for a moment. The Greener Kirkcaldy initiative has a shopfront on the High Street where it promotes green initiatives and healthy eating. Like other groups, the initiative lives year to year. I would not like the green deal to replace proactive groups such as Greener Kirkcaldy, which have brought huge benefits, particularly in areas where there is fuel poverty. I would like to hear your view on that point.

When it comes to retaining such initiatives and supporting families who are in fuel poverty, will ministers keep responsibility for dealing with fuel poverty? There is a worry that responsibility could be shifted on to the companies involved. There is quite a concern about whether that might happen.

Alex Neil: It absolutely will not happen. I made it absolutely clear to Chris Huhne and his officials that we will maintain our Scotland-wide network of independent advisers and energy advice centres, which are run by the EST. Those centres are completely independent of the energy companies and of Government. They have no axe to grind for anybody other than the consumer and the people who seek their advice.

I take your general point about the need to adopt three-year spending across wide ranges of Government. Whoever forms the new Scottish Government after 5 May will undertake a comprehensive spending review for the three-year period from 2012, and I presume that they will adopt a three-year spending profile for fuel poverty and energy efficiency programmes.

The green deal will be very important for the Scottish economy. It is estimated that the green deal—new money and a new programme—will, together with other aspects of the bill, generate up to 100,000 new jobs across the UK. They are very welcome jobs, and Scotland should get something like 9,000 to 10,000 of them. We are in discussion with the companies—with one company in particular—about the need to expand training programmes to ensure that people who are currently unemployed or underemployed can benefit from the job opportunities. We want to match the job opportunities to places where there are higher levels of unemployment.

Marilyn Livingstone: We heard in evidence last week that the full impact of the recession will be felt by young people. Those of us who were

around during the collapse of the mining industry spoke about lost generations. That might be a cliché, but we do not want it to happen again in any way.

It has been suggested that we should be looking to create new jobs for young people in this area, with energy efficiency offering a way to get people back into work. Have you and your officials discussed that?

Alex Neil: Not only have we discussed it, but I will be announcing some initiatives along those lines within the next few weeks.

Christopher Harvie (Mid Scotland and Fife) (SNP): My natural tendency is to look not at the planned development of things but at the known unknowns and the unknown unknowns that might come out and bite us, notably, of course, the price of gas, oil and other fuel. I do not notice much in the way of provision for worst-case scenarios in the bill, even though we went through such a scenario in 2008 when the price of oil went up to nearly \$150 a barrel and we might be heading into another should the conflagration in Tunisia go through Egypt and into Saudi Arabia. Is there a fail-safe structure in any of this to cope with such a situation?

Alex Neil: Even the UK Government is limited in its influence over worldwide oil prices. After all, with the difficulties in Egypt over the past few days, we have seen the price of a barrel of oil go over \$100. That is good news for the Treasury, but not such good news for the rest of us. Irrespective of that policy, the fact is that no single Government—not even the United States Government—has any direct control over the international price of oil.

There is no doubt that in Scotland the level of fuel poverty has increased. Fuel poverty—under our definition, a household in fuel poverty is one that spends more than 10 per cent of its disposable income on energy costs—is influenced by three main factors, the first of which is the condition of the house. If the house is warm and centrally heated, and has good insulation and so on, that is good news. That is why the previous Scottish Executive and the present Scottish Government have invested heavily in programmes to improve the condition of existing houses in particular. New houses, after all, have to meet the new standards.

The second factor is the price of energy, over which we have no direct control—although I should point out that the UK Government can exercise power in that regard through Ofgem and that, as we know, a review is on-going.

The third factor is income levels, in which respect I have to say that I am very worried indeed about the impact of some of the benefit cuts that

have been announced. Although I share the objective of getting people off welfare and into work, how you go about doing that is important. I have made clear to Lord Freud, Iain Duncan Smith and others my concerns about the potential impact of, in particular, some of the housing benefit changes that have been announced.

My answer to your question, therefore, is that although we are living within a very tight, defined and fixed budget, not only are we talking constantly to our colleagues in DECC but we have submitted evidence to the Treasury and the Department for Work and Pensions on the issue of fuel poverty and the need to influence, where we can, prices downwards and incomes upwards.

Christopher Harvie: Another issue, though, is type of heating. I am a veteran of the storage blocks that we had back in the 1970s. It seems that, to a great extent, the power provision that we are expecting from renewables will be electricity. Of course, we have required heating over and above our requirement for well-insulated houses. What proportion of homes are currently heated by electricity, and is that situation likely to alter?

Alex Neil: At the moment, 85 per cent of houses have some form of central heating, which means that 15 per cent of homes do not have any.

I do not have to hand the exact figures, but the vast majority of central heating systems that are installed under stage 4 of the energy assistance package tend to be gas systems. I also do not have to hand a breakdown of the 85 per cent that I mentioned—indeed, I do not even know whether that information is collected centrally—but we will check it out and come back to you with some figures.

Christopher Harvie: It seems to me that, as we take more power from the North Sea, it will come in the form of electricity.

Alex Neil: Indeed.

Christopher Harvie: The question then is whether we put that power into hydrogen systems or whatever to be burned, or whether we think about reviving forms of electric central heating.

11:45

Alex Neil: Gas central heating is not an option in some remote rural areas and islands, so we have been very flexible about the type of fuel and systems that are used for the central heating element of the energy assistance package. We must recognise that a lot of people in some of the coldest and dampest parts of Scotland have access to the national grid but not to a gas supply that would provide for central heating. We have therefore been flexible.

At the same time, straightforward electric central heating can be very expensive. We are doing everything that we possibly can in our own programmes to ensure that in every case the central heating system installed is relevant and appropriate to the particular design, location and type of house of the individual who applies for it. We are talking about pensioners—particularly older pensioners over 75—and families with children under five or disabled children under 16. As you saw from my announcement yesterday, we have now extended the programme to cover people who are terminally ill.

Christopher Harvie: I have one final point. In Germany, they are experimenting with something called the ZuhauseKraftwerk—the power station in your own house—which is promoted by Volkswagen and a company called LiftBlick in Hamburg. It consists of a Golf engine that heats two houses, generates power and can be googled with another 200,000 of its type to produce base-load power. The experiment started just last year, but it is worth exploring. It is 90 per cent efficient.

Alex Neil: Our indigenous Scottish technology sector is doing exciting things as well. For example, I strongly suggest that the committee pay a visit to the eco-home that is sponsored by South Lanarkshire College and Dawn Homes. They believe that they can develop the house to the point at which the owner would not have to pay any energy costs because it would make a net contribution to the national grid and actually generate income.

Work is also being done in Glasgow with the Glasgow Housing Association eco-house, while Stewart Milne has a development that is based in Oxford but which applies across the country. There are many examples of new technologies. Whether from a housing or enterprise perspective, the Government's policy is to encourage as many of the technologies as possible and for them to be developed downstream in Scotland.

The Convener: I will follow up on the issue of electric heating systems before I bring in Gavin Brown. Where are we in relation to the permitted development rights for air-source heat pumps? The issue seems to be dragging on and on.

Alex Neil: I ask Archie Stoddart to bring us up to date on that.

Archie Stoddart (Scottish Government Directorate for Housing, Regeneration and Commonwealth Games): We fund air-source heat pumps under the energy assistance package when they fit in with the grant level. With our planning colleagues, we are developing approaches to some of the work around that—for example on noise testing, which adds to the cost. Rather than speak for my planning colleagues,

perhaps I can come back to the committee with a note.

The Convener: That would be helpful. The committee has been pressing for permitted development rights to be approved for microgeneration, including air-source heat pumps, since we published our energy report a year and a half ago—and more. It seems to be taking for ever to get that through the Government system.

Archie Stoddart: I will feed that back.

Alex Neil: We will get you an update—we will give it to the clerks, who can circulate it to the committee.

