



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 15 June 2011

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**Wednesday 15 June 2011**

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**

**2<sup>nd</sup> Meeting 2011, Session 4**

**CONVENER**

\*Gavin Brown (Lothian) (Con)

**DEPUTY CONVENER**

\*John Wilson (Central Scotland) (SNP)

**COMMITTEE MEMBERS**

\*Chic Brodie (South Scotland) (SNP)

\*Rhoda Grant (Highlands and Islands) (Lab)

\*Patrick Harvie (Glasgow) (Green)

\*Angus MacDonald (Falkirk East) (SNP)

\*Mike MacKenzie (Highlands and Islands) (SNP)

\*Stuart McMillan (West Scotland) (SNP)

\*Anne McTaggart (Glasgow) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Health, Wellbeing and Cities Strategy)

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

**CLERK TO THE COMMITTEE**

Stephen Imrie

**LOCATION**

Committee Room 1



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 15 June 2011*

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

### Scottish Government Priorities

**The Convener (Gavin Brown):** Good morning and welcome to the second meeting in the fourth session of the Economy, Energy and Tourism Committee. I invite everybody present to switch off their mobile phones rather than just switching them to silent—they interfere with the sound equipment even if they are on silent.

There are three items on the agenda. Under the first item, which I suspect will be the largest, the committee will consider the Scottish Government's priorities.

First, we have the Cabinet Secretary for Finance, Employment and Sustainable Growth, who is with Dr Gary Gillespie and Mike Neilson. The cabinet secretary's title is slightly larger than it was, but I understand that the portfolio has been slimmed down slightly.

I invite the cabinet secretary to make opening remarks; I will then open up the discussion to questions.

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** Thank you very much, convener, and good morning. I welcome you to your post and members to the committee, and look forward to what will be, I suspect, a regular dialogue over the parliamentary session with members of the committee. I assure members of the Government's willingness to co-operate fully with the committee in its areas of inquiry, and I welcome this early opportunity to discuss with the committee the Government's plans for the Scottish economy.

During the debate on taking Scotland forward two weeks ago, I explained that, as Cabinet Secretary for Finance, Employment and Sustainable Growth, it is my task to lead the Government's efforts to deliver economic recovery in co-operation with my ministerial colleagues with the powers that are available to us. As members will be aware, in 2007, the Scottish Government made increasing Scotland's sustainable economic growth rate the purpose to which all our activity would be directed. Our purpose provided the focus for our activities, and that remains the case.

I will set out the Government's core economic and jobs priorities for the coming months.

The foundation of our approach is well established through "The Government Economic Strategy" and our economic recovery plan. Our economic strategy continues to provide the long-term foundations for our progress on the economy, and our response to the recession through our economic recovery plan has demonstrated our ability to respond flexibly to the difficult economic conditions that we have faced.

Scotland has emerged from a significant recession that was both shorter and shallower than the United Kingdom's recession. However, it is clear that the recovery is at a vital stage, and a number of significant issues remain, not least of which are the reductions in public spending and the sluggish recovery in many of our key trading partners. Statistics that were published just a few minutes ago show that, over the three-month period from February to April 2011, unemployment fell by 10,000, which has taken the unemployment rate to 7.7 per cent, or the same rate as that for the United Kingdom. Scotland's employment rate remains better than that of the UK as a whole, but there has been a modest fall in total employment, driven by a fall in the employment of those aged over 65.

Experience from previous recessions has shown that sustained improvements in employment, particularly for young people, tend to lag behind the wider improvement in the economy. A jobs agenda will therefore be at the very heart of our programme for government. We will update our economic strategy in the autumn, alongside the Government's programme for government. Our strategy will focus on securing employment and consumer confidence, developing our low-carbon economy, and ensuring that we maximise the opportunities that are available to the economy through exploiting growth companies, growth markets and growth sectors.

It is clear that our ability to support jobs creation will ultimately succeed only if all our workforce, including new entrants, people who are returning to the labour market and those who are seeking to upskill or move to a new career, have the skills and training necessary to succeed. Our key initiatives will include delivering around 100,000 training opportunities this year, including a record 25,000 modern apprenticeships; taking forward our policy of no compulsory redundancies and pay restraint to protect jobs and public services; continuing to deliver the most competitive business rates regime in the United Kingdom, including the highly successful small business scheme; focusing our efforts and those of our enterprise agencies to help Scottish companies to internationalise so that they can take advantage of new and growing markets; developing our key sectors, including our unrivalled opportunities in renewables and the low-carbon economy; and

investing in Scotland's infrastructure, which includes the new £2.5 billion programme of non-profit-distributing investment.

Finally, we are making the case for the Scottish Parliament to receive more economic powers and levers to create the conditions to support sustainable economic growth. The Government's position on those issues has been clearly stated, and I am happy to discuss that and other matters with the committee.

**The Convener:** You said that "The Government Economic Strategy", which was launched in September 2007 and has had various updates to reflect economic conditions, would be updated in the autumn. Will that involve a short paper with amendments to the 2007 document or a wholly updated new strategy?

**John Swinney:** The words in my introduction were deliberately chosen. "The Government Economic Strategy" retains the foundations of our thinking about how, within the Government's competence, to manage the economy in Scotland. We have continued confidence in that strategy. It would be wrong to conclude from what I said that a wholesale change of direction and a new approach were to be undertaken.

"The Government Economic Strategy" is set at a pretty high level. The Government's economic recovery plan—of which we have published about four iterations—is set at a much more tangible, practical and conceivable level and is about the interventions that the Government is trying to make. The economic strategy that is published in the autumn will blend the high-level strategic direction, in which the Government continues to have confidence, with development of the practical application of that in shorter-term priorities to support economic recovery.

**The Convener:** Part of the strategy involved the Council of Economic Advisers, which was also set up in 2007. I saw one piece of media coverage about Professor Joseph Stiglitz being appointed to the council. Are you in a position to share with us how the council will look?

**John Swinney:** I cannot give a full list of council members, as the First Minister is considering them, but I confirm that a council will be appointed. The timescale is entirely a matter for the First Minister. He will be delighted to explain the position to the Parliament and the committee in due course, as I will be.

**The Convener:** I ask for clarity about the previous council's status. Was that council formally ended?

**John Swinney:** Yes.

**The Convener:** So if someone is not a member of the next council, that will not mean that they have been fired, as it were.

**John Swinney:** The previous council was set up for the period during which it exercised its role and responsibilities, after which it stood down. The First Minister is considering the council's future composition.

It is appropriate for me to say that the council gave a tremendous amount of insight to and had much involvement in Government thinking. We thank the significant, experienced and talented group of individuals who made that contribution to Scottish public policy.

**The Convener:** I second that.

**Rhoda Grant (Highlands and Islands) (Lab):** The retail spending figures that were released this morning are concerning, because they show a drop in consumer confidence, which has had a bigger drop in Scotland. That worries us and, I dare say, the Government. What are the reasons behind that trend and what can we do to reverse it?

**John Swinney:** A number of factors will underpin difficulties in retail performance, but at the heart are undoubtedly consumer confidence and people's confidence in their own income and circumstances. The Government's approach to that is pretty well stated: we believe that household income is under significant pressure, and that is why we contested the election on our commitment to provide at least some respite to householders through the council tax freeze, which we acknowledge plays into household incomes.

It is also why we made clear to the UK Government in our submission to last week's Joint Ministerial Committee, which I attended with the First Minister, the importance that we attach to developing and supporting consumer confidence. If consumer confidence is to be delivered, the UK Government must recognise that there is a limit to the degree of pressure that household incomes can take at this time.

For example, we are asking people in the public sector to take pay freezes, as many people in the private sector have. That approach is an essential part of managing the financial challenges that we face. However, in our view, such pressure will be taken a stage too far if, for example, public sector employees are asked to increase their pension contributions, which is a very topical issue. Such measures, which the UK Government is currently proposing, will have a significant impact on consumer confidence.

**Rhoda Grant:** Obviously, we are unable to influence what the UK Government is doing, but in

this committee we can influence what the Scottish Government is doing. You mentioned that pay freezes play a part in consumer confidence. In the public sector, people are concerned about how long the pay freezes will continue. Can you shed any light on that?

**John Swinney:** I have certainly said that a pay freeze will have to last longer than one year: it is in place for 2011-12, and my expectation is that it will have to be in place in 2012-13. Equally, I have made it clear that a pay freeze will not be in place for the duration of this session of Parliament. We will revisit all those questions on an annual basis when we determine the Government's pay policy.

