The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 26 October 2011

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
9th 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:

John Downie (Scottish Council for Voluntary Organisations)
Forbes Duthie (Highlands and Islands Enterprise)
Andrew Faulk (Consumer Focus Scotland)
Norman Kerr (Energy Action Scotland)
Anne MacColl (Scottish Development International)
Alex Paterson (Highlands and Islands Enterprise)
Malcolm Roughead (VisitScotland)
Iain Scott (Scottish Enterprise)
Niall Stuart (Scottish Renewables)
George Thomson (Volunteer Development Scotland)
Duncan Thorp (Scottish Social Enterprise Coalition)
Lena Wilson (Scottish Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 1

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 26 October 2011

[The Convener *opened the meeting at 09:32*]

Draft Budget 2012-13 and Spending Review 2011 Scrutiny

The Convener (Gavin Brown): Good morning, ladies and gentlemen. I welcome you to the ninth meeting in this parliamentary session of the Economy, Energy and Tourism Committee. I ask everyone to switch off their mobile phones and BlackBerry-type devices, because they interfere with the equipment—actually, you can probably keep your BlackBerrys on. I thank the deputy convener, John Wilson, for convening the two previous meetings, during my absence on paternity leave.

I welcome our first panel of witnesses: Lena Wilson and Iain Scott are from Scottish Enterprise; Alex Paterson and Forbes Duthie are from Highlands and Islands Enterprise; Malcolm Roughead is from VisitScotland; and Anne MacColl is from Scottish Development International. Thank you for submitting written evidence in advance of the meeting. Given that time is tight and we have your submissions, I propose to go straight to questions.

One of the cabinet secretary's big announcements was the switch of more than £200 million a year from revenue to capital. According to information that the Scottish Government gave to the Scottish Parliament information centre, about £280 million of the total transfer will fall on the shoulders of the enterprise agencies. How do the agencies envisage the switch taking place? What plans are in place in that regard?

Alex Paterson (Highlands and Islands Enterprise): Thank you and thanks for the invitation this morning. I am pleased to be here. I want to make a couple of comments. Every year, our budget comes with a capital component and we always spend that, but we also have flexibility to spend more than our capital target by switching from revenue into capital. We therefore always exceed our capital budget through the projects that we invest in at our own hand, as well as our investments in third-party organisations that then invest in plant, equipment, buildings and so on. We have, and always have had, flexibility to move budgets from our revenue budgets into our capital budgets and that will continue.

I expect that over the coming years we will spend more on capital than our targets for capital. From a Highlands and Islands point of view, looking forward, there are a lot of big capital projects such as the campus project in Inverness and the marine science park down in Argyll; others are in the pipeline and will come through in the course of this year and future years. We will put more money into capital than our capital targets, but we have always done that and we have flexibility to do it going forward.

Lena Wilson (Scottish Enterprise): Again, thank you very much for the invitation. It is very nice to be here with this new committee. The situation for Scottish Enterprise is exactly the same as that described by Alex Paterson. We have a revenue and resource budget and a capital budget and we have flexibility with what we can move into the capital budget but not with what we can move the other way, as you would expect. We, too, have always exceeded our estimated capital and we have complete flexibility about it. Like Highlands and Islands Enterprise, we have a huge amount invested in renewables and capital infrastructure, such as in the ports and through our international technology and renewable energy zone—ITREZ—project in Glasgow with the University of Strathclyde, through Edinburgh BioQuarter and through the Scottish Exhibition and Conference Centre. They are all key capital projects that underpin what we are trying to do for growth. For the spending review period, the capital element of our cash budget totals about £66.9 million, but our planned capital expenditure will be in the region of £300 million, hence some of the newspaper reports.

The Convener: The Government said that about £280 million will come down to the enterprise agencies in the switch. How is that split between Scottish Enterprise and HIE?

Lena Wilson: Over the spending review period, we plan to spend about £300 million on capital expenditure.

The Convener: But £300 million more than was previously planned?