Gavin Brown (Lothians) (Con): I have just a couple of brief questions. I realise that you have answered a number of questions on HECA so far. In your view, are there any disadvantages or downsides to its repeal?

Alex Neil: Not particularly. I know that a lot of the people who want to keep HECA are arguing not for its retention as such but for much tougher annual targets to be placed on local authorities. Frankly, I do not think that that is a realistic proposition not only given local authorities' present financial position but for a number of other reasons.

We have to distinguish between the arguments on whether to keep or repeal HECA. HECA is now so ineffectual that we are comfortable with the repeal, but some of the people who have given evidence to the committee have not stopped at that debate. They are arguing not just for the retention of HECA but for HECA-plus—and it is a big plus. We do not agree with that plus, and we do not think that it is the right way to proceed.

Gavin Brown: To go back to the private rented sector, on which I appreciate you have answered a number of detailed questions, does chapter 3 of the bill impinge at all on section 64 of the Climate Change (Scotland) Act 2009?

Alex Neil: It depends how you define "impinge". There is clearly a relationship in the sense that they broadly cover the same area, but chapter 3 does not in any way undermine the operation of any aspect of the 2009 act.

Stuart McMillan (West of Scotland) (SNP): You said earlier that the Scottish Government would not necessarily have considered or fully progressed some of the proposals. What would you have done? What did the Scottish Government suggest that was ruled out during the current process and dialogue?

Alex Neil: Nothing was suggested and ruled out. I was simply saying that the green deal was very much a creation of the coalition in London, and that if we had total devolved responsibility for

all those matters in Scotland we may have done things slightly differently.

We are where we are. The green deal and the ECO—which may be a big improvement on the CERT programme—could be a big plus for Scotland, provided that the secondary legislation is drafted appropriately. I believe that Chris Huhne has given me an undertaking that the legislation will be appropriate, particularly in relation to hard-to-heat housing and fuel poverty in Scotland.

We have been pretty well satisfied with the outcome in relation to anything that we have asked for to date. The position can always change, but I do not anticipate that it will, because Chris Huhne is keen to accommodate the wishes not only of the Scottish Government, but of the Scottish Parliament. We hope that when we get the committee's report, it will strengthen our negotiating position with London on the secondary legislation.

The Convener: I will pick up on some of the issues that the Subordinate Legislation Committee raised in its report, which I am sure you have seen. The first point relates to the use of the affirmative procedure under clauses 53 and 56 of the bill. The Subordinate Legislation Committee suggests that, given the timescale for such regulations being put in place, rather than using just the affirmative procedure, some form of super-affirmative procedure should be used. Is there any reason why the Government could not agree to the use of a super-affirmative procedure in that respect?

Alex Neil: It is fair to say that we broadly accept the Subordinate Legislation Committee's points. The question for the Parliament is whether it would want a super-affirmative procedure. There are two important principles. First, the procedure should be affirmative, because that gives the Parliament a much greater say and more flexibility to change the position if it is not happy with what the Government brings forward. As you know, if we brought forward a negative resolution it would be very difficult to change any regulations other than by voting them down. Secondly, stakeholders and the committee must be consulted before any such resolution is brought to the Parliament.

I would not go to the barricades about whether the procedure should be super-affirmative or affirmative, but I believe—having sat twice where you are sitting, as convener of this committee—that those are the two fundamental principles. We must get the right balance between Government and Parliament by using the affirmative procedure and ensuring that the committee has the power—which it does—to ensure that the Government consults widely and properly and takes into consideration the views of stakeholders before it brings forward any Scottish statutory instrument.

The Convener: Thank you for that. The second issue that the Subordinate Legislation Committee raised relates to clauses 52(1) and (2). It seeks clarification of what sanctions are available other than a civil penalty imposed by a local authority.

Alex Neil: As you will know, we responded in detail to the Subordinate Legislation Committee's points. We said that the provisions are framed to allow flexibility around the sanctions that might be imposed, given that it will be some time before any regulations come in—the earliest date is 1 April 2015. It is not intended that the power to impose sanctions would include the power to create a criminal offence. The lack of an express provision to that effect reflects that intention.

The Convener: So you have no specific examples of the sanctions that might be included, other than civil penalties.

Alex Neil: We would certainly not be in favour of criminal penalties. However, given that the regulations are four years down the road, we would certainly welcome and give due consideration to the committee's views on the matter.

The Convener: Similarly, in relation to clauses 55, 58 and 71, we seek clarification on sanctions that might be available, given that the offences concerned are not criminal offences.

Alex Neil: Again, we have said that the provisions are framed to allow flexibility around the sanctions that might be imposed, given that it will be four years before the regulations come in. There is time for further consideration, because the detail does not have to be decided finally today. However, we would be against criminal sanctions.

The Convener: I have a final question, which is on fuel poverty. Concern was expressed in evidence that, under the green deal and other provisions, responsibility for fuel poverty might be passed on to energy companies. Can you clarify that your view is that that responsibility remains firmly with Scottish ministers?

Alex Neil: Absolutely. As I said earlier, our firm intention is to maintain our own programmes. Of course, once we have seen the shape of the secondary legislation, we may need to adjust some of our programmes to take account of the detailed implementation of the green deal and the ECO. However, it is our firm intention to retain the energy assistance package, our insulation programme and the other activity that we are involved in with local authorities and others. Certainly, there will be no privatisation in Scotland of fuel poverty programmes.

The Convener: Thank you for that clarification. That concludes this evidence session. I thank the

minister and his team for coming along this morning.

11:58

Meeting suspended.

12:02

On resuming—

Enterprise Network Inquiry

The Convener: For our next item of business, I welcome the Cabinet Secretary for Finance and Sustainable Growth to the meeting. I know that this is one of the quieter times of the year for the cabinet secretary, so I appreciate his taking the time to come to committee. I note that some members have lunch-time commitments and might have to leave early so I will try to take questions from those members as early as I can in proceedings. The cabinet secretary may make opening remarks and introduce his team and then we will open up the meeting to questions.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Thank you, convener. It is a pleasure to be here this morning. I am joined by John Mason, director of the Scottish Government business directorate, and Gary Gillespie from the office of the chief economic adviser.

The primary purpose of the Government remains to create a more successful country by increasing sustainable economic growth, with opportunities for all to flourish. It is vital that our economic development structures can maximise their contribution to that purpose.

We are in challenging times and it is essential that we give businesses in Scotland all possible support within the resources that are available to us. More than ever, we need to continue to work in strong partnerships, to strengthen links where necessary and to aim to provide the most efficient services that make a real impact.

Our economic development agencies and local authorities have a key role to play in supporting businesses across Scotland by promoting economic recovery and growth. It might be helpful if I reiterate the context and aims of the reforms of the enterprise networks that we introduced early in our Administration.

In 2007, we introduced reforms to help to meet our commitment to simplify the delivery landscape, to reduce duplication and to drive up effectiveness and efficiency in the delivery of economic development services in Scotland.

The work that was undertaken was to ensure that Scottish Enterprise and Highlands and Islands Enterprise had a renewed focus on enterprise development. To enable that to happen, we abolished the cumbersome and costly structure of local enterprise companies and enabled Scottish Enterprise and Highlands and Islands Enterprise to concentrate on interventions that would make

the most economic impact. We established regional advisory boards, led by the private sector with representation from local authorities, to provide regional input, influence and connectivity to Scottish Enterprise. We enhanced the role of Scotland's local authorities to enable them to support businesses in their areas, and we transferred funding for the business gateway and the local regeneration activities in the Scottish Enterprise area directly to them.

We also vested responsibility and funding for skills development and delivery in a new dedicated body—Skills Development Scotland. Our overall aim was to encourage and facilitate partnership and collaboration among key players who had a contribution to make towards achieving the Government's purpose.