There is an important point to be made about the purpose of pay restraint, which is to try to maximise employment in the public sector. The independent budget review gave us a pretty dispassionate analysis that established the correlation between increases in public sector pay and reductions in head count, given the budget constraints that we face. Members will be aware of the inescapable constraints in the budget, and the Government's priority is to maximise public sector employment as far as we possibly can in the context of those arrangements.

**Patrick Harvie (Glasgow) (Green):** Good morning, cabinet secretary. It is nice to see you, albeit in a different context from the previous session.

I return to your comments about the Government's central purpose—or increasing the sustainable economic growth rate, as you put it. You and I have had a few wee bits of banter in the chamber about that concept over the years, and you know that I think that there are some deep problems with it. Some things are good for economic growth but harm our sustainability, and many things are good for sustainability but would harm economic growth.

To take the issue that Rhoda Grant has just raised, our retail figures would suffer if we returned to durable goods, but that would clearly be good in sustainability terms. You can easily evidence the extent to which economic growth is recovering, but how do you produce evidence to tell us whether you are achieving sustainable economic growth? Are you able to put figures on that? How do you measure the sustainability of the economic growth that you seek to achieve?

**John Swinney:** First, it is a pleasure to see Mr Harvie in different circumstances. I hope that the convener of this committee offers me as much protection as Mr Harvie used to offer me in the Transport, Infrastructure and Climate Change Committee, where there were some particularly icy occasions, if I can use that phrase.

**Patrick Harvie:** Do not listen to a word he says, convener.

09:45

**John Swinney:** A very sturdy example to follow, convener, if I may say so.

Mr Harvie raises a fundamental issue. I start with the answer that I gave the convener about the Government's economic strategy. Although I characterised the Government's purpose as being focused on increasing sustainable economic growth—our strategy is set on that—the strategy captures a range of different principal themes that the Government wishes to see reflected in sustainable economic growth. Essentially, that is how I would answer Mr Harvie's question.

The Government's economic strategy includes seven purpose targets, which are measures of whether we are delivering sustainable economic growth rather than just economic growth. If the Government's purpose were just to deliver economic growth, I dare say that one of those measures—gross domestic product—would be the one and only measure that we would use. However, we also have as part of the matrix, if I may express it in that fashion, targets for productivity, participation in the labour market, trends in population, performance on cohesion, solidarity—regional and sectoral equity in the economy—and our approach to emissions.

I expect that the strategic level of the Government's economic strategy will not change as a result of the review that we will undertake. The framework is designed to be a matrix that allows us to explore whether we are delivering sustainable economic growth. It recognises that, if economic growth is to be sustainable, it must take into account our utilisation of our natural resources and other factors; the degree to which we are encouraging a broader range of our population to become involved in the labour market and to be economically productive; and whether in our pay policy or wider policies we are delivering some of the social and economic advance that the Government is trying to deliver to tackle poverty. That is our approach. We proceed by reference to a strategic set of indicators. Performance is demonstrated on a 24/7 basis and is kept up to date on the Government's Scotland performs website, where all the data that underpin our analysis are freely available to members of the public.

**Patrick Harvie:** Do you see scope during the current session for developing that approach and taking it in a new direction, especially by learning from the work that the previously mentioned Professor Stiglitz has done on alternative economic indicators?

**John Swinney:** I am open to that consideration, because I have followed the material that Professor Stiglitz and others have written on the question. That material embarks on a fundamental part of the discussion that, I hope, our matrix addresses in a different way. I refer to some of the concepts of balance within these considerations and the need to take into account tangible measures of wellbeing, to try to determine a broader context within which performance can be considered in relation to delivering sustainable economic growth. I am open to that discussion and am happy to engage in it with the committee.

At the highest level, the Scotland performs framework is pretty robust. Part of the thinking behind Scotland performs was to provide a long-term framework for performance assessment. There is a case for maintaining that at the strategic level that I have just described, although I am open to further consideration of the issue. We need to look at priorities further down the list and some of the 45 national indicators to determine whether they give us the best sense of whether we are making all the progress that we need to make. We are open to consideration of that point.

**Patrick Harvie:** I hoped to raise an energy issue as well, convener, unless we will come on to that later.

**The Convener:** Let us stick with the economy now, but I promise that you will get the chance to come back in.

**Stuart McMillan (West Scotland) (SNP):** The employment figures that were released this morning are welcome, but there is obviously still a lot more to do. On the Government's strategy, one of the commitments in the Scottish National Party's manifesto was the creation of four new enterprise zones. Can you please provide more information about that commitment?

**John Swinney:** The Government has committed itself to establishing four enterprise zones. As a result of the United Kingdom Government's decision to put in place some enterprise zones south of the border, consequential—and, I have to say, pretty modest—elements of funding have come to Scotland to take the agenda forward.

The Government has decided in principle to establish four enterprise zones. We are considering the criteria against which we will judge which zones will be appropriate. The first part of the analysis is essentially to determine the outcomes that we are trying to achieve. We will then assess which are the most appropriate locations in the country.

On the outcomes that we will be trying to achieve, we clearly wish to create enterprise zones in areas where we want to maximise the

economic impact and the economic benefit. It seems unlikely that we will look to areas of the country where economic performance is at a very high and effective level, because clearly the market is working satisfactorily in those areas. We will be looking to address areas where we want to improve economic performance. That will be one of the principal criteria.

To go back to my answer to Mr Harvie, undoubtedly there will be opportunities for us to locate enterprise zones in a way that addresses the requirement that we try to achieve that balance of objectives in relation to increasing sustainable economic growth; we may wish to tackle issues of participation, productivity or cohesion within the workforce in that regard. Consideration of the matter is at a relatively early stage following the establishment of the Administration. I imagine that decisions will be made towards the autumn.

**Stuart McMillan:** Scotland had enterprise zones a number of years ago. One was in Inverclyde, but within the Inverclyde area it was not considered to be a tremendous success. I hope that the Administration will undertake some analysis of the experience of the previous enterprise zones in Scotland to learn lessons from their failings.

What guarantees can you provide the committee with today regarding the enterprise zones? I accept that you obviously cannot guarantee that jobs will be created and that people will want to come into the zones, but what guarantees can you provide that we will not end up with enterprise zones that exist only for a period of time? The last time round, they existed for 10 years. Can you guarantee that we will not have false dawns in the future, as we had in the past?

**John Swinney:** We must give the most careful consideration to how we proceed with enterprise zones. The Government is, of course, keen to understand the lessons that Mr McMillan highlights from the experience in Inverclyde and to ensure that they are reflected in our thinking. I assure the committee that we will carefully plan the approach to enterprise zones.

We already provide a number of business incentives. I mentioned the business rates relief package. Over the valuation period from 2010 to 2015, Scottish business will, in essence, benefit from £2.4 billion of business rates relief, arising from a combination of the small business bonus scheme and the parity of poundage between Scotland and England. Differential levels should result in a higher poundage rate in Scotland, but we took a policy decision to set it at an equal level. Those reliefs are already available to all areas of the country, and we are now looking for ways in which we can finesse the approach in order to



encourage greater economic performance and impact.

We have other such initiatives. Shortly before dissolution, I announced the establishment of the business rates incentivisation scheme, which, by offering local authorities the prospect of retaining a proportion of their business rates income, gives them an incentive to improve their economic performance. There is also the tax increment finance model, which is being piloted first in the waterfront development in—I was going to say “in Edinburgh” but, to be correct, it is really in Leith. I say that to keep me on the right side of the people of both Edinburgh and Leith. The model is also being piloted in Ravenscraig, and other TIF pilots will emerge.

The enterprise zones must be considered in the context of a range of interventions that seek to stimulate a higher level of economic performance, and the Government is keen to learn the lessons from the situation that Mr McMillan has highlighted.

**Stuart McMillan:** The manifesto said that one of the enterprise zones would be a low-carbon enterprise zone. Will you tell us a little more about that? Which locations might be considered? Is the Government thinking of going somewhere that already has a fair amount of industry in the renewables sector, or of going somewhere new?

**John Swinney:** Our approach to the low-carbon enterprise zone will be the same as our general approach: we will go through a criteria-based assessment before we consider locations. As part of the assessment for the low-carbon enterprise zone, we will take account of thinking that has emerged from the national renewables infrastructure plan. On behalf of the Government, Scottish Enterprise and Highlands and Islands Enterprise have carefully identified areas in which a certain amount of public sector intervention is required in order to create a platform for private investment in renewables and the low-carbon economy.

As I have said in the chamber, we are constantly reviewing the national renewables infrastructure plan to ensure that the judgments made are the most appropriate for the current economic conditions and opportunities in different parts of the country, so that we can maximise the economic impact.