Lena Wilson: We would plan for about £66.9 million as the capital element of the allocated cash budget, and we would plan to spend £300 million. Every year, we spend more in capital than we have an allocation for, if you like.

The Convener: You have presented us with a 10-page report that does not mention anything about moving from revenue to capital, which I was a bit surprised about—there is not even a cursory mention. Given the budget lines that are outlined on page 6 of SE's submission, where will money come out? You have suggested more than £200 million, which is a pretty substantial sum given that your grant in aid is not much more than that for one year. Which budget line will that £200 million come out of so that it can be spent on capital?

Lena Wilson: I shall pass to Iain Scott for the detail of the finances, but it is not a question of anything coming out of anything. Our capital budgets flow through all our support for businesses and for sectors. Our support for our business and infrastructure underpins that. It is not a question of not doing something because we are spending on capital, but I shall pass to Iain for the details.

The Convener: Sorry, but if you are not spending it on resource and are shifting it to capital, there is something that you are not doing. You can spend money only once, so you must not be doing something in order to spend that £200 million on capital.

Lena Wilson: We will still be supporting sectors and companies as they become more competitive and we will be using capital as a way to do that, for example by investing in port infrastructure.

The Convener: Okay. Can Mr Scott elaborate on that?

Iain Scott (Scottish Enterprise): Yes, I will try to do that. I was going to say the same as Lena Wilson, which is that nothing is coming out. In our expenditure in any one year, which is about the £310 million level, about £135 million is spent on capital expenditure. We have always had a similar level of capital expenditure in every year and the big change this year is that we have been given more revenue budget and less capital budget than we have had in the past. Overall, the total is almost exactly the same and because we can switch from revenue to capital we can maintain our capital expenditure at the same level as we always have.

The Convener: Let me put it another way. What type of things have you done with a similar amount of money in the financial year 2011-12 that you will not be able to do in 2012-13 because that money will go on capital instead of revenue? Two hundred million pounds is a substantial sum of money. What are you not doing next year that you have been doing this year?

Iain Scott: The answer to that is nothing. We are not stopping anything. In 2010-11, around £135 million of our budget is capital-type expenditure. The Government gave us around £50 million in capital for that year, so in the current year we are already moving £85 million from revenue to capital-type expenditure. We are maintaining our capital at the same level, but we are not stopping any of our revenue expenditure—we are maintaining it at the same level.

The Convener: I see. I will leave that issue just now, as other members wish to come in.

Rhoda Grant (Highlands and Islands) (Lab): On that point, is Iain Scott saying that nothing has changed? A big move from revenue to capital was announced, but you are saying that you move from revenue to capital year on year anyway, so the announcement just covers what happens in normal circumstances.

Iain Scott: There has been no change in what Scottish Enterprise invests in or spends its money on. The Government had a smaller capital budget to allocate in the first place, so it has allocated us more revenue than it has ever done in the past. We are switching that revenue to capital expenditure, which makes up the majority of the £280 million.

Lena Wilson: Our plan for the next three years clearly indicates a key shift to renewable energy. A huge part of realising that has been the provision for capital expenditure—which we clearly articulate in our business plan—on projects such as the ports, Fife energy park and ITREZ in Glasgow. We have already planned that capital expenditure in order to realise that strategic shift, and I expect that Highlands and Islands Enterprise has done exactly the same.

Alex Paterson: I will make a couple of comments and then ask Forbes Duthie to give you the numbers.

Our capital allocation for the next three years totals £28 million. That is not even for each of the three years—it is the total. It is £7.3 million this year, it goes up to £18 million next year and then it comes back down again. The reality, as Lena Wilson said, is exactly the same for HIE as it is for Scottish Enterprise. Every year we spend much more on capital because we can switch the revenue to capital.

The increased capital for next year reflects the number of big projects such as the Inverness campus, among other things. Going forward, I expect that we will spend more on capital than we have in previous years, simply because projects that involve renewables and next-generation broadband, for example, are capital intensive. There will be increased capital spend, but we have that flexibility and we use it every year.