The objective of the reforms was to deliver focus across the agencies and local government within the clear framework offered by the Government's economic strategy.

That clarity of purpose and strategic direction has provided a platform for partnership working and collaborative alignment. The Government believes that the reforms have been effective but, of course, we are looking—and will look—carefully at the committee inquiry's conclusions in that respect.

Before I conclude, I want to update the committee on an issue that I am sure will come up in questioning and which I know is of interest: the Scottish Investment Bank. Since my last appearance before the committee, Scottish Enterprise has obtained the necessary Financial Services Authority clearances and has relaunched its equity products under the Scottish Investment Bank brand. Demand for these equity products remains high, with the likely level of investment in 2010-11 being similar to the high level of the previous year.

I can also tell the committee that the Scottish loan fund is now in place and ready to do business. The procurement exercise to secure the services of an independent fund manager has been completed and I am pleased to be able to tell the committee that we have selected Maven Capital Partners UK as the fund managers for the Scottish loan fund. The appointment of professional fund managers will ensure that the fund is run on sound commercial principles, maximising the potential returns to the Scottish economy. Maven is a highly experienced fund manager headquartered in Scotland with established offices in Glasgow and Aberdeen and has committed to enhancing its presence in Scotland for the purposes of the loan fund by opening an office in Edinburgh and appointing a new representative in and for the Highlands and Islands. That will help to raise the Scottish loan

fund's profile across Scotland and to encourage maximum uptake among eligible small to medium-sized enterprises.

The fund complements existing SIB equity products, the UK enterprise finance guarantee scheme and the loan funds that many of our local authorities operate. I am also pleased to advise the committee that, thanks to an extra £2 million of European regional development funding, matched with a £3 million commitment from Highlands and Islands Enterprise, we have been able to add a further £5 million to the resources available to the fund, bringing the total public sector commitment to £55 million and further strengthening the loan fund's availability to eligible firms right across Scotland.

I hope that those details help the committee and am delighted to answer members' questions on either that issue or the other business.

The Convener: You suggested that the enterprise network reforms have been successful. What criteria have you used to judge that and what assessment have you carried out against them?

John Swinney: No formal evaluation has been carried out yet, convener. Indeed, in light of the evidence that the committee has taken, we need to give time for the reforms to bed down before any such evaluation is undertaken.

That said, after discussing the matter with individual companies and those who interact with the enterprise network through Scottish Enterprise, Highlands and Islands Enterprise or the business gateway, I get the sense that companies feel that the assistance and support that they have received has met their needs. Of course, this has all happened in a very challenging economic climate and in its on-going assessment of this policy area the Government will evaluate the results in due course. The committee's inquiry contributes to the process into the bargain. Moreover, a certain amount of public reporting of the enterprise agencies' performance has been assessed externally and is available for public scrutiny.

The Convener: Given that the reforms were introduced before the economic crisis started to hit, have you considered whether they have been appropriate given the changed economic circumstances? Do they actually address the new economic crisis rather than the situation in which they were introduced?

John Swinney: I can do nothing other than acknowledge that in 2007, when we undertook the reforms, the economy was buoyant and that, within 12 months, things were fundamentally different. I assure the committee that we did not have that in mind at the time. Instead, our

essential aim was to ensure that our enterprise agencies were very firmly focused on enterprise development and economic growth.

That focus was maintained in the circumstances that we then faced in 2008, when we still needed to deliver enterprise development and economic growth. We also needed to deliver a significant amount of support to try to sustain economic activity when individual organisations became more vulnerable. As a result, some of the work of Scottish Enterprise might have become less focused on the creation of new jobs in the marketplace—although that would clearly have been a desirable product of our reforms—and more focused on sustaining employment where it was challenged by economic conditions. The same would apply to Highlands and Islands Enterprise.

Decisions that we subsequently took as part of our economic recovery plan had big implications for both Scottish Enterprise and Highlands and Islands Enterprise—especially in relation to accelerated capital expenditure. Both organisations responded to that challenge very effectively.

As part of the economic recovery plan, Scottish Enterprise put additional resources into the Scottish manufacturing advisory service, to increase its capacity to offer advisory support to help companies through these difficult times.

When we undertook the reforms in 2007, the economy was in one set of circumstances; I cannot imagine circumstances in which, in 2008, I would have decided to unpick the reforms because of what had happened. We had to give the necessary focus and impetus to Scottish Enterprise and Highlands and Islands Enterprise. Both organisations responded positively and assertively to ensure that their interventions were commensurate with the economic conditions that we faced from 2008 onwards.

The Convener: I want to move away from consideration of the structures to consideration of the resources available to the enterprise agencies. Our work on budgets and in relation to this inquiry has demonstrated that, in real terms, the like-for-like budgets available to the enterprise agencies have been cut significantly—even before we take into account the impact of cuts in public spending. What is the logic behind cutting back the budgets available to the enterprise agencies, especially when we have moved into a time of economic recession?

John Swinney: The committee will know the details of a number of transactions that have changed the size and structure of the budgets. For example, there was the establishment of Skills Development Scotland, and the transfer of

responsibility for the business gateway to local authorities. However, on a like-for-like comparison, budgets have clearly fallen. Part of the rationale behind that—and I think that I have gone through this material with the committee before—is what else we are able to afford in offering support for business development in Scotland. The small business bonus scheme has been provided since 2007-08; in 2008-09, it was first introduced on a staged basis. The scheme has been one of our major contributions towards economic development.

The enterprise agencies have been required to operate more efficiently. Therefore, although the total sum of money available may have reduced, we expect the enterprise agencies to operate within their financial envelopes in a more efficient and focused manner. The way in which we have structured their responsibilities and remits enables them to do that.

The Convener: Scottish Enterprise claims that for every pound it spends, it gains a net additional impact of £8.80. Do you accept that as a reasonable assessment of the bang for the buck that it gets? If so, would it not make more sense to invest more rather than less through Scottish Enterprise?

12:15

John Swinney: The return analysis that Scottish Enterprise has shared with the committee, which relates to a global assessment of the organisation's work, certainly points to that. Scottish Enterprise's evaluation work now contains much more external verification of the components of activity within the organisation to support that assessment.

As you hinted in your opening remarks, convener, there are, among the issues with which I am preoccupied just now, always arguments for more money to be spent in particular areas. I acknowledge the committee's point in that respect. We have managed to focus our enterprise agencies by providing the resources that they require, and to take other business development interventions in the marketplace, which include our business gateway responsibilities and the small business bonus scheme. That gives us the set of interventions that are right and appropriate for the marketplace in Scotland today.

Lewis Macdonald: I will start by asking about regional advisory boards and the other mechanisms that were put in place after the local enterprise companies were abolished. One of the concerns that we have heard in evidence from around the country is that, in some respects at least, the abolition of the LECs has reduced the degree of engagement between Scottish

Enterprise and local communities and areas. What is your overall assessment of the effectiveness of the regional advisory boards that have been established within Scottish Enterprise since the reforms were carried out?

John Swinney: The regional advisory boards have been able to provide perspective on a regional basis—if there is no better term—to Scottish Enterprise. That ensures that Scottish Enterprise's knowledge base and interventions are focused appropriately according to the direction and drive of the Government's economic strategy, particularly where it relates to tackling the issue—with which Lewis Macdonald will be familiar—of regional disparity in economic performance. It ensures that Scottish Enterprise addresses such issues and has a formal mechanism for bringing feedback from the regional advisory boards to the heart of the organisation.

Beyond regional advisory boards, there is a Scottish Enterprise personnel presence in different localities, which is clearly connected to the company base and institutional base in Scotland, to ensure that the organisation is plugged in, if I may use that term.

Lewis Macdonald indicated in his question that there is a sense that connection with communities is diminishing. I would have to accept that point, but it is a product not necessarily of the abolition of the LECs, but of the fact that Scottish Enterprise is now focusing specifically on enterprise support and development. I accept that that is different from community development.