The purpose of enterprise zones is to try to deliver significantly improved economic performance. It is therefore unlikely that the enterprise zones will go to areas that are already performing well; they are more likely to go to areas where we hope to make a disproportionate impact on economic performance.

**Stuart McMillan:** Yesterday, we saw the photographs of the Cabinet Secretary for Infrastructure and Capital Investment, Alex Neil, and the Minister for Housing and Transport, Keith Brown, and we heard the announcement on the extension of the M74 in Glasgow—that it was under budget and well ahead of schedule. Will the excess money that was put aside for the project be brought back into the wider pot—to you—or will it remain in the original portfolio for the cabinet secretary and minister to decide how it is spent?

10:00

**John Swinney:** I have responsibility for the financial control of the capital investment budget, so if a saving emerges out of one project it comes back into the central pot. As Mr McMillan will know, a number of different projects across the Government require to be funded, and the Government took a decision before the election that we would operate the capital programme on a cross-portfolio basis.

The performance on the M74 is a tribute to the excellent contractual management of our officials in Transport Scotland, and its early delivery is a tribute to the contractors, who also receive a benefit from that. To deliver a project early and at a lower cost than envisaged is an approach to public expenditure that is music to the ears of the finance secretary.

**Stuart McMillan:** Thank you.

**Chic Brodie (South Scotland) (SNP):** Good morning, cabinet secretary. We were talking about the indicators for economic growth. Clearly, one measure of performance is how well any country exports its goods and services, and a goal has been set to increase exports by 50 per cent over the next six years. Are you happy with the technology transfer, in particular from the funding for universities and colleges—how can we take products more quickly from research and development to market? That is the first question, and I will be interested to hear your answer.

The second question looks at our export performance. Although the United States is by far our largest market, we export to China and the far east only about one tenth of what we export to the United States. What plans do you foresee for developing our exports into what is the fastest growing market worldwide?

**John Swinney:** The first point related to the collaboration between universities and the technology sector—if I can express it in that fashion. I think that we have come a long way in recent years and, although nothing is ever perfect, now have a good set of arrangements. I am struck by the degree of focus that there is in the university sector on realising technology

opportunities that arise out of research and development programmes. At that end of the spectrum, I certainly do not think that there exists a climate in the universities in which academics are developing great new ideas but not considering their commercial applications. I just do not believe that that is the case any longer.

We have also strengthened the links between the university community and Scottish Enterprise and Highlands and Islands Enterprise on the identification of ventures with business and commercial potential. We still have challenges in ensuring that sufficient finance can be mobilised to enable the projects to get to market in a relatively swift timescale. We have tried to address those access-to-capital issues to some extent through the Scottish Investment Bank, but they are also part of the wider access-to-finance issue that exists in the country more generally.

The approach to the atmosphere of collaboration—if I can call it that—is very good, and we continue to refine it to ensure that we are identifying areas with great potential. The University of Edinburgh has taken forward an excellent innovation called the interface, which is an unbelievably simple concept—I suppose that you could call it a technology dating agency. Essentially, it is a website that allows researchers from all over the country to input details of the areas of work in which they are involved and identify areas of potential collaboration with other academics in various institutions who might be working in either relatively similar or completely different areas. It is out of collaboration between different disciplines that those great ideas will come. We have a lot to be confident about in relation to the work that we undertake in that area.

One of the major themes of the economic recovery plan—it will also be a major theme of the economic strategy—is the focus on internationalisation. The challenge for us is to ensure that the companies with the potential to internationalise receive the support that they require to enable them to achieve those objectives, principally through Scottish Development International. Members will probably be aware of some of the significant accolades that SDI has received in recent months. The Ernst & Young UK attractiveness survey identified SDI as being extremely successful in bringing employment to Scotland through foreign direct investment. I have enormous confidence in the agency being able to identify where good business prospects lie and to encourage them to take their course.

One of the strategic challenges of the coming period is the need to motivate more Scottish companies to become involved in international activity. That is why the Government's growth

strategy is focused essentially on identifying the companies with growth potential in the growth sectors and lining them up with growth markets, as we have done, for example, with opportunities for the food and drink sector to export products to the Chinese market. As a consequence of our collaboration with the Chinese Government, the Chinese market for Scottish exported salmon has been opened up in recent months, and the scale of impact on the salmon-farming industry in Scotland is going to be colossal. That is an indication of how, by highly focused and targeted activity, we can motivate more companies to become involved in exporting by removing some of the obstacles to that happening.

Ensuring that we motivate more Scottish companies to become involved in that part of our work is an exciting area of our activity and will command a significant proportion of my attention.

**Chic Brodie:** I was not casting aspersions on the universities, the finance situation or SDI, which has done a great job. The question is whether you think that we have the management and mentoring skills that will take those products to market quickly, so that we can achieve what we want to achieve with the leading-edge technology.

**John Swinney:** Without a doubt we have the skills. However, we have to ensure that everything is focused in such a way that the aspirations to which you refer can be realised. That is the measure of whether we are successful in achieving these objectives.

**Angus MacDonald (Falkirk East) (SNP):** I was pleased to hear your response to Stuart McMillan regarding the tax increment finance model. Falkirk Council plans to run a pilot of that initiative and our officers in the council are getting quite excited about it, to say the least. Hopefully, it will be approved and, if it goes ahead, will enable us to implement some badly needed and long-overdue transport infrastructure projects in the area.

This is not the day for dealing with the minutiae of the Scottish Government's priorities, but I wish to raise the issue of the business gateway contracts. There is concern in my neck of the woods about the retendering process for the contract in the area, which is due for renewal in September 2012. There is a general feeling among the business community that a retendering process will cause disruption to the delivery of the business gateway locally. Having a tender would mean taking the eye off the ball at a time when small to medium-sized enterprises require all the help they can get.

I am of the opinion that the last thing the economy needs is a retendering of the business gateway contracts. There is no appetite for a wholesale change of the business gateway model,

although there might be some areas where attention is required. Recommissioning would seem to be the preferable option, rather than retendering—certainly in my area. What is the cabinet secretary's view on that?

**John Swinney:** I stand to be corrected, but I think that we will be obliged to retender, purely and simply because of the procurement rules under which we operate. I will need to take advice to clarify that point, if Mr MacDonald will forgive me, but I am pretty certain that that is the position.

Before that, however, the business gateway system is being reviewed to identify any issues of performance that we have to address or any reflections on the nature of the contract and the approach that has been taken. Once we go through that exercise, it will influence the approach that we take to the tendering process. In principle, we have no alternative but to retender, but I will confirm that point in writing to you, convener, for the benefit of Mr MacDonald.

There is an issue around the availability of business advice, and I have had the point recounted to me by various business voices in recent years. The account management process of Scottish Enterprise and Highlands and Islands Enterprise is highly successful and effective for the companies involved, and the business gateway is very effective at supporting companies as they emerge into the marketplace and take their early steps through growth, but there is perhaps a feeling that there is not enough interaction to support the established companies sector—those companies that are neither start-up nor account managed. I am exploring whether we can support those companies better, principally by focusing on the exporting activity to which Mr Brodie referred and by focusing interventions on supporting growth in the existing company base through encouraging a process of internationalisation. It is a weakness of our export performance that we simply do not have enough companies involved in exporting—it is as blunt as that. Through its objectives, the Government will be encouraging more participants in the process.

I will confirm the details of the point about retendering later, if you will forgive me.

**Angus MacDonald:** Thank you.

**John Wilson (Central Scotland) (SNP):** I return to the subject of apprenticeships. The Government has a commitment to create 25,000 apprenticeships each year that it is in office. For me, the issue is not the creation of the apprenticeships, which are to be welcomed in tackling youth unemployment, but the retention of people beyond their apprenticeship. I am concerned about whether apprentices can find employment once they qualify in the areas where

they have carried out their apprenticeship. I refer in particular to the traditional skills—individuals in engineering and the building trades, including joiners, electricians and bricklayers.

Will the cabinet secretary keep a watchful eye on the throughput of apprenticeships to ensure that people find gainful employment beyond the apprenticeship period? I am not saying that there are any employers who would do this, but a qualified person who has completed their apprenticeship could get paid off, with another apprentice then getting employed by the company. Such practices could give rise to a churn of apprentices without creating real jobs at the end of the apprenticeship period.

10:15

**John Swinney:** The key to that question lies in general economic performance. I have been open with Parliament and the committee about the scale of the economic challenges that we have faced since 2008. Economic and employment conditions have been very difficult. Since the economic difficulties began in 2008, we have had to put in place measures that, in the absence of the full-time employment for everybody that we would like, create a variety of other positive destinations to encourage the development of skills and opportunities.