Chic Brodie (South Scotland) (SNP): On the issue of energy, I know that you lay claim to the £64 million in the Government's budget, of which £19 million is for supporting energy efficiency advice to householders. I am not sure whether that comes under the remit of Scottish Enterprise and HIE.

On the point about capital, can you tell me how your shift will impact on non-cash items, given the depreciation that is reflected in the Government's budget? You are talking about £200 million of expenditure—I do not know what the depreciation period is, although I should—and yet the Government alone is showing £27 million of depreciation. If you shift £200 million to capital, will that not impact on the non-cash items?

Iain Scott: I will try to answer that again. In my previous answer I said that we have always had a similar level of capital expenditure, because we have previously moved revenue to capital, so the change in depreciation is negligible in that respect.

Chic Brodie: Can you help me? If you are investing £200 million, does that have no impact on the non-cash items with regard to depreciation?

Iain Scott: There is a depreciation element in the figure of £27.8 million that we are looking at as our non-cash allocation.

Chic Brodie: Does that reflect the £200 million that you are talking about shifting from revenue to capital?

09:45

Iain Scott: I am not really getting the point of your question. Within the £27 million, about £7 million or £8 million every year relates to depreciation in our annual accounts. A larger proportion of that money relates to write-downs in property values, and sometimes write-offs of investments, so it is used for a range of non-capital-type items—it is not all depreciation. About £6 million or £7 million relates to depreciation.

Chic Brodie: Perhaps you can raise the matter with the Government, which says in its statement that the £27 million relates to depreciation in your assets.

Iain Scott: Okay. It is hard for me to comment on that.

Chic Brodie: Perhaps it just needs clarification.

The Convener: I see that Mike MacKenzie has a question. Is it on the same point?

Mike MacKenzie (Highlands and Islands) (SNP): It is not on that point, so I am quite happy to wait.

The Convener: Okay, I will just close that point. As I said, £200 million is a substantial sum of money. Why do you not mention that switch in your submission to the committee?

Lena Wilson: I think that that is normal business practice. As Alex Paterson has also pointed out, every year we utilise fully all the flexibility that we have. If that involves shifting revenue to capital to access an opportunity such as winning an investment for Scotland or investing in something, we do it.

Our powers include wide and varied flexibility, and this year is no different from any other. It is not a special situation that we would highlight in the business plan.

The Convener: So, when the Cabinet Secretary for Finance, Employment and Sustainable Growth stood up on budget day and announced that one of the central planks of his budget was a switch from revenue to capital of £750 million, SE's point of view was that that was just a normal business year.

Lena Wilson: My view is that it is normal custom and practice for Scottish Enterprise. The amounts that the cabinet secretary said that we are likely to spend were technically correct.

The Convener: My point is that it was played as a big announcement, but you are saying that you do that every year anyway, all the time, and that as a consequence it is not a particularly big announcement.

Lena Wilson: No, I am not saying that it is not a particularly big announcement. That is not for me to comment on. I am saying that we have that flexibility and utilise it fully in order to have the greatest impact on the economy.

The Convener: I do not want to dwell on that point, as I know that other members want to come in. My final question is for the witnesses from both Scottish Enterprise and HIE. The information that you presented to us does not mention the switch at all, and there is no indication in any of the budget lines of where the extra capital will be spent or where it may have been spent in the past.

On the final page of SE's submission, the amount that is being spent on capital appears to decrease pretty substantially, leading up to 2014-15, when you plan to spend only £3.9 million on capital. You are shaking your head. Do you accept that that is what your submission says?

Iain Scott: Not really. Our submission shows the Government's allocation of income to us. That is not what we are spending on the expenditure side. It is right to say that the level of capital income is reducing, but as you will see there is a compensatory increase in the revenue income.

In the next three years we will spend about £135 million each year on capital expenditure, which is included in our budget submission to the committee.

The Convener: It is not included in the budget submission.