One element of the reforms, whatever one's view of their merits, was to provide that focus. I accept that there is probably a reduction in community engagement, but that is a product of the strategic decision that ministers took to ensure that Scottish Enterprise was much more of a company and enterprise development support organisation, as the committee has heard about in evidence.

Lewis Macdonald: That is very interesting. It is clear that even after your reforms, you recognised a different role for Highlands and Islands Enterprise—

John Swinney: That is correct.

Lewis Macdonald: —in connection with the matter of community development, as you appropriately describe it. Highlands and Islands Enterprise has taken a different route. At the outset, you indicated that regional advisory boards would be established in the areas of both enterprise agencies, but HIE has chosen not to do that. Was that decision taken in discussion with you? Did you approve it? What is your understanding of the reasoning for a different

approach in the Highlands and Islands from in the rest of Scotland?

John Swinney: That approach was approved by ministers. In a sense, it was based on an understanding of what was the most effective way for Highlands and Islands Enterprise to pursue that distinctive part of its remit, which I made clear in 2007 the Government had no intention of interrupting. We recognised that it still had a significant role to perform.

I do not have the empirical evidence to reinforce this point, but my sense is that Highlands and Islands Enterprise is involved in more community-development-type activities at a local level. Stòras Uibhist strikes me as one example, as HIE has been immersed in the excellent work that is going on there. Scottish Enterprise would not ordinarily be involved in such activity because of the differences of circumstance and remit.

Lewis Macdonald: Again, that is helpful.

In the Scottish Enterprise area, there appears to be evidence, or at least views among stakeholders, that some regional advisory boards and structures are more effective than others. Equally, we have heard many times from witnesses that local authorities are variable in their performance in undertaking the responsibilities that they have taken over from Scottish Enterprise. Is that your view? Do you have any concern that, where there used to be a fairly consistent level and structure of local enterprise companies across the country, there are now inconsistent and variable levels of engagement by business through regional advisory boards and by local authorities with local economic development issues?

John Swinney: I do not share the analysis that assumes that the local enterprise companies gave an assured level of consistency around the country. That is one reason why the Government undertook the reforms: we did not believe that that was the case.

There were two other components of Mr Macdonald's question. On local authorities, one of the strategic objectives of the reform process was to enact in practical reality its purpose of focusing Government and public services on increasing sustainable economic growth—and I labour the focus on Government and public services. My feeling, which was one driver of the 2007 reforms, was that local government had been discouraged from seeing itself as a player in economic development in Scotland. The message had been given out prior to 2007 that economic development was for Scottish Enterprise and not for local authorities, and as a consequence local authorities were not part of the picture.

In my opinion, local authorities are fundamental to economic development in all of our localities. They are the planning authorities and generally the transportation authorities—in all manner of actions, including trading standards, they are players in economic development. I wanted to address that point and, in essence, re-engage local government in the process.

There are some excellent examples of how that has worked effectively around the country. Even in the time when they were discouraged from being economic development players, local authorities sustained economic development departments and worked assiduously on the issue. In the area that I represent in Angus, 10 years or maybe even longer ago, the local authority was pursuing economic development opportunities in China, much to lots of people's derision. My goodness, the county is now bearing the fruit of all of that sensible and patient investment.

The purpose of the reforms was to re-engage all local authorities. Will all local authorities be at a uniform level of performance and activity? I cannot say that they will, but I am certain that they have the opportunity to undertake activity and to fulfil their role and obligation in economic development.

On the regional advisory boards, the structure exists around the country and we expect business to be engaged through that channel as we would expect local authorities to be engaged.

Lewis Macdonald: Two weeks ago, I spoke to Lena Wilson about Aberdeen city and shire economic future—ACSEF—which acts as a regional advisory board to Scottish Enterprise for the region that I represent. You will know that I have been in correspondence with Jim Mather, among others, on the question of whom ACSEF is accountable to. In particular, I have been concerned about its taking prominent and active public campaigning positions in support of specific projects, of which Union Terrace Gardens is perhaps the most well known. Many of my constituents have raised with me the question of whom ACSEF is accountable to. Is it acting at the behest of ministers, Scottish Enterprise or local authorities? What answer should I give to my constituents who raise that question with me?

John Swinney: I intend no disrespect to Mr Macdonald, but I suspect that he could send them a folder of the answers that he has received to parliamentary questions on the subject over some time. Many of those will answer the question. If my memory serves me correctly, a number of those questions focused on the role that Scottish Enterprise plays in particular examples such as the Union Terrace Gardens development, what level of commitment was given and what the role of ministers was. All those questions were answered fully and properly to clarify that ACSEF

would not have operated in that scenario as an agent or representative of Scottish Enterprise. It has operated as an organisation that is focused on future developments in the north-east of Scotland. Yes, it doubles up as a regional advisory board, but Scottish Enterprise had a pragmatic question to consider. Given that the organisation already existed to bring together the local authorities, the business community and various other players in economic development in the north-east of Scotland, would it have been credible for Scottish Enterprise to come along and say, "We can't use that one—we're going to have another one with a Scottish Enterprise badge on it"? That would have exposed Scottish Enterprise to a fair amount of criticism and people would have asked why it did not use the organisation that was already there. It was a pragmatic decision.

I understand the concerns that Mr Macdonald is expressing. However, I hope that, in answering his parliamentary questions and correspondence, ministers have given clarity and reassurance about who has been doing what in that specific case.

Lewis Macdonald: It is interesting that, when I put a similar question to the chief executive of Scottish Enterprise, her response was that her accountability for the regional advisory board—ACSEF—is limited by the fact that ACSEF plays another role as a local economic forum, although local economic forums ceased to exist at the same time as local enterprise companies ceased to exist. Is there something about the way in which ACSEF is constituted that might create real difficulties if, for example, an issue of accountability had to be pursued but there was no clear owner of responsibility for the actions of the organisation?

John Swinney: I am not sure that I understand the scenario that Mr Macdonald is painting. Let us take financial accountability, for example. Financial accountability is clearly and unreservedly the property of the chief executive of Scottish Enterprise as the accountable officer for Scottish Enterprise. ACSEF would have absolutely no jurisdiction over any of those questions or the decision making in that respect. I hope that the answers that Mr Macdonald has received to his parliamentary questions have made that clear. Accountability for ACSEF's public campaigning stance on Union Terrace Gardens, however, is a matter for ACSEF.

I am struggling to see where the confusion might have arisen, other than—I concede—if Scottish Enterprise had seen this ACSEF architecture in place in the north-east of Scotland and had said, "Look, we can't have that as the regional advisory board. We'll have to create a new one." That would have been a recipe for

confusion and Scottish Enterprise would have come in for a lot of criticism for not just taking a model that was already in operation. However, to be fair to Scottish Enterprise, I recall that, in my 2007 statement to Parliament on this very issue, I specifically mentioned ACSEF as an example of the type of voluntary collaborative dialogue that we wanted to encourage. Perhaps that is where much of this has developed.

12:30

Lewis Macdonald: I want to ensure that I have fully understood the position. You said that accountability for a particular policy position is a matter for ACSEF; however, ACSEF has a locus within the public sector for which you are responsible. In some respects, you appear to be saying that responsibility lies with individual members. However, the funding that they get is all public money, much of which you are ultimately accountable for.

John Swinney: Yes, but that money will be spent with the consent of various accountable officers in the public sector, who will have been satisfied that the expenditure is appropriate. I see no issue with financial accountability in that respect.

If I understand Mr Macdonald's point correctly, he seems to be talking about accountability for statements, comments, stances and positions. In that respect, ACSEF cannot put out a statement saying, "Scottish Enterprise believes this or that," because it is simply not empowered or entitled to do so. However, I am pretty certain that, as a body, it has said, "We think that there should be an Aberdeen western peripheral route." That is an ACSEF statement for which its chair, officers and members are responsible. As their name makes clear, regional advisory boards play an advisory role; they do not make decisions. As a result, they are very different from LEC boards, which had operational and financial decision-making powers up to a certain level, with any decisions beyond that level referred to the Scottish Enterprise board. ACSEF does not have that type of responsibility.