Modern apprenticeships are linked to employment—that is the nature of our approach in Scotland. Our clear objective is to try to ensure that, when individuals reach the end of their apprenticeship, there are economic opportunities for them to use the skills that they have acquired. In my experience of dealing with companies—I talk to them every day of the week—decisions on recruitment are perhaps the biggest that they take. Therefore, the idea that employers are interested in chopping and changing their workforce for the sake of it is not credible. Employers are keen to take on apprentices. We have had a great uptake—last year, the 20,000 figure was exceeded when about 21,500 modern apprentices were taken on, which is great. The information that I have seen shows that progress on the programme for this year is going extremely well.

The answer to Mr Wilson's question is that we must ensure that the labour market is strong enough to absorb individuals when they finish their apprenticeships. That is why the rise in 16-to-64 employment in recent months has been particularly welcome, because it shows that more opportunities are emerging. We have to continue to press to expand the economy—this is where the internationalisation and growth agendas come in—to ensure that people have valuable destinations when they finish their apprenticeships.

The public sector can play its role through capital investment. The performance of construction employment in Scotland in the past 12 months shows broadly that the Government's determination to sustain as much construction activity as we could within the spending constraints delivered a more positive approach in construction employment in Scotland than in the rest of the United Kingdom up to quarter 4 of 2010.

We are facing a significant reduction in our capital budget in this financial year. That is why we have brought forward the non-profit-distributing model, and the pre-payment arrangements for the Forth replacement crossing that the UK Government announced will boost our capital budget in the short term, although not by as much as I would have liked. All those things will help to create positive destinations for young people completing apprenticeships and finding gainful employment.

**John Wilson:** The cabinet secretary's last points about public sector procurement are interesting. Given the earlier comments about the M74 coming in ahead of time and under budget, I would like us to try to guarantee that, within European procurement rules, small to medium-sized enterprises in Scotland get a fair opportunity to tender for and carry out work on behalf of the public sector. I am aware—I raised this with ministerial colleagues in the previous session—that some subcontracted work on major arterial routes was subcontracted to firms outwith Scotland and the United Kingdom. If we are going to protect jobs in Scotland, will the cabinet secretary look closely at how the contractual procurement work takes place to try to ensure that Scottish companies are best placed to bid for contracts? Of course, that would be done within current European procurement rules.

**John Swinney:** Mr Wilson's caveat in his final sentence is the nub of the challenge. It is about ensuring that, within European tendering rules, we find ways in which we can encourage and motivate companies to participate in the tendering process. Perhaps the best thing that the Government has done on procurement is to establish public contracts Scotland, which is a web portal for advertising public sector contracts and for private sector firms to register their interest. It is a ready source of information about where public sector contracts lie. That process is helpful for Scottish companies. We can also assist them through our approach to training and skills development and ensure that they are equipped to handle those issues. There is a set of caveats regarding European rules that must be observed, but they are not as insurmountable as people may often think.

**The Convener:** I will come to Mike MacKenzie in a moment, but I think that Rhoda Grant has a question on this issue.

**Rhoda Grant:** I have one on training and apprenticeships. I am interested in finding out more about the 100,000 training opportunities that the cabinet secretary mentioned. Obviously, those are not apprenticeships, but will they be certificated at the end? How long will the training opportunities be for and what will they involve? Will they be short training courses that may prepare people for work, or will they be longer and more meaningful?

**John Swinney:** Every individual will be at a different stage in their capability to enter the labour market. At the worst extreme will be individuals with chaotic lifestyles who will need a tremendous amount of support before they can get near entering the labour market. Within the 100,000 opportunities that I talked about, there will be programmes that will deal with those individuals, but there will be other programmes to encourage reskilling for individuals who leave employment. Part of the challenge in the labour market is to minimise the length of time for which people are out of employment, because the longer they are out, the more difficult it is for them to get back in. Some of our initiatives will be about trying to limit that gap as much as possible to ensure that individuals can return to the labour market. A broad cross-section of support is available, but it is designed to ensure that we do as much as we can to address the individual circumstances of every person trying to enter the labour market. Skills Development Scotland offers a broad cross-section of opportunities.

**Rhoda Grant:** You talked about people "entering the labour market", so I assume that the people involved will be unemployed before they access the training opportunities. How long will they need to have been unemployed?

**John Swinney:** The programmes are not restricted to the unemployed. For example, some individuals could be subject to a 90-day consultation period for redundancy in the private sector. Part of the partnership action for continuing employment—PACE—support that we would put into operation for them would be to identify whether they had training needs that could be addressed while they were still employed by the company, so that they could go elsewhere when their redundancy kicked in. Those undergoing training will therefore consist of people facing redundancy and those who have been made redundant, and there may also be people who are in employment but who are seeking to reskill in order to find better employment prospects. The training opportunities are therefore intended to deliver a range of flexibilities for individuals.

**Mike MacKenzie (Highlands and Islands) (SNP):** I ask the committee to note my entry in the register of interests. Good morning, cabinet secretary. I very much welcome the initiative to provide support for micro-businesses and small businesses that are taking on their first employees. Could you provide a bit more detail on how that may operate?

**John Swinney:** We are trying to put in place a system that makes it practical and possible for companies to take on employees. It will identify the areas in the SME sector where companies may aspire to take on staff but are put off by some of the burdens, which may be to do with the regulatory framework or employment or accountancy issues. The initiative is designed to provide highly targeted support to help SMEs on that journey.

We are still working on how that support will be delivered. There is an argument for delivering some of it through the business gateway, and we are still examining that possibility. The clear intention is to provide a level of support that is meaningful and makes an impact on individual companies by enabling them to proceed with recruitment by overcoming the obstacles that are placed in front of them.

**Mike MacKenzie:** You mentioned that the Government is concerned to ensure regional equity. I welcome that, as there is a significant amount of unrealised potential at the level of micro-businesses. My concern is that one-employee micro-businesses and owner-operators are making what can be seen as, in many ways, a rational decision not to take on employees because of fear of the added burden of regulation. I hope that, as well as proceeding with this initiative, the Government will give some consideration to the burden of regulation that falls disproportionately on small businesses.

**John Swinney:** One of Mr Ewing's responsibilities is to pursue the agenda on better regulation, which was pioneered by a close associate of Mr MacKenzie, Jim Mather, when he was the Minister for Enterprise, Energy and Tourism. Mr Mather pursued an agenda that was focused on ensuring that regulation was appropriate. We must be careful about our language—I think that regulation must be appropriate. We need some regulation, as there are requirements on us as a society to ensure that employees are properly dealt with and supported, but it must be appropriate and that is the challenge.

I will give Mr MacKenzie a tangible example of that. In his former responsibilities as the Minister for Community Safety, Mr Ewing was faced with some new regulations on fire precautions in bed and breakfast establishments. If the regulations

had been introduced as they were originally conceived, there would now be precious few bed and breakfast establishments in the area that Mr MacKenzie represents. Through a process of dialogue involving all the parties, such as bed and breakfast owners and those responsible for the regulations, Mr Ewing was able to get an approach to the regulation with which everybody was happy. It is not always possible to keep everybody happy, but we should try to do so when we can. If the regulations had been introduced as they were originally conceived, the economic impact would have been disastrous, so we did not do that. We took time to think about it and worked out, through a process of dialogue, the appropriate way to take the matter forward. I hope that that reassures Mr MacKenzie about the approach that the Government will take to introducing appropriate regulation that ensures that people can continue their business activities.

10:30

**Mike MacKenzie:** Yes, I am greatly reassured. I am sometimes burdened by the curse of knowledge. Anybody who looks at my entry in the register of interests will see that, among other things, I am a volunteer fireman.

**John Swinney:** I picked the wrong example, then.

**Mike MacKenzie:** Actually, you did not, because the curse of knowledge is that I sometimes have an awareness of where regulation is inappropriate, which is not always perceived by people who operate from the top down, rather than the bottom up. I was delighted that Mr Ewing took the steps that he did. I hope that my long and frequent conversations with Mr Mather had nothing to do with his retirement, but I will now shift the focus of those to Mr Ewing. I thank the cabinet secretary for the reassurance.

**Anne McTaggart (Glasgow) (Lab):** Good morning, cabinet secretary—although it might feel like afternoon by now.

**John Swinney:** This is a relatively modest outing compared with some that I have had in the past.

**Anne McTaggart:** I'll bet.

Thank you for your inspiring discussion this morning. I have a fairly simple question. The previous Economy, Energy and Tourism Committee left a legacy paper in which it set out what it thought would be best for this committee to consider. On the economy, that included the examination of mutuals, co-operatives and credit unions. What developments or strategy do you have in place on that, and on social enterprises? I realise that you have already answered questions

about supporting social enterprises by allowing them to go into the procurement process.