Iain Scott: Sorry—it is not explicitly in there. I am saying that it is in the figures—it is in the £300 million a year that we are spending. About £135 million a year of that amount is capital spend. You are right that the submission does not specifically say that, but that is what I am saying.

The Convener: The submission does not say that at all. I think that that is important. Basically, you are not telling the committee at all how much money is being spent on capital over the next three years. Is that correct?

Lena Wilson: We are telling the committee what we will spend money on in order to achieve economic impact. Some of that will be spent on capital.

The Convener: That was not what I asked. Do you accept that you have not told the committee at all—

Lena Wilson: I accept that we have not drawn out explicitly, line by line, what we will spend on capital.

The Convener: Why not?

Lena Wilson: Our job is to be absolutely transparent and clear in our budget about the projects in which we are involved, which are often made up of a mixture of capital and revenue. Projects could involve capital, business advice, research and development grant support—there could be a range of things. We have itemised line by line the projects and activities in which we are involved, which comprise a variety of sources.

The Convener: I ask the witnesses from SE and HIE whether we could receive—before we have to submit our budget report—a clear and transparent, line-by-line breakdown on what is being spent on revenue and what is being spent on capital, with a comparison with previous years, so that what is happening is clear to us. Otherwise, we will have no idea. With sums of this size, the committee and Parliament ought to know what is being spent on capital—especially if it has been a central plank announced in Government policy.

Lena Wilson: That will be absolutely no problem. In all our documentation, there is no intention not to be utterly transparent. I am more than happy to provide the committee with the information that you require. However, comparisons with previous years may not be very informative for brand new areas in which we have not been involved before.

The Convener: May we have the same commitment from HIE?

Alex Paterson: Yes, we can do that.

I draw committee members' attention to page 3 of our submission. The convener suggested that we had not highlighted areas in which we have spent money on capital. The submission will give you a good idea of some of the projects in which we have invested capital over the past year or so. Some of those projects will continue, and notes indicate where we expect to focus capital spend in future. We are happy to provide more detail, but our submission gives a flavour.

The Convener: I accept that you give a flavour of names, but do you accept that there are no budget allocations for each of them?

Alex Paterson: Within the budget figures on page 4 of the submission, there is capital. I accept that the figures are not expanded to give revenue and capital, so we will provide that information.

The Convener: This is the budget process; that is why I am being so pernickety.

Lena Wilson: This budget has yet to be signed off by the Scottish Enterprise board, which meets tomorrow and on Friday in order to do that. There is therefore a caveat on everything that I am saying: the board will reserve the right to make final decisions.

The Convener: I accept that you make that point explicitly in the document.

Lena Wilson: If any changes arise, I will of course ensure that the committee is made aware of them immediately.

The Convener: John Wilson has been waiting patiently.

John Wilson (Central Scotland) (SNP): You have beaten me to the question that I was going to ask. The committee's role is to examine the budget that was presented by the Cabinet Secretary for Finance, Employment and Sustainable Growth. I repeat the point that was made by the convener: it would be useful for the committee to understand fully HIE and Scottish Enterprise's budgets and the practice of transferring from revenue to capital expenditure.

When the cabinet secretary makes an announcement on capital expenditure, we need to understand whether it is expected that HIE and Scottish Enterprise will transfer revenue funding over to capital expenditure. We need to know the details of how that works in practice, so that we can question the cabinet secretary on what he means when he talks about transfers to capital expenditure or reductions in capital expenditure. As we have heard this morning, the reality may be different. Both HIE and Scottish Enterprise have had the flexibility to transfer revenue funding—money allocated by the Government for revenue funding—to capital expenditure. We need to understand how that capital expenditure is being utilised by HIE and Scottish Enterprise as a contribution to wider budgets. In some of the figures provided, we can see that an income stream can be drawn from capital expenditure. We need to understand how that is used.

Lena Wilson: We fully understand and appreciate that point.