Lewis Macdonald: That was very helpful.

Rob Gibson: Good afternoon, cabinet secretary. Although we have heard evidence of gaps in business support opening up between the gateway arrangements and account-managed companies—indeed, one witness described the situation as a "support wasteland"—Scottish Enterprise has said that it does not recognise that situation. Given the importance that is attached to business support, which—as you said earlier—is central to the Government's economic strategy, are you sure that all businesses that are eligible for assistance are able to access it?

John Swinney: I am satisfied on that point, but I would also be concerned by evidence to the contrary. There might be an issue about the perception of what the business gateway can and cannot do; it is the point of contact that is available in all parts of the country to all companies that are looking for business development support. Perhaps I can share some figures with members. In 2009-10, for example, the business gateway helped 11,000 individuals to start up businesses and more than 10,000 people attended events that were aimed at existing businesses. Moreover, it receives between 2,500 and 3,500 inquiries every month from existing and start-up businesses. I simply reiterate to the committee its accessibility to all companies.

Beyond that, we must be satisfied that companies that emerge through the business gateway can, if they are growth companies, be signposted to obtain more in-depth support from Scottish Enterprise or Highlands and Islands Enterprise. I have come across the misconception that only big companies are account-managed companies. I reiterate that they are not all big: some very small companies are account managed because they are growth oriented.

The model that is in place, which makes the business gateway and its services available to all companies, is an important facet of the system. If it is not widely understood, we have a challenge to convey that to people. If the committee has observations on that, the Government will respond positively to them.

Rob Gibson: The view might well be that the response is patchy. In the Highlands, where I work, people understand the gateway's role more, but that is not the case in other instances.

John Swinney: I took a decision in relation to the Highlands and Islands of which I was persuaded by local authority leaders in the Highlands. That decision was not my original plan. I had intended to contract out the business gateway service, as happened in the Scottish Enterprise area, but Highlands and Islands local authorities made a strong pitch to me to align the service with their economic development proposition. They presented a strong proposition, and that is what we went for.

I was in Inverness some time ago to launch the joint service between Highland Council and Moray Council that is provided in Inverness, with a satellite operation in Morayshire. That involved great enthusiasm from and engagement with the business community. That model might have something on the virtue of alignment that needs to be examined closely; that can be considered in due course.

Rob Gibson: One issue is the HIE approach to very local account-managed communities. I will focus on a point that has been partly mentioned. I presume that, if no growth is happening, any growth is measured as high growth. A general point is that development officers can be appointed in account-managed communities in HIE's area. We have had evidence that considerable areas of rural lowland Scotland have not benefited from that approach, but could be helped by filling the gap in support for communities in rural areas and providing the business opportunities that arise from that, whether for third sector or commercial businesses.

John Swinney: I return to the point that I discussed with Lewis Macdonald. A challenge relates to the focus that we gave Scottish Enterprise. I accept that one consequence of that focus is that Scottish Enterprise was clearly made into an enterprise development organisation and not a community development organisation. Other aspects of the Government's agenda would focus on community development—local authorities are massive players in that process, into the bargain. The situation is a consequence of strategic decisions that we made. We will get feedback on whether those decisions were absolutely correct. I have described what we aimed to do and what our thinking was.

Rob Gibson: So, you are looking for evidence to suggest that some parts are not gaining the same access to support. The provision of business support seems to vary across the country.

John Swinney: On business support, I will obviously consider the evidence from the committee's deliberations—I have seen some of it already—but the business gateway contract should provide the reassurance that, in every part of the country, there is access to the business gateway service. If that is not the case, we have an issue about contract performance, not contract design and I would, of course, examine that.

Rob Gibson: Will there be a review of the success and performance of the business gateway in the near future?

John Swinney: That will happen in the relatively near future, and probably in the very near future. There is a discussion on development of the business gateway on 22 February, hosted by the Convention of Scottish Local Authorities and involving all relevant stakeholders. Now that I think about it, I believe that I will actually be attending that. That is nice to know—a bit of forewarning. The business gateway Scotland board has commissioned an economic impact evaluation of the business gateway, which is due at the end of February 2011. The contracts are up for reconsideration in 2012, so all of that will be examined.

Rob Gibson: Can the committee expect any response from you on the outcomes, at least in top-line terms, of the discussion on 22 February?

John Swinney: I would be delighted to write to the committee on that. I am not sure what the timescale for the committee's report is. Obviously, the committee will wind up its inquiry fairly shortly and produce its report. Once we have the feedback from that event and we have had a chance to consider the committee's report, it would be helpful if we could give some form of response to the committee before dissolution, which would allow the issues to be considered after the election in May.

The Convener: On contract renewal, what process do you envisage in considering whether changes to the basis of the business gateway contract are required?

John Swinney: We have not yet explored that question. The contract is up for renewal in October 2012, so we have some time to go before we come to that process. The evaluation work that emerges from the exercise that will be done in February, plus the thinking from the committee, will help to form the approach that is taken to the business gateway after the election.

Gavin Brown: You said that a formal evaluation of the reforms has not yet taken place. When is the appropriate time for a Scottish Government formal evaluation of the 2007-08 reforms?

John Swinney: Four to five years feels to me to be about the right sort of time.

Gavin Brown: There has not been a formal evaluation, but has there been any interim evaluation or any more detailed work that you can talk to us about now, or furnish us with information on after the meeting?

John Swinney: Nothing formal has been done, but one aspect of the reforms that I introduced was the establishment of the strategic forum, which meets a number of times a year and which brings together the chairs and chief executives of Scottish Enterprise, Highlands and Islands Enterprise, VisitScotland, Skills Development Scotland and the Scottish Further and Higher Education Funding Council with me, the Cabinet Secretary for Education and Lifelong Learning and the Minister for Enterprise, Energy and Tourism, as well as senior Government officials. The purpose of that gathering is to take stock and to challenge where we are in implementation of the enterprise network reforms. Obviously, the reforms had a spillover effect on Skills Development Scotland's work, and the funding council is integral to much of the skills and training development work that goes on with Skills Development Scotland. We use that forum to revise any ways of working and approaches that we take and to

guarantee that we continue to monitor the effectiveness of the reforms.

12:45

Gavin Brown: From that forum, or from your own thoughts independent of it, are there areas where you have been disappointed with the reforms or where you think that issues need to be resolved?

John Swinney: I am concerned by the point that Rob Gibson made about people feeling left out. I cannot see anything in the architecture of the enterprise network reforms that makes that inevitable, but if there is, we need to tackle it. I am concerned about that, because I do not want Scotland's company base to think that there is nowhere for it to go to get support and advice. That is not the objective. If there is an issue to be explored there, we would certainly explore it.

On implementation of the reforms, I thought that Scottish Enterprise dealt with a significant amount of upheaval in a relatively short space of time and that there was relatively little disruption to Scotland's business base. Both Scottish Enterprise and Highlands and Islands Enterprise should be complimented for the way in which they undertook these significant structural changes. We are all familiar with the fact that structural changes can create a lot of uncertainty, but that has been avoided.

Gavin Brown: I come back to a matter that you mentioned in your opening statement. I am sure that you would be disappointed if I did not ask you about the Scottish Investment Bank. I think that you used the expression that the Scottish loan fund is "ready to do business." If companies approach me or other committee members after hearing about the fund, where should we advise them to go to find out about eligibility, to get a copy of the guidelines on how the fund would operate and, ultimately, to get an application form?

John Swinney: Companies would get that information from Scottish Enterprise.