**John Swinney:** That is an interesting area and one that commands a lot of my personal interest. In the previous session of Parliament, one major theme of the Government's approach on the third sector was to encourage development of the social enterprise sector. In 2007, the sector was strong, but we wanted to encourage it to develop further. We made a range of interventions. Some of them were done through support for organisations such as the Scottish Social Enterprise Coalition or through the Scottish investment fund. In essence, the aim was to encourage and develop a new range of social enterprises in Scotland, and quite a bit of progress has been made on that in the past few years. I reassure Anne McTaggart that we intend to continue that direction of travel to encourage the support of social enterprises.

The other part of the question was on mutuals, co-operatives and credit unions. One problem that I identified in the previous session was that the Government did not make as explicit as it could have done the availability of support for the development of credit unions. A number of credit unions were labouring to move forward, unaware of the assistance that the Government was prepared to offer. Once I became aware of that, we closed the communications gap and addressed some of the issues. We are at a time in the economic cycle at which there is a great deal of public interest in the models of mutuals, co-operatives and credit unions, for all the reasons that we have gone through about the economic disruption of the past few years. There is a great deal of appetite among the public for such approaches. The Government will ensure that we are as supportive as we can be of the development of those concepts of working.

If my memory serves me right—I suspect that Anne McTaggart will correct me if I am wrong—there is a major co-operative anniversary in 2012. Mr Butler raised that issue with me in the previous session of Parliament. We have asked Co-operative Development Scotland, which is supported by Scottish Enterprise, to take forward thinking on that. If Anne McTaggart or the committee wishes to have any input to that, that would be welcome.

**The Convener:** I promised to bring Patrick Harvie back in, so I am pleased to be able to do so.

**Patrick Harvie:** I will follow up on tax increment finance and then ask a brief question on energy.

I understand the opportunity that tax increment finance creates to pay for a piece of investment in the public good or in public infrastructure through

future uplift in business rates. It captures in some ways what land value tax seeks to do, but it does so indirectly. Whereas land value tax would capture the uplift in land values from investment, TIF would capture the uplift in business rates.

However, is it not inappropriate, rather than using TIF for a piece of public investment or public infrastructure, to think about using it to finance or make viable a purely commercial investment, such as a shopping centre that wants to expand its premises and which would be in direct competition with high street shops that are currently lying empty half the time? That seems like an inappropriate use of TIF.

**John Swinney:** I think, if I am not mistaken, that Mr Harvie is trying to tempt me into considering a specific example.

**Patrick Harvie:** It is hypothetical.

**John Swinney:** It may well be hypothetical, but I fear that Mr Harvie may be raising a tangible proposition with me, so I will answer in a general sense. Tax increment finance is an opportunity, as part of the incentivisation arrangement, for local authorities to support economic development in their localities. It has an impact on the public purse because an element of the non-domestic rates pool is no longer available to me as the finance secretary. Before any TIF scheme is approved, I must be satisfied that the sacrifice that we are making from that pool is sustainable. That is a big consideration for me to apply, and not all schemes that come forward will be assured of success, because the non-domestic rates pool is an important part of Scottish public finance.

That is one key question about TIF schemes; the other is whether a scheme can deliver additionality, which is a critical test that is applied to any proposal that is brought forward.

**Patrick Harvie:** We will look at the detail of any specifics should they arise.

We could probably spend a whole other meeting talking about the energy side of our remit, but I will ask one quick question to which you might be willing to give a positive answer.

I have tried to persuade the Government to do more and go faster on demand reduction and energy efficiency, and I think that the Government wants to: that is still very much on its agenda. One problem, however, has been that the energy companies' commitments are defined at UK level, and anything more that Scotland wants to do to go faster and further on demand reduction needs to work around those commitments or risk losing the money that those companies could be spending.

Would you be willing to add to the list of excellent improvements that the Government proposes to the Scotland Bill some additional

powers for Scottish ministers to define those energy companies' energy efficiency obligations in Scotland? That could be a popular move when people are already concerned about the energy companies' price hikes, but it would also have long-term benefits in allowing Scotland to go faster and further on reducing energy demand and in saving people money on fuel bills in the most sustainable way.

**John Swinney:** I am certainly happy to consider the issue that Mr Harvie has raised. It is a practical example of how the Scotland Bill could strengthen Parliament's effectiveness as an institution and our effectiveness as a Government, and the impact of our activities, if we were to have responsibilities of that nature. It is a very constructive suggestion, which the Government will explore and take forward.

On Mr Harvie's point about the fact that the power companies' obligations are defined at a Great Britain level, I sought in my discussions yesterday with Scottish Power, on the deep concern that the Government has expressed about the price increases, to persuade the company to fulfil more of its GB obligation here in Scotland. Yesterday's announcement that a further £10 million will be spent in Scotland is part and parcel of that GB obligation, but as a consequence of that dialogue it is a much greater proportion than we would have expected to have. That is a step in the right direction, but the substantive point that Mr Harvie makes would undoubtedly give us greater ability to make an impact on the issue of energy use that he validly raises.

As part of its approach to energy, the Government is determined to reduce energy consumption—that is part and parcel of our agenda. The Government takes seriously, at the heart of its approach to energy policy, the point of principle that Mr Harvie makes.

**The Convener:** Thank you for giving us slightly longer than we had initially expected. One or two members still have questions. Are you willing, as you have done in the past, to accept and to respond to those in writing?

**John Swinney:** I will be delighted to do so.

**The Convener:** I suspend the meeting for a couple of minutes for a change of witnesses.

10:40

*Meeting suspended.*

10:45

*On resuming—*

**The Convener:** I welcome everybody back, and I particularly welcome the Cabinet Secretary for Health, Wellbeing and Cities Strategy. She is here with Mike Neilson, who is back again, and with Morag Watt. I ask the cabinet secretary to give us a brief introduction.

**The Deputy First Minister and Cabinet Secretary for Health, Wellbeing and Cities Strategy (Nicola Sturgeon):** It is nice to see so many old—and new—faces around the table. I am grateful for the invitation to be here. This is a welcome early opportunity to engage with the committee on the cities agenda, but I hope that it is just an early opportunity, as I look forward to continued engagement as our thinking on the new cities strategy develops over the summer and into the autumn.

I will quickly cover three subjects: the substance of my role, our plans to develop a coherent cities strategy and the engagement process that I intend to undertake over the summer. On the substance of my role, I stress that the role is strategic. It is not about interfering in, or trying to assume responsibility for, everything that happens in any one of our six cities.

First, the role is about ensuring that we give our cities' growth and success due priority. Everybody here knows that the Scottish Government's overriding objective is sustainable economic growth. The committee has just heard from John Swinney; I have no doubt that he talked about the priority that we attach to creating and sustaining jobs, among other things. In that context, as in many other contexts, our cities' role is vital. For example, 60 per cent of all private sector employment is in our cities or their immediate regions. Economic success is, of course, vital to the wellbeing of each of our cities but, in turn, our cities' economic success is important to Scotland's overall success. It is therefore important that we give due priority to ensuring that our cities are as strong and as successful as they can be.

My role is also about ensuring as far as possible that the Scottish Government's policies and investment priorities are aligned to and support the priorities that we set for our cities, whether they relate to transport and infrastructure, how we invest in and fund regeneration, how we support the strong cultural identity that is key to our cities' success, or how we tackle more effectively some of the deep-seated problems that still exist in our cities, such as persistent poverty and health inequalities.

I will touch on our plan for a new cities strategy. It is important that the work that I have talked

about has a real focus and that we develop a set of priorities that are shared across the Government—my role will involve close working with other ministers and cabinet secretaries; between the Government, our local authorities, the private sector and other stakeholders; and between the Government and the Parliament. We intend to develop a new cities strategy to ensure that we have a shared sense of our priorities in each city individually, and between the cities collectively.

Our plan is to develop that strategy by the autumn or early winter. We see it very much as being a dynamic strategy that will focus on where the Government, working with our partners, can add genuine value to efforts to grow our cities, and not on how we can reinvent the wheel or duplicate effort that is undertaken elsewhere. Obviously, that work has to be closely aligned with other workstreams including the spending review, our work on developing a new regeneration strategy and enterprise zones—I know that the committee discussed enterprise zones with Mr Swinney earlier—and our work around TIF schemes, to name just a few.