The Convener: In your submission, you talk about the independent evaluation that was carried out of the current proposals for the next three years, and you talk about the gross value added being between £5 billion and £7.5 billion. For every £1 that is spent on SE, you say that there is a return of between £6 and £9. You also think that between 13,000 and 19,000 jobs will be delivered. Did you give the figures, and the breakdown between revenue and capital—which we have not seen—to the independent consultants?

Lena Wilson: The evaluation comes from a variety of sources: independent economic evaluation, a series of evaluations that we do after projects and from understanding what works and what does not. A series of data comes into that and, when we examine it, we consider every aspect of every intervention in every project, including capital and revenue. We consider absolutely everything and all the information is made available.

The Convener: Do the independent consultants have a clear, line-by-line understanding of the breakdown between revenue and capital?

Lena Wilson: I am being cautious about that only because I do not want to mislead the committee in any way. Every single piece of information is made available. That includes whether an element of a project is a capital or revenue element. In that respect, the answer to your question is yes.

The Convener: Can we get confirmation of that—which independent consultants substantiate your statement and exactly what information they were given? If the information is available and has been given to them, I query again why we have not been given it.

Lena Wilson: We do a lot of that work in-house and use Government economists—a range of economists. We would not give the consultants budget breakdowns. It is much more detailed than that.

The Convener: In your written evidence, you use the phrase "independent evaluation". That surely cannot have been done in-house.

Lena Wilson: We use our in-house people to supply external people with information, so they are part of the team. The information is validated by independent evaluation and, as the word "independent" indicates, it is always, by nature, external.

The Convener: I do not expect you to pull out all the detail today, but can we get confirmation of who carried out the evaluations and whether they were given the specific information that we have discussed over the past 20 or so minutes—the breakdown between revenue and capital—so that their figures were based on a clear picture of what you plan to do over the next three years?

Lena Wilson: Absolutely. That is not a problem. Our independent evaluation has been the subject of scrutiny by previous committees—the Finance Committee and the previous Economy, Energy and Tourism Committee—so we are happy to do that.

Stuart McMillan (West Scotland) (SNP): I have one point of clarification on the £200 million. You said that such transfers have taken place in the past. Have the sums involved been similar to £200 million?

Lena Wilson: I could not give you all the figures for previous years off the top of my head, but I am sure that they have been there or thereabouts in the past. They may have been higher or lower in some years.

Stuart McMillan: It would be helpful if you would provide that information to the committee in writing.

Lena Wilson: That is no problem.

Anne McTaggart (Glasgow) (Lab): How are the agencies responding to the difficulties that many small and medium-sized enterprises face in securing finance from the banks? What importance do they place on that issue?

Lena Wilson: It is hugely important. Our typical intervention rates—the amount of money that we use in providing support, including financial support—are definitely increasing. They went down in the past when the economy was going well, because our job is to intervene at the lowest possible rate for the public purse to help companies grow, but they are definitely increasing.

Some companies are still having difficulty accessing finance and, therefore, cannot implement research and development projects. Some companies are just struggling to survive. We have intervened at the level of the banks—I have personally intervened in a few cases—and are working extensively with them. For example, I met the senior team at Lloyds Banking Group to discuss with them how they could get closer to their customers. We are working with them on a joint venture to help them better understand what issues businesses face and improve how they work with them.

We are not only working at the level of the banks but working more intensively with businesses. We are supporting them more and giving a better covenant. We go with them and stand by their side when they face their banks. We also help them with access to finance. Aside from that, we use mechanisms such as the loan fund and the Scottish Investment Bank to support them.

Finance for businesses is very important just now.

10:00

Alex Paterson: As you would expect, my response is similar. It is critical that, as we support businesses through the account management process, an awful lot of non-financial support is given as well as financial support. However, you are undoubtedly right to say that there are still challenges in accessing finance, and we are doing a number of things to address that. We have grant, loan and equity investment powers of our own, which we use, and we have the Scottish investment fund and other tools at our disposal. We have also been looking at our intervention rates. It is more important that developments happen than that we reduce our intervention support to the lowest level. The current economic climate requires us to be a bit more flexible. That does not mean our writing blank cheques or doing the job that the banks should be doing; it means our being a bit more flexible in the level of support that we can give.