Gavin Brown: So, if they went to the Scottish Enterprise website today, they would be able to get all that information.

John Swinney: My understanding is that people will be able to obtain information about the Scottish Investment Bank to start the process of applying for support through the Scottish loan fund. Would they get a decision this afternoon? Of course they would not, because there is a due diligence process.

I shared with the committee some of the details of the role of Maven Capital Partners. The fund has to be operated on sound commercial principles; it has got to deliver a return to the

Scottish economy. Not everybody who goes to it will get support, but with the appointment of the fund managers, we are now in a position to take another step forward.

I think that Mr Brown is familiar with my responses on this issue. The process has taken longer than I would ordinarily have liked it to take. One lesson that I have learned from my time in ministerial office is that procurement is a long process—procurement of this type of service is an even longer process. That is why it has taken so long, but the fund managers are in place and are eager to pursue the issues.

Marilyn Livingstone: Good afternoon, cabinet secretary. I will ask about the role of Skills Development Scotland because, as you have pointed out, the reorganisation has certainly had an impact on it. I am aware that a lot of hard work has gone into Skills Development Scotland and that it has many excellent staff and a committed chief executive. There is no question about that. However, there seem to be issues about how joined up it is with the various agencies and how it is fitting into the landscape. Do you believe that Skills Development Scotland has established itself as the leading public body in its field?

John Swinney: I think that it has done that, although there is a distance to go before Skills Development Scotland is acknowledged as the key player in that respect. SDS is not my ministerial responsibility; I will do my level best to give the committee the answers that it deserves, but if I have to write to the committee on the point I will do so timeously.

Many people's view of Skills Development Scotland will be more influenced by the service that they access than by their knowledge of what SDS is. I suspect that an individual who wants to take up a modern apprenticeship is probably not particularly fussed to know that that happens through SDS; they just want to know that they can get an apprenticeship. That is key. In that respect, SDS has a good track record on take-up of modern apprenticeships during the past couple of years. It has presided over more than 20,000 modern apprenticeship starts. That is my sense of the organisation's role and how it should be perceived.

Marilyn Livingstone: SDS noted that a number of bodies retain a role and responsibilities in relation to aspects of skills training and development, including local authorities, the business gateway, the Scottish Further and Higher Education Funding Council, the sector skills councils and so on. The landscape still seems quite cluttered to people. How will the relationship with SDS, Scottish Enterprise and Highlands and Islands Enterprise develop, particularly given the removal from your portfolio of the skills agenda?

John Swinney: My answer to your question is largely contained in what I said about the strategic forum that we have established, which brings together the chairs and chief executives of the five relevant bodies. In the context of your specific question, the two bodies that are most directly affected are the Scottish funding council and SDS. The forum includes not just me but the Cabinet Secretary for Education and Lifelong Learning, who has responsibility for SDS.

If you were to marshal and put in front of me evidence that there is a lack of joined-upness between SDS and the Scottish funding council, I would be concerned and I would be happy to address the issue: the strategic forum's purpose is to tackle such issues and to ensure that, for example, the funding council is not active in an area in which SDS is active, with neither body knowing what the other is doing. We want to encourage a joined-up approach to activity.

You asked about an overlap between, for example, the sector skills councils and the business gateway. I do not think that there will be an overlap with the business gateway. The sector skills councils have a different role, which I understand is, in essence, to gather market intelligence from the sectors about the skills training and skills development that the market demands, and to feed that information into public policy. I suppose that the councils are an intelligence and information gathering resource. Their activity is driven by businesses, which is crucial, because I want the business community to be able to articulate, in a focused way, the type of skills that they need but cannot get.

An example that will be close to Marilyn Livingstone's heart is Burntisland Fabrications. I am not sure whether BiFab has been involved with the sector skills councils, but as a result of all the current discussion, modern apprenticeships will be provided for people who want to work in renewable energy developments, which is material to BiFab. I do not know whether BiFab had to tell the sector skills council about that requirement, and whether the council then told Skills Development Scotland, but BiFab is an important example to illustrate that companies are able to ask for, for example, more renewable energy apprenticeships because they do not have enough people with those skills, and then they are provided.

Marilyn Livingstone: The cabinet secretary has been very kind to provide me with an example, and I might be able to do so, too. You asked whether I know of things that are not working in a joined-up way. We visited OPITO, the oil and gas academy, in Aberdeen, and the people there spoke to us about the time of the demise of the shipbuilding industry, when the workforce from

that industry got top-up skills and were then able to work in oil and gas. They suggested that we need to move oil and gas people into renewables. However, it is not possible for adults to do modern apprenticeships, because we do not fund them. We are missing a huge opportunity to move skilled people over into the renewables sector.

We are not training adult modern apprentices in the food and drinks industry either, and that is madness. Those are the people the industry is looking for, and representatives are speaking to Government about it.

Colleges have always been seen as a gateway back into work, particularly in times of recession, and as a huge driver to restart the economy. We must not lose a generation of young people. We received evidence last week about the recession hitting young people, but we are cutting college funding—there is a 15 per cent cut at my local college. Announcements are coming from the college sector about substantial cutbacks.

The Scottish funding council was going to announce cutbacks of 22 per cent in built environment courses. That includes planning. You have been before us saying that planning is important and that there are not enough planners. What are we doing? I wrote to the minister, and that training has been halted—I say that wearing my cross-party group on construction hat. That makes me ask where the joined-upness is. I am not blaming Skills Development Scotland for this, but we are not getting it right. There are young people who will not be able to get college places, there are adults who will not be able to undertake modern apprenticeships, and there are cutbacks to courses that the Parliament wants to promote—in planning, for example, where the interventions of politicians have been stopped.

I do not know whether that gives you a flavour of how frustrated I feel, but there is still clutter in the landscape and people are still confused. It was a huge mistake to remove those areas of skills and learning from your remit. I could bore you for a week about this if you want—but that might do.

John Swinney: Marilyn Livingstone would never bore me on this subject. I acknowledge the passion with which she speaks on these issues, and it is not something new—I probably heard it at the first meeting of the Enterprise and Lifelong Learning Committee in 1999.

I do not think that the material that Marilyn Livingstone has just cited is evidence of clutter, or of duplication or overlap. It is all about the challenges that we have to face in a difficult financial climate. The point has been made about college places. The Cabinet Secretary for Education and Lifelong Learning has made it clear, through discussions with its representatives,

that the college sector has agreed to protect college places from this year to next year. Specific decisions are taken about where we train people, and we have to get those judgments right. There is no point in training people in areas of economic activity where the market does not want them. That goes back to my point about getting feedback from sector skills councils. There is absolutely no point training people for jobs for which there is no demand in the marketplace.

I will feed back to the Minister for Skills and Lifelong Learning the points that Marilyn Livingstone has raised with me about the movement from oil and gas into renewables and about adult apprenticeships.

13:00

On training places, there were 36,485 training place starts in 2009-10 under the umbrella of Skills Development Scotland, and the projected figure for 2010-11 is 40,950 starts. Clearly, we will go into more difficult territory in 2011-12, but the agreement that the Cabinet Secretary for Education and Lifelong Learning has reached with the colleges about protected places should give the committee some assurance on that question. The strategic forum operates very effectively in creating what I think is a very good level of co-operation between the agencies and organisations. The funding council and Skills Development Scotland are sort of in the same area in many of their decisions, but they are making their decisions jointly in a much more cohesive fashion.

Marilyn Livingstone: I am impressed by the enthusiasm of SDS staff, so that is not what I am criticising. However, we heard in evidence last week that the recession will impact most profoundly on young people. None of us around this table wants to see the reoccurrence of a lost generation, but we see evidence of problems in that regard in our own constituencies. Some of the issues that we have been discussing will obviously have an impact on that. However, we heard last week that we need to address many issues around our built environment, and issues such as renewables and allotments were also raised. Some of the fuel poverty people said that we have an opportunity not just to train as we have been doing but to look at what skills are needed for other areas and to provide the training and build skills for young people to give them hope for the future.