The third and final subject that I want to touch on is engagement. The development of the strategy will follow a process of engagement over the summer. Today's meeting is very much part of that process. I have already spoken to all the city leaders, and I intend to meet them individually and collectively over the summer. I will speak about the agenda at the national economic forum next week, and we will look to engage with and build on the good work that the Scottish Council for Development and Industry has already done to try to develop a shared vision for all the cities. We will also look to engage with local government more generally, and with business, the Scottish Trades Union Congress, the third sector and communities. Today's meeting is a welcome part of that engagement, and I am looking forward to hearing committee members' views. I hope that members will appreciate that work is at an early stage. I am more in listening mode than I am in nailing-my-colours-to-any-mast mode today, but I will be happy to come back at a time that suits the committee's work plan to discuss the strategy's emerging themes as they start to become more evident over the summer and into the autumn.

**The Convener:** Thank you, cabinet secretary. I am told that the cabinet secretary is always in listening mode; it is not just today.

**Nicola Sturgeon:** Always.

**The Convener:** I want to ask a high-level question. I entirely accept that you are consulting over the summer and that nothing of substance will be produced until the late autumn or early winter, but let us try to look five years forward.

What differences do you hope will come about with the cities strategy compared with what would have happened anyway without any formal cities strategy? Do you have a high-level vision for the type of things that you want to see?

**Nicola Sturgeon:** I hope that there will be more coherence and co-ordination between our cities where that is appropriate. We all know all our cities, and some of us know some of them better than others. All the cities have their own strengths and challenges. I hope that we will get from a cities strategy a clear sense of where the Government can help each city to play to its strengths, whether that is in life sciences in Edinburgh through the BioQuarter, renewables and engineering in Glasgow or the creative arts in Dundee, for example. We can help cities to play to those advantages and overcome some of their challenges, and we can collectively have a view of our cities as being greater than the sum of the parts. It is inevitable that there will be occasions when they will compete with one another, but there will be more opportunities, which will differ on different occasions, over the next period for some of our cities to work together and achieve more with a co-ordinated approach. The aim is to bring coherence and co-ordination to ensure that we genuinely maximise the potential that we all believe our cities have, for their own sakes, the sakes of the regions that they sit in, and for the sake of the wider Scottish economy.

**The Convener:** I do not know whether you have had a conversation with Mr Swinney about a budget for the part of your role that we are discussing. Do you envisage a specific budget for cities within your directorate, or do you envisage different departments having budgets for cities? How do you think things will hang together financially?

**Nicola Sturgeon:** Obviously, decisions about budgets will fall to the spending review, and it would probably be dangerous if I went too far into those discussions today, as that process is at a very early stage. Therefore, you should not take what I am about to say as my ruling anything out; I am just thinking out loud.

I am sure that many people will argue for a dedicated budget approach, but my view is that there are dangers in that. I see the role in question as being to ensure that, wherever spending decisions that affect cities lie, such decisions are aligned with the priorities that we have set for cities. Responsibility for spending on transport and regeneration will lie in different departments, but the strategy is about ensuring that we have a joined-up and coherent approach across Government, rather than taking bits of spending from different areas and putting them into a particular pot. That is my first point.



My second point is probably more cautionary. As everyone will be tired of being reminded, money—particularly capital funding—is tight and will be so over the next few years. A key part of all this—although it is not necessarily unique to cities, it is particularly relevant to them—is to consider how we can lever in additional sources of revenue and use public sector money more dynamically to unlock other investment. In my opening remarks, for example, I mentioned tax increment financing; one such project has been approved and another two are in the process of approval. We could also consider enterprise zones to use tax allowances or planning, and business rates incentivisation schemes. The question is not only how we prioritise growth to grow the tax base and revenues but how we lever more money into city economies. In that respect, I think that there will be more emphasis on innovation and creativity than we might have seen in the past.

**Chic Brodie:** Good morning, cabinet secretary. It is good to see you here.

You mentioned the SCDI report “Scotland’s Six Cities”, which states:

“Our Cities are the international gateways to Scotland”.

As someone who holds Robert Burns international airport—I am sorry; I mean Glasgow Prestwick airport—close to his heart, I ask that we remember that there are other international gateways apart from those in cities. Indeed, one would expect me to disavow that particular statement in the report.

I have a more pertinent question. You will recall that some years ago now Scottish Enterprise based its strategy on what was called the metropolitan strategy, which focused on two cities: Glasgow and Edinburgh. How much of that will be picked up or, indeed, discarded, given that it was not particularly successful?

**Nicola Sturgeon:** As someone who grew up a few miles from Prestwick airport, I assure the member that his first point is well made and chimes quite strongly with me.

As for his second question, my view is that in taking forward this agenda—and partly given the environment and times that we live in and the fact that money is tight—we should be as innovative as possible in our thinking. Although that does not mean that we should chuck out everything that went before, we should not simply do things as they have always been done or be prisoners of previous thinking. I will be very much looking not only at what works and what aspects of the previous approaches have been shown to work and would merit being continued, but at what has proved not to be the right course of action and what might be better approaches.

I have no fixed views on this; we should certainly take a fresh look at the issue. We should be prepared to be innovative in our thinking and not only build on what has worked in the past but recognise the areas where we might have to try different approaches.

**Angus MacDonald:** Obviously, I take on board the cabinet secretary’s view that cities are crucial to Scotland’s overall economy and acknowledge that she has already partly addressed this question. I point out, however, that although it is still at an early stage the cities strategy is causing considerable anxiety, not least in my constituency. In Falkirk district, which is sandwiched between Scotland’s two largest cities, concern has been expressed that if more funding goes to cities we could be not only short-changed financially through the Convention of Scottish Local Authorities’s funding formula but squeezed out of the picture. Is the cabinet secretary able to assure us that such concerns will be taken on board and that the issues of the areas that sit in between cities will be addressed?

**Nicola Sturgeon:** I hope that I am able to give that assurance. I was wondering whether Mr MacDonald was about to launch the campaign for city status for Falkirk—

**Angus MacDonald:** Now that you come to mention it—

**Nicola Sturgeon:** That might come at some point in the future.

Although I represent a city constituency, I recognise the anxiety that those who do not represent city constituencies, or that local authorities in non-city areas, might have about all this, and I hope that in the engagement that I have mentioned I can help to allay some of those concerns.

11:00

The cities strategy is not about trying to ensure that cities get an ever-bigger slice of the funding cake—although I am sure that there are plenty of city MSPs who would argue that that would be appropriate—or how Government and other agencies or partners can help cities. It is about how we ensure that cities fulfil their potential for the sake of their residents, and how cities can help the rest of Scotland, particularly the areas in their immediate vicinity. It is very much a two-way process. It recognises that without strong, growing and successful cities, the rest of the country will not prosper as much as it could. It is not about sucking everything into cities, but about ensuring that cities can be catalysts for greater growth and prosperity throughout the country.

**Angus MacDonald:** Thank you. That gives me some comfort.

**Rhoda Grant:** On the point about cities becoming catalysts for greater growth, I, too, will be quite parochial and talk about Inverness. It is a city that has poor road and rail links to other cities in Scotland. Any improvement to those links would be a catalyst to further growth throughout the Highlands and Islands. How can the cities strategy be used to make such improvements? I heard on the news this morning about rail improvements between Glasgow and Edinburgh. From where I sit, those rail links are pretty impressive compared to those in my area. Although, given the distances involved, the spending required to make improvements in my area is much bigger, we cannot lag behind for ever.

**Nicola Sturgeon:** That is a valid and legitimate point. Just as I hope that I managed to reassure Angus MacDonald, I hope that I can do likewise with you, Rhoda. The cities strategy is not just about Glasgow and Edinburgh or the central belt, but about all of our cities. They all have different needs and priorities. I spoke earlier about the need to engage with cities not just collectively but individually. I am sure that the engagement with the Highland Council about Inverness will focus greatly on the connectivity challenges that are faced by Inverness. The discussion that I have already had touched on that.

At this stage, I am unable to go into specifics about this rail link or that road project. However, I will ensure that we are talking not just about Glasgow and Edinburgh, or more vaguely about cities as a collective, but about specific needs and how we, as the Government, will help to address those specific challenges. I hope that that gives you some general reassurance at this stage. Obviously, as the themes emerge, we can have more particular discussions.

**Patrick Harvie:** I congratulate you on the addition of the cities strategy to your previous portfolio. It will be a really interesting area of work, and I look forward to engaging with it.

On several occasions during this morning's meeting you have talked about the strategy in terms of promoting growth in cities. Just as I did with John Swinney earlier in the meeting, I would like to explore whether there is an understanding of growth and prosperity that is wider than just pure economic growth.