Social enterprises are one type of organisation that is finding it tougher than others. We account manage 120 or 130 social enterprises, and they are finding it difficult because match funding is not available for a lot of their projects. That is an issue and we are responding to it by being flexible in our intervention rates and helping companies to prepare better for making applications to banks.

Despite all that, when we conducted a survey of our account-managed companies a few months ago, the number of businesses that were still planning to grow was significant, which is very encouraging. The issue is that they are not moving on that just now, which is why we are looking at how we can expedite that development rather than let those businesses just sit there in the absence of increased financial support.

Mike MacKenzie: First, I compliment Scottish Enterprise on the quality of its written submission—even the font was easy to read. It was a pretty good report, but I question the basis of some of its assumptions. For instance, it is optimistic regarding the general economic outlook—its only concern is about exports, given the fact that our European neighbours are in some turmoil—but I am worried that there might be a more general effect. My first question, therefore, is how the general economic outlook, which most of us feel a bit more pessimistic about, will impact on what you are able to achieve over the budget period?

Secondly, I am interested in the methodology that SE uses to calculate the impact of your activities, which takes us back to a point that the convener touched on. I appreciate that economics is an imperfect science, even in a parallel universe in which there are no enterprise agencies but everything else remains the same. It is a difficult calculation, but the methodology is of interest. The multipliers look very good.

I will broaden that and say that the impact that VisitScotland appears to be making is very good. That prompts the question whether, if we doubled or trebled its budget, we would all be very prosperous, although I do not know how far you could stretch that.

I am interested in why HIE did not provide any information at all on methodology.

I have a broader question about the map that Scottish Enterprise helpfully provided showing renewable energy projects throughout Scotland. There appears to be no differentiation on the map between the projects that SE is assisting and the projects that HIE is assisting. Am I correct in assuming that you assist only the projects in your respective operating areas, or do you assist other projects?

I also have some concern regarding the projects that HIE is assisting in fragile areas. We all accept that renewables will be the big growth area and that it is probably right that we focus on those projects. I am concerned, however, that significant growth in that sector may mask underperformance in the rest of the HIE area. What plans do you have to strengthen the fragile areas? Most people would acknowledge that that drag factor will have economic consequences.

Finally, I come to the magic phrase "account managed". I am not exactly sure what that means, so I would like more information on it. I understand the theory and the point in the SE submission that all the evidence suggests that fast-growth companies produce a disproportionate economic uplift. I wonder how you pick the companies. I wonder whether you would have picked Steve Jobs operating out of his garage or Microsoft in its early days. It is critical that, in spending the money that you are given, you pick the winners.

The Convener: There is a lot in there, so I ask one person from each organisation to answer. Malcolm Roughead and Anne MacColl have not so far had a chance to comment on the relevant aspects for their organisations.

Malcolm Roughead (VisitScotland): Thank you, convener, and belated thanks for inviting me.

I thank Mike MacKenzie for supporting a doubling of the budget for VisitScotland—I totally concur with that. I will explain the methodology behind the way in which we measure the return on investment. It is an accepted methodology that is utilised by other national tourist boards such as Visit Wales, VisitBritain, the Northern Ireland Tourist Board and VisitEngland. We intercept people who come to Scotland and follow up with a questionnaire to ask whether our activity made them decide to come to Scotland. If they were going to come anyway, we discount that because it is not additionality. If our activity made them decide to come, we calculate the total spend, which is then multiplied up to give the overall additionality figure.

An example of that is our recent surprise yourself campaign, the figures on which have just come back. We spent £3.5 million at the start of the year and the return on the investment was £90 million, which gives an average return on investment of about 24.5 to 1.

Mike MacKenzie: I will interject on that point. The information that the committee has been given, which I am led to believe has come from various sources and is robust, is that neither the number of visitors to Scotland nor the total expenditure has increased at all in the past 10 years.