John Swinney: I agree with that unreservedly. Part of the decision making on the budget was designed to create the chance for young people to find positive opportunities either to develop their skills or to find employment. I assure Marilyn Livingstone that that remains my focus as I work to

secure agreement on the terms of the budget in the course of the next seven days.

Marilyn Livingstone: Do you feel that the reforms of SDS went far enough? Do you believe that further consideration should be given to the rationalisation of workforce development responsibilities?

John Swinney: If Marilyn Livingstone will forgive me, I am not familiar with the other landscape that will be in place. However, Skills Development Scotland is now up and running and functioning as an effective organisation. I would be happy to consider suggestions regarding other areas where we can rationalise and build so that we can concentrate as much resource as we can on achieving the priorities—which Marilyn Livingstone set out—of college places, training places and training opportunities. The more we can simplify the landscape to maximise the resources that are deployed, the better. If the committee reflects on that in its report, the Government will consider it very sympathetically.

The Convener: You asked for specific examples of a disjointed approach. You will probably recall the discussions last year in relation to Siemens and the attempt to get funding for places at Carnegie College. That is a classic example of where it all seemed to go wrong. The college, SDS and Fife Council were all involved, and I presume Scottish Enterprise was, too. In the end, the organisation out of that lot that probably had the least responsibility for the issue—Fife Council—picked up the bill; otherwise the attempt would have failed. The question of what went wrong there should be addressed.

John Swinney: I recall the example, but I cannot remember all the details. However, I remember it being slightly more complicated than that. I shall go and refresh my memory on it.

The Convener: How much more complicated do you need it to be?

John Swinney: As I said to the committee, if there are examples of a disjointed approach, I will be concerned about them and want them to be resolved. We have the mechanisms in place to do that through the strategic forum.

The Convener: I am not talking about the strategic level; it is more about something going wrong and not being sorted out at the local and regional level.

John Swinney: I use the strategic forum as an abbreviation for saying that all the players should be able to sort out such issues. I will re-acquaint myself with the circumstances of that case.

Stuart McMillan: I am going to ask a few questions about local regeneration. The committee has heard from a range of witnesses that the

process of transferring the regeneration role and its responsibilities has been at best incomplete, or has not actually happened. Last week, witnesses advised that the funding of regeneration needs to be combined with building local capacity. Dr Ian Wall stated that one definition of regeneration is that it is “about people, not things”.

Cabinet secretary, we have had discussions about regeneration in the past, and I have posed questions about responsibility clauses in regeneration projects in particular. The evidence that we have received has been inconclusive. How effective have the 2007 reforms been in relation to the responsibility for regeneration? You mentioned that there has been no evaluation of the overall reforms, but has any type of evaluation been done that focuses on regeneration? Were the financial resources transferred to Scottish Enterprise as planned?

John Swinney: To address the philosophical point about the purpose of regeneration, one of the key points in the First Minister's foreword to the Government's economic strategy says:

“Scotland has real strength in the most vital factor for modern economies - the human capital offered by our greatest asset, Scotland's people.”

I use that example to agree with Mr McMillan that investment in people and ensuring their ability to be economically active and to contribute to our society lies at the heart of what the Government is trying to do. I have cited the Government's purpose as being to focus Government and public services on increasing sustainable economic growth. In that relationship, we have to focus the different public authorities on the work to transform the human capital of Scotland. It is not enough to rehabilitate places; we have to create opportunities for people, and they have to have the skill and aspiration to be economically active.

That will be a product of a range of interventions. For some individuals, it will be about taking a college course. For others, it will be about trying to re-engage them with what we would all ordinarily consider to be the relatively routine aspects of life. People who might be recovering from addiction or mental health problems have a long journey before they can get anywhere near the labour market. We have to make interventions that are focused on the individual so that we can assist them in that journey. For someone who has the acute needs that I have talked about, complex arrangements will have to be put in place.

On the physical aspect of the issue, around the time of the enterprise network's reform, there was a discussion that classified the regeneration role between the local, the regional and the national. The national regeneration projects were clearly the responsibility of Scottish Enterprise's economic regeneration projects. The local projects were

clearly the responsibility of local authorities, and a transfer was made to the local authority block grant. In the middle, there were what could be called significant local or regional regeneration projects, which were supported either by urban regeneration companies or through specific decisions taken project by project by local government and Scottish Enterprise.

As for how it is working, a structure has now been established. As I said in response to Mr Brown, there is a time and a place to review that, but I do not think that it is quite that time.

Stuart McMillan: Evidence that we have received suggests that the distinction between national and local regeneration has not been fully understood. Do you agree with that view? Do you have any plans to ensure that that distinction is made clearer?

John Swinney: If it is sensed that there is a lack of clarity around that, I will certainly examine the issue. I feel that the definition is reasonably clear, but if different participants do not think so, we will, of course, revisit the issue.

Stuart McMillan: Urban regeneration companies are very much a topical issue, especially with regard to the budget process. I know that you have received a lot of correspondence on them; indeed, you will have received correspondence from me on Riverside Inverclyde. I am not going to ask how discussions are going with other parties—I am sure that we will find that out in due course—but I have certainly requested a meeting with you and Alex Neil to discuss Riverside Inverclyde.

I have a number of concerns, one of which is the language that has been used about URC funding. For example, an article in one of yesterday's newspapers took a divide-and-conquer approach and sought to pit one area against another. That stands very much in contrast with last week's debate on proposed coastguard station closures, in which members across the chamber talked about standing united and working together and tried not to pit one place against another. I am certainly disappointed with some of the language that has been used in the media.

At the end of the day, a substantial cut has been proposed to the regeneration budget. I realise that the Scottish budget is to be cut by £1.3 billion but, in areas such as Inverclyde, companies such as Riverside Inverclyde are trying to promote their areas and ensure that progress happens in them. Given Alf Young's comments in *The Herald* that there has been a lack of investment in Inverclyde for 20 years, I am concerned that if funding is reduced by the reported 70 per cent, Inverclyde will suffer over the next five to 10 years and beyond.

John Swinney: I am afraid that I am not familiar with the comment in the media to which Mr McMillan referred, but I am happy to check up on it and see what has been said.

Stuart McMillan: It was in yesterday's *Evening Times*.

John Swinney: Right—I will go and have a look at that.

Since 2006, Scottish Enterprise has invested £17 million in Clyde Gateway and, since 2007, £7.1 million has been invested in Clydebank Re-built, £12.3 million in Riverside Inverclyde and £7.95 million in Irvine Bay Urban Regeneration Company, so it is clear that over the years a lot of expenditure has been made in this area. As currently constituted, the 2011-12 funding proposals include a commitment by the Government and Scottish Enterprise to invest £25.4 million in urban regeneration companies: £18.1 million for Clyde Gateway, £2.9 million for Riverside Inverclyde, £2.9 million for Irvine Bay and £1.5 million for Clydebank Re-built. Funding will continue to be made.

I am aware of the concerns that exist on the issue and I am actively considering them. I am working to resolve the concerns that have been expressed to me, including the representations that Mr McMillan has made.

13:15

Stuart McMillan: I am happy to meet up with you outside the committee to discuss the matter further, if that is possible.

John Swinney: I am happy to do that. In addition to the URC funding issue, the relevant minister, Alex Neil, has made it clear that the Scottish Government will support new models of regeneration, including through the £50 million joint European support for sustainable investment in city areas fund. That will provide an opportunity for URCs to be involved in the process. As I say, I am actively considering and exploring the issue, and I would be happy to discuss matters further with Stuart McMillan and others.