In your introductory remarks you mentioned issues such as longstanding poverty, health inequality and cultural identity. I want to ask about the environmental justice aspects of the cities strategy. Every day in your constituency you will see that although city life can be fantastic—I would not live anywhere other than a city—people living

in our cities often suffer the most acute failings of environmental justice, and have done for a long time. What do you see as being the connections between the cities strategy and the need to develop environmental justice?

**Nicola Sturgeon:** First, I will make a brief—I hope not so brief as to be glib—comment. Our commitment to economic growth is to sustainable economic growth. Perhaps we need to use that word more than we do.

The environmental and cultural aspects of cities are integral to how I see the cities strategy developing. I will give you an example, because sometimes it is best to illustrate things. On Monday this week I was taken on a tour of a regeneration area in the part of my constituency that is new to me—Oatlands in Glasgow—because of the boundary changes. It is probably an area that you know, Patrick. It is a big regeneration area, with lots of housebuilding. The new motorway is close by and goes over it—

**Patrick Harvie:** Back to environmental justice again.

**Nicola Sturgeon:** We will perhaps get into those discussions at a later stage, but what I was going to say was that what struck me when I spoke to locals was that some of the aspects of the regeneration that they most valued were the cycle lanes along the Clyde, the Clyde walkway and the fact that from that area they can walk across the river into Glasgow Green, to the city and to the east end. That environmental and quality-of-life aspect was integral to quite a large-scale regeneration project.

For me, quality of life is a very important aspect of living in a city. Patrick Harvie and I both live in a city. Like him, I think that it is fantastic and I would not choose to live anywhere other than a city, but aspects of city life are difficult for people. When we look at how we grow our cities and make them more successful, it is not only about the hard elements of economic growth that are easy to measure and easy to talk about; it is also about ensuring that quality of life, which encompasses the kind of things that you are talking about, are built into that. I hope that I am very much in tune with you on the issue and I am more than happy for there to be particular scrutiny of that aspect of not only the cities strategy but all our work in this area.

**Stuart McMillan:** Some of my colleagues on the committee have touched upon the issues that I want to raise. Angus MacDonald spoke about Falkirk, which is located between the two cities, while I represent areas that are west, north and south of the largest city in the country. There are no cities in the West Scotland region. The connectivity between some of the areas that I

represent and Glasgow is excellent and I recognise that there are wider spin-off benefits. I warmly welcome the focus that is given by the appointment of Nicola Sturgeon to the role and the addition of the cities strategy to her portfolio. A focus on cities and what they can bring to the country is long overdue.

However, I am still a bit wary. Areas of the west such as Inverclyde and Dumbarton are close but still a bit distant from Glasgow and, obviously, over the past 20 years or so there has been a tremendous amount of industrial decline. I would not like those two areas and others in the west to become suburbs of Glasgow, because I think that areas in the west have a tremendous amount to offer rather than just being annexes of Glasgow.

I am keen to hear a bit more about the consultation process that will take place over the summer. In particular, what wider elements of consultation will take place so that the process is about speaking not only to the city leaders but to those who represent non-city areas, and about providing them with assurances and guarantees that their areas will not suffer financially and that their areas will still be able to tap into the wider city strategy that will be implemented?

**Nicola Sturgeon:** That is a good question, which follows on from Angus MacDonald's question. I think that I knew this before the meeting, but our discussions this morning so far have reinforced in my mind that one of the biggest challenges, particularly in the early stages of developing a city strategy, is not only to convince the cities that it is a good thing and that there are benefits in it for them, but to convince non-city areas of two things: first, that it is not a threat to them and, secondly, that strong, successful cities have benefits for other parts of Scotland.

I give the committee an undertaking that we will ensure that our consultation and engagement over the summer have that correct balance. We will take the views not only of those with an immediate interest and involvement in our cities but of those in other areas, so that we can give the right reassurance and the right messages, and involve other areas in that work as it develops. That is an early point of action from our discussions.

**Stuart McMillan:** You are aware of the urban regeneration company Riverside Inverclyde, and the work that it has done in the area in recent years. It represents a second opportunity for Inverclyde. Some years ago, Inverclyde was given enterprise zone status, which was not successful at all. The URC has since come along and is providing good opportunities to move Inverclyde forward. However, given the strategy's focus on cities, if a tremendous amount of attention is being given to cities and budgets are being reprofiled so that more money goes to cities, there could be

concern that URCs in Inverclyde and elsewhere could suffer.

**Nicola Sturgeon:** I take that point. I suspect that I might have early opportunities over the next couple of weeks to see some of the Inverclyde issues at first hand. More generally than that, however, I want to give the committee a strong assurance that I take the point that you make.

On the specific point about urban regeneration work, I referred earlier to the parallel workstream around our regeneration strategy—the consultation that began before the election and finished last week, on 10 June. We will publish some of the consultation responses over the next period. That has to be aligned with the work around cities, so I would expect the committee and others to return to this area again and again. As we focus on cities and support their growth, we will ensure that we do not do so at the expense of other areas, but instead that we use cities as a catalyst that benefits the rest of Scotland, too. I understand that that is probably easier to say than it is to achieve, but I assure the committee that we will bear that point very much in mind.

**John Wilson:** I confess that I have never lived in a city. Once upon a time I had aspirations to live in Glasgow but I have never done so, although I have worked there and was educated there. I know that there are quite clear issues around the concentration of deprivation that exists in some of our cities and that we need to tackle those issues.

Given that the cities strategy cuts across other portfolios, how do you envisage sitting down with the other cabinet secretaries and ministers to get the strategy right? I acknowledge that you would not give a commitment earlier in terms of specific funding for the strategy. If we are to set up a cities strategy, we need to ensure that it works and that other cabinet secretaries and ministers understand the direction that you are trying to set for the strategy.

**Nicola Sturgeon:** The first point to make is that I have always thought that everybody aspired to live in Glasgow, but perhaps that is not true. Actually, I know that it is not true—I should not be so flippant.

The cities strategy is a cross-cutting agenda, which is why I was slightly cautious in response to the question about a dedicated, ring-fenced budget. I think that strategic approaches work best when they get various areas that all have a bit of an interest to join up and align properly.

In terms of the mechanics of how that works, as a Government we are fairly well practised at that kind of cross-cutting approach. When the Government was set up four years ago, it was designed to facilitate that strategic approach. It

does not always work as easily or as well as it should do, but that is how it is designed.

If we look back at our child poverty strategy, our poverty strategy in general, our early years strategy and our work to tackle health inequalities, we see that they were all devised and developed in the same cross-cutting way, and we will bring that approach to the development of the city strategy. I will clearly be a minister with responsibility for leading that work and ensuring that it has the focus and momentum it needs, but I will draw on colleagues to ensure that other policies and funding decisions are aligned.

A specific example of that is the work on enterprise zones. Although John Swinney is the lead minister on that, I will be involved as I have a particular interest from a cities perspective. There will be other specific examples of where the cross-cutting approach is needed, as well as in the overarching strategy that we have been talking about.

**John Wilson:** Thank you.

11:15

**Chic Brodie:** Unlike John Wilson, I have lived in a city—I was raised in Dundee. I think that it was Churchill who said as an MP that the best view of Dundee was from the train leaving it. He could hardly say that now; I am very proud of the city.

In the earlier session, we had a conversation with Mr Swinney about social enterprise. I have a great vision of a kind of league table of social enterprises, with successful social enterprises moving into the small and medium-sized business sector, and from there the successful businesses being mentored by Scottish Enterprise and, I hope, becoming great international companies for Scotland.

This is not so much a question as a request, cabinet secretary. I ask that you consider the creation of social enterprise hubs in the cities, preferably in the areas that currently suffer from deprivation. As with the Raploch experiment in Stirlingshire, which put musical instruments in kids' hands, it might be instructive to find out what generation and entrepreneurial ideas there are in areas that we have not tapped. I ask that you give some consideration to that as you develop the strategy.

**Nicola Sturgeon:** I am more than happy to do that; it is a worthwhile suggestion. Social enterprise has an enormous role to play in our ambitions for economic growth and how we secure success for our cities, so I am more than happy to give some detailed consideration to that idea.

**Patrick Harvie:** This may be a wee bit speculative as a question, so I am asking not

necessarily for a conclusion but whether there is scope for considering the idea. The Scottish Government—the SNP—often makes the case that for Scotland to do better, whatever we mean by that, we need more powers. I often end up agreeing with that argument, but do we need to think about the cities in the same way? Politicians at every level are sometimes bad at giving away power either to a lower level of government or directly to communities. Is there scope for thinking about devolution of some powers and decision-making authority that is held at national level, either by the Government or by national agencies, to local authorities at city level and, below that, devolving some of their powers to community level? Is that part of where we are going?