Malcolm Roughead: You are measuring two different things. We are talking about the activity of VisitScotland, not the activity of the whole industry. The VisitScotland surprise yourself campaign is an activity that is generated by VisitScotland out of the funding that we receive.

On visitor numbers, in the past 12 months, there has been an increase in the effects of staycations, which means people who stay in the UK and Scotland. The numbers for the first six months of the year indicate an increase of UK visitors of 6.8 per cent and a value increase of 13 per cent, which in the current economic times is noteworthy performance. You are right that the international numbers have declined, but we must remember that international visitors account for 16 per cent of the total visitor volume. So when their numbers decline by 10 per cent, that is 1.6 per cent of the total number of visitors to Scotland. The increase of 6.8 per cent in visitors from the UK far outweighs the decline in international visitor numbers.

All good portfolios hide well-performing shares and slightly less well-performing ones. Similarly, within those numbers, there is a rebound from North America, with visitor numbers from there up by 4 per cent. The steepest decline in the first six months of the year has been in visitors from the European markets.

Mike MacKenzie: Of the agencies represented on the panel, VisitScotland seems to be the only one that is getting a pretty significant increase in its budget. It seems to me that visitor numbers and total spend have not really increased in the past 10 years, although they did increase in the past year. Perhaps the effect that VisitScotland has had has been to prevent visitor numbers and spend from declining over the past nine years. With all due respect, it remains to be seen whether it was VisitScotland's intervention that produced last year's figures; perhaps there are other reasons for them. If I were the cabinet secretary and it was in my power to double your budget, I would be looking for figures that showed an overall increase before I could reasonably take that decision. It seems to me that the evidence that you have taken has been somewhat anecdotal—you asked people why they came to Scotland, for example. I am interested in the methodology by which you calculate the effect of what you are doing, because it seems to me that a lot of it might still have happened even if there were no VisitScotland.

Malcolm Roughead: Those who said that they would have come to Scotland anyway were discounted, so we are talking only about people who were the recipients of the messaging and decided to come to Scotland on the back of it. We can measure only our own activity. Far be it from us to claim that we are responsible for the total spend in the tourism industry and all its results. I would not take credit for any growth.

Likewise, we have to look in the round at what else is happening globally. At the moment, the most potent market in terms of delivery for Scotland is the domestic market, which is where we are focusing a lot of our effort. Having said that, there are signs of growth in international markets such as North America—the incentive market is beginning to return. However, economic confidence in North America is not strong, so growth will take time to come through. What surprised us was the decline in the European market in the first six months, given the strength of the euro, but, as we are all aware, there are certain issues in European economies and European countries have their own staycation effect—people in Germany, France and so on are staying within their own borders.

You mentioned economic confidence in the industry. We regularly conduct surveys of not only consumers but the tourism industry. We have seen a slight disconnect in that the industry is relatively upbeat and positive about its prospects for next year—I assume that it is basing that attitude on forward bookings—whereas consumer confidence is slightly negative because consumers are dealing with the here and now and the reality of the economic situation. There is a slightly mixed picture across the whole of Scotland. In some areas there is a lot of positivity; in other areas, particularly rural areas, there is a lot more concern. I echo what Alex Paterson and Lena Wilson said about business support, which is needed.

Rhoda Grant: There is a target to increase tourism by 50 per cent. Will the addition to your budget help you achieve that? Is it within your responsibility to meet that target? You said that you are not responsible for the tourism industry. Where does the buck stop when it comes to meeting that target and will the money help you do it?

Malcolm Roughead: There is a refresh of the tourism framework for change strategy, out of which came the 50 per cent figure, which I would say was an ambition rather than a target. The industry has taken ownership of the refresh, with the support of all the agencies represented at the table. We expect to see the results of the deliberations in the next couple of months. It is realistic to say that the 50 per cent target will not be achieved. Clearly, when it was set about five years ago, conditions were different. It would be naive to expect that in the next three to four years we would see an increase of 50 per cent.

10:15

Stuart McMillan: Table 1 on page 6 of the Scottish Enterprise budget submission has a heading for "Marketing, Research & Stakeholder Engagement" and a budget line under that entitled "Overseas, including promotion of Scotland". Is there an overlap in moneys allocated to Scottish Enterprise and VisitScotland for the bigger picture of promoting Scotland? Can anyone answer that?

Anne MacColl (Scottish Development International): Thank you for that question and for the opportunity to contribute to this morning's dialogue.

Rather than overlap, what we see is collaboration, which is important for the development of international markets. One example of that collaboration between Scottish Development International and VisitScotland is collaboration on the public relations contracts that we are putting in place in North America. That is an example of how the budgets do not overlap but come together to develop a much better synergy around how we develop the whole international piece for Scotland with our team Scotland approach.

Stuart McMillan: Okay.

Anne MacColl: If I may, I will answer some of Mike MacKenzie's earlier questions. I will touch on three aspects: first, the economic outlook; secondly, the methodology for calculating our impact; and, thirdly, account-managed companies. As you will know, Scottish Development International is an integral part of Scottish Enterprise, so everything that we do around internationalisation is closely linked overall with what the economic impact of that can bring to Scotland.

We focus on export growth and bringing more inward investment to Scotland because we regard those two international opportunities as key drivers for economic growth in the Scottish economy. For example, there has been an increase in salmon exports to China over the past six months and they are now worth £16 million, which is significant. Food exports overall across the world have topped the £1 billion mark. Again, that is a significant increase. Those are important drivers for growth for Scottish companies. It is important to focus on that as one of the areas where we can drive growth.

Another key point is that domestic demand is very flat at the moment. In the context of the euro zone troubles, growth in the euro zone next year is predicted to be 1.1 per cent. In the fast-growing markets, it will be 8 per cent in China, 7.5 per cent in India and 4 per cent in the middle east. Our job is to encourage companies to look further afield to develop their growth.

We measure the impact of inward investment by looking at the number of jobs that are created in the Scottish economy. For example, last year we created over 2,000 high-value-added jobs in the Scottish economy through our efforts and support for inward investment. A high-value-added job is one that represents more than 20 per cent of the average salary in the Scottish economy or that has a research and development element—they are sustainable jobs in the Scottish economy.

Over the course of last year, we therefore created 2,000 high-value-added jobs within a total of 9,300 planned jobs that we brought into Scotland. We try to ensure that our methodology is robust and that it fits with the overall economic impact of what Scottish Enterprise is developing together with Highlands and Islands Enterprise, because the international play is right across Scotland.

On account-managed companies, 18 per cent of those companies in Scotland are foreign-owned, so their headquarters are based outside Scotland. However, those foreign-owned companies' impact on Scotland is highly significant. For example, they employ more than 118,000 people in Scotland and they are important drivers of exports from Scotland. There is therefore a clear link between inward investment and export as drivers of growth for the Scottish economy.

Mike MacKenzie: I am sure you will agree that it is probably easier for your agency to measure its impact as exports can be measured. I was thinking more of the other agencies when I asked that question, although I am grateful for your answers. I am sure that the other agencies will agree that it is a bit more difficult for them to measure the effect of what they do, which is why I am interested.

Lena Wilson: I was grateful for your questions, Mike, and we could perhaps discuss them outside the committee—I would be delighted to do so. Page two of our submission clearly articulates our concerns about the global economic situation but I think it is extremely easy to talk Scotland down and to help businesses become even more depressed. Above all, we must be cheerleaders for the Scottish economy so I make no apology for trying to encourage more optimism. Many good things are going on. In our submission, we also considered the fact that the companies we support are more confident than the general business base. They should be: public money is going to them because they are more likely to grow.

Let me echo something that Alex Paterson said earlier about those companies' confidence. As they see the number of orders in their books increasing, they are more likely to export and that is why SE sees its role as a major funder of Scottish Development International as so important. It is important not to talk everything down but to be extremely realistic about the current situation. That is why Anne McTaggart's