Stuart McMillan: I have one final point. I know that you have been down to the Inverclyde area on a number of occasions. If you go there over the next month or so, you will see for yourself the progress that Riverside Inverclyde has made and the benefits that it has brought to the local fabric and the local community. I am sure that that would give you a better understanding of the importance of Riverside Inverclyde to the Inverclyde economy.

John Swinney: I certainly understand the significance of the work that goes on in Riverside Inverclyde and I have appreciated that for some

time. I will consider the points that Mr McMillan raises.

Christopher Harvie: Back in April or May, we went to Brussels and Aberdeen. Part of the reason for our going to those places was to look at enterprise agencies and other agencies that promote trade in those areas. We found that in Flanders—not Belgium; one must be careful about that—the concentration on trade, because of the size of Antwerp, was the great motive force there. When we went to Aberdeen, however, we found that the various people concerned with offshore activities from orthodox oil extraction and supply to renewables were worried by the absence of any single door that they could go through for economic development. I wonder whether, in reflecting on the future of the enterprise agencies, we might pay some attention to the elephant in the garden that is renewables. Do we require some sort of co-operation between the agencies or some co-ordinating body—I hesitate to suggest a new agency—that would make it possible to tap, from a Scottish perspective, that enormous and enduring accession to our economy?

John Swinney: I will first make a general point about the committee's comparative work in looking at other agencies. We have our structures in Scotland, and they are what they are. Nevertheless, there are other structures in other parts of the world, and we should be open to determining whether, comparatively speaking, we have all the right arrangements in place. It gives me comfort that the assessment of the effectiveness of Scottish Development International that is made not by us but by external players partly addresses the point that Professor Harvie makes about the importance of the internationalisation of business activity.

One key theme of the Government's economic recovery plan is the focus on internationalisation, in the process of which we are encouraging companies to take on new activities. A rising number of companies have been helped to internationalise, although the company base is still relatively small. The number of companies was 836 in 2008-09 and 909 in 2009-10. We can identify new opportunities in a number of areas. I talked to someone from a company the other day who bemoaned the fact that they did not have many domestic sales in this country; they said that all their activity went to other countries. One half of my heart wanted to say, "That is a terrible missed opportunity in Scotland," and the other half wanted to say, "Thank goodness you are undertaking international activity." We have to see internationalisation of business activity as a fundamental part of how we work out of the economic difficulties that we face and ensure that we deliver a better situation for the public in Scotland.

Christopher Harvie: The other subtext that we picked up on in Aberdeen in speaking to a range of different organisations is that people are having to deal with four separate ministries when it comes to renewables. People spoke about a level of co-ordination, but said that they are never certain who they have to deal with. I found that also in talking to German firms in Baden-Württemberg, such as Voith, which is the leading turbine manufacturer in Europe. The situation in Scotland is not helped by the fact that the energy portfolio is reserved. When I suggested that we should have a cross between Scottish Enterprise, Highlands and Islands Enterprise and a British National Oil Corporation-type organisation, I found to my surprise that case-hardened capitalists from the north-east said, "Yes, yes. Give us something like that."

John Swinney: I am struggling to work out the four departments that people are having to deal with. We have an energy directorate that is responsible to Mr Mather, who is assiduous in pursuing energy issues. There are initiatives such as the Scottish European Green Energy Centre, which is located in Aberdeen and is designed to help companies to undertake tasks. The renewables sector offers the opportunity to internationalise activity very effectively. If you have any points on how all that is joined up, I would be happy to explore them.

Christopher Harvie: My points are on finance, environment, education and the role of the First Minister in all of this. The paradigm for how to organise such matters is Lloyd George's Ministry of Munitions in the first world war. I also cite my experience of the Open University. What we will face in the next five to 10 years will demand organisation on a BNOC-type scale.

John Swinney: It will require intense focus. The very successful renewables finance conference that the Government organised in September—albeit that it may not have been obvious which Government department ran the event—was designed to create a platform for companies to see the opportunities here in Scotland. The event fulfilled that objective.

The Convener: Does the current structure of the enterprise agency network ensure that Scotland maximises its renewables potential? Highlands and Islands Enterprise operates in the renewables field in its area and Scottish Enterprise does the same in its area. Does having two organisations and not a single agency for renewables mean that we miss opportunities?

John Swinney: I would be loth to take renewables to another agency. As part of the Government's economic strategy, we took the decision to give much firmer direction to the sectors in which we saw economic opportunity, which were defined as the creative industries,

energy, finance and business services, food and drink, life sciences, tourism, and the universities. That approach was designed to give a clear signal of where we saw the opportunities lying. Scottish Enterprise and Highlands and Islands Enterprise have an obligation to support it, and they do so assiduously.

Your question was about what we are trying to achieve as a country rather than as separate agencies. Much of that will flow into the organisation of events such as the renewables finance conference and the formulation of the low-carbon economic strategy, which was a very good piece of joint working between Scottish Enterprise and Highlands and Islands Enterprise to provide a combined product. The national renewables infrastructure plan is a jointly developed proposition between Scottish Enterprise and Highlands and Islands Enterprise. Every effort is put into ensuring that no one can say that work in Scotland is anything other than cohesive. That is the objective of what we are trying to put in place.

The Convener: The national renewables infrastructure fund was announced as a joint initiative of Highlands and Islands Enterprise, Scottish Enterprise and the Government, but ended up as an initiative of Scottish Enterprise only, because Highlands and Islands Enterprise took a different approach. Is that not an example of a disjoint that may not be beneficial in the long term?

John Swinney: All the work is focused on delivering against the national renewables infrastructure plan, which is a joint product between Scottish Enterprise and Highlands and Islands Enterprise, working closely with the Government. There should be no disjoint in that process.

The Convener: One area that is seen as a particular strength of Highlands and Islands Enterprise is its strengthening communities function, which includes an initiative to account manage communities as well as firms. It has been suggested to us in evidence that some parts of the Scottish Enterprise area of Scotland, especially more remote communities in the south of Scotland, might benefit from a similar approach. Has any thought been given to extending Scottish Enterprise's remit to give it a strengthening communities capability in areas that might benefit from that?

John Swinney: No consideration has been given to that. The rationale for the enterprise reforms was essentially to focus both organisations more on the process of enterprise development, although a caveat was attached to that in the Highlands and Islands because of the rich, nearly 20-year tradition of its strengthening communities role, which emanated successfully

from the Highlands and Islands Development Board through to HIE. Other aspects of Government and local authority activity can be well focused in other areas. However, given that the committee has raised the issue and will, I assume, do so in its report, I will give some thought to whether such an approach is required.

There may be other ways of doing what you suggest. I refer to the interesting work that has been done in some parts of England on the total place approach, which seeks to marshal different public sector interventions much more effectively. Most of that work relates to what I might call socially fragile areas, whereas you are referring to geographically and economically fragile areas, but we may be able to learn lessons from it and to apply them, not necessarily through Scottish Enterprise but through other aspects of Government activity.

The Convener: Community renewables are a particular issue. The ability of Highlands and Islands Enterprise to support communities to develop schemes has clearly been beneficial and has given those communities a long-term income stream that helps to support and develop other enterprises in the area. That is a legitimate enterprise-related activity that could be replicated in other rural communities.

John Swinney: That is absolutely the case. Some of the work that we do through the support that we give to social enterprises is akin to that type of development and provides a real sense of community ownership of investment opportunities.

The Convener: That concludes questions. I thank the cabinet secretary for coming along. People's minds seem to be exercised not just by the budget but by the forthcoming election, which slipped into some questions, but never mind. It has been a helpful session to conclude evidence taking for our enterprise network inquiry. The committee will now consider a report, which we hope to publish by the end of the month or in early March.

Our next meeting is next Wednesday, when we will take evidence from Ofgem on project transmit, with a particular focus on the transmission charges issue. I hope that we will also consider draft reports on our enterprise network inquiry and on the UK Energy Bill legislative consent memorandum.

Meeting closed at 13:31.

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