**Nicola Sturgeon:** I think that there is scope, and I do not think that it is unique or peculiar to cities. One thing that we did over the past four years—you will be familiar with this, Patrick—was the pilot exercise to devolve funding to community councils. In the area that you live in and which I represent, a number of community councils are working on a proposal to redevelop the Queen's Park bandstand. It is a fantastic local project, driven completely by local priorities and local decision making. That philosophy is good. It can be shown to work, and I would like to see us use it more.

I can reference more examples in my constituency. In Govanhill, for example, a lot of work has been done to bring together agencies to tackle some deep-seated problems. With real community empowerment and decision making, the ability to tackle such problems is all the greater. I am very much in favour of that approach and would be happy to look with colleagues at how we develop it.

**The Convener:** Are there any shiny international examples of a cities strategy succeeding, or examples of such a strategy failing?

**Nicola Sturgeon:** I am not sure whether that question was the committee inviting me to go fact finding to international cities as part of my summer engagement process.

We should learn what we can from international examples, and perhaps we do not do enough of that in Scotland. We have our own, unique circumstances and challenges, and we will need to fashion something that is right for us, but we will certainly consider examples from other cities—principally in Europe—and see what we can learn. Perhaps the committee would like to go on a fact-finding tour to assess that.

**The Convener:** Ha ha—no comment.

You have said that you will be engaging over the summer, and I think that you have heard the

message from the committee that the views of non-cities are important. Has the Government ruled out the idea of the strategy becoming a cities-and-towns strategy, or will it definitely be a cities strategy—based, I presume, on the six cities?

**Nicola Sturgeon:** I have said that I am in listening mode, so I will not be too definitive. However, I regard the strategy very much as a cities strategy—but with cities being considered within the regions that they serve. In that sense, the strategy is a little broader.

**The Convener:** As there seem to be no further questions, I thank the cabinet secretary for joining us this morning.

**Nicola Sturgeon:** Thank you.

**The Convener:** We hope to have you back once plans are a bit more concrete.

11:21

*Meeting suspended.*

11:24

*On resuming—*

## **Reporter (European Union)**

**The Convener:** Item 2 is the appointment of a European Union reporter. The role of the reporter will be to act as a conduit between this committee and the Scottish Parliament's European and External Relations Committee. The reporter is supposed to act as an EU champion and to have early engagement in EU matters or where EU law impinges on the work of the committee.

In December, the Parliament agreed on a plan for EU engagement, and it was thought then that each committee ought to have an EU reporter. It struck me in 2009—when we did the banking inquiry—that that was not a bad idea. Two particular directives jumped out at that point—one called the hedge fund directive and one called solvency II. Both those directives impinged very much on financial services in Scotland. On the basis of the fact that he was on the committee at that time and has knowledge of one or two of the directives that will affect us, I nominate Stuart McMillan as our EU reporter. Is the committee amenable to that?

**Members** *indicated agreement.*

**The Convener:** I assume that Stuart McMillan is happy to be the reporter.

**Stuart McMillan:** Yes, I am.

**The Convener:** Thank you.

## Work Programme

11:25

**The Convener:** The last item on the agenda is an update on the committee's work programme. We had a discussion last week about our work programme. There is nothing further to say about the business planning day except that if any member has suggestions to make in addition to the very good suggestions that were made last week, they should please send them to the clerk this week. I would like us to agree formally at our next meeting the shape, date and so on of the business planning day. As agreed at our previous meeting, our next meeting will be on 29 June.

**Stuart McMillan:** Regarding the work programme, I read in one of the newspapers this morning about the potential changes in banking legislation. I cannot remember whether we discussed the matter at our meeting last week, but it might be worth putting that on the agenda.

**The Convener:** Sorry, but I missed the start of what you just said.

**Stuart McMillan:** I read in one of the newspapers this morning about the potential changes to banking legislation that may be made by the UK Government. I recommend that we put that issue on our work programme to be discussed at our away day, to see exactly what is proposed and what the effects will be on the banking sector in Scotland.

**The Convener:** Agreed—that is a good suggestion. I think that the independent commission on banking will report in September. What was trailed today was the concept of ring fencing retail banking from investment banking. The committee should definitely look at that.

We agreed that we will invite the Office of the Gas and Electricity Markets and energy suppliers to our next meeting to talk to us about energy prices on the back of the price rise that was announced last week. That meeting will take place two weeks from today, on 29 June, and there will be three panels of witnesses. On the first panel, we will have Energy Action Scotland and Consumer Focus Scotland, who have agreed to talk to us about some of the issues. For the second panel, we invited the big six energy suppliers to give evidence to us. Scottish Power, Scottish Gas, E.ON, npower and EDF Energy have all accepted that invitation. Scottish and Southern Energy wrote to tell us that nobody was available on that day. As it stands, five of the big six will give evidence to the committee. The third panel will be the chief executive of Ofgem. We have a pretty full agenda for that meeting. Everybody whom we initially wanted will be here,

plus a few more, so the meeting has the potential to be very useful.

**Chic Brodie:** I am glad that we are bringing in more than just Scottish Power. As I said at the previous meeting, we should not focus simply on that company, as we know what is likely to happen with the other companies. I ask that we get as much detail as we can from the Scottish Parliament information centre about the tariffs. The Scottish Power proposal is not for a rise of 19 per cent; the feed-in tariff is about 30 per cent. It would help us if we could get some clarity around the questions that we might ask.

**The Convener:** That is a good point. Last week, we asked SPICe to produce a paper containing as much detail as possible and I met a member of SPICe the following day to go through what we are looking for in a bit more detail. Your point is a good one and I am sure that that information will be incorporated. I hope that we will get the fullest briefing possible, so that we can make it the best session possible.

If the committee wants, I can ask Scottish and Southern Energy to reconsider whether there is a possibility of somebody coming here on that day so that we can hear from all of the big six. Do committee members think that that would be a good idea?

**Stuart McMillan:** Absolutely, convener. If the other five companies are coming, Scottish and Southern Energy might be prepared to reconsider its decision.

11:30

**Rhoda Grant:** That is a good idea. However, I would have thought that if Scottish and Southern Energy was at all able to send a representative it would have agreed to do so. Perhaps we could ask it for a written submission. If, following the meeting, there are questions that we have asked the representatives of the other companies on which we think it would be helpful to have additional responses from Scottish and Southern Energy, perhaps the company would be willing to oblige.

**The Convener:** That is a good suggestion. In the past, Scottish and Southern Energy has been pretty good at attending when we have asked. Its track record is good in that regard.

We will ask the company to reconsider and see whether there is any way for it to get somebody to attend on the day; otherwise, Rhoda Grant's written submission suggestion is a good one.

**Chic Brodie:** I am concerned about the idea of just asking Scottish and Southern Energy for a written submission. If we agree to let Scottish and Southern make a written submission, the other

companies might suggest that there should be parity, and that they, too, could just supply a written submission. Perhaps not—but that is my concern. I agree with Stuart McMillan that we should ask Scottish and Southern Energy to send someone along.

**The Convener:** It is a fair concern, but I do not think that that would happen. We asked all six companies, and five of them accepted. There was no question of company representatives appearing only if the others also accepted. I do not think that there is any prospect of people pulling out just because one company is making a written submission. Although you might be right, I would be pretty surprised.

**John Wilson:** If Scottish and Southern Energy is aware that the other five companies are prepared to have someone come along to the committee, it might reconsider its position and, hopefully, find someone to send along to give evidence that day.

We hope that the discussion will stimulate a debate around Scotland on the energy pricing policies of some of the major companies. That was the intention behind the decision to hold such a session. We heard today from the two cabinet secretaries about economic security, and energy prices have the potential to destabilise it for many families, as we are aware.

One or two of us met representatives of Ofgem at lunch time on the day of our previous meeting. We were enlightened with respect to some of the issues that Ofgem identified. My particular concern was about the number of people who will find themselves pushed further into fuel poverty. The committee and the Parliament must concentrate on that, so that people in Scotland are protected as much as possible from price hikes such as those that we have discussed—whether in the energy sector or elsewhere.

**The Convener:** I will write to the company in those terms, and we will see the results. A good briefing will be produced before our next meeting. The public part of the meeting will start at 10 o'clock; I invite members to attend a pre-briefing at 9.30, to discuss where we are going and to ensure that we maximise the time that we have.

As members have no further points to raise, I close the meeting. I will see everybody in two weeks.

*Meeting closed at 11:33.*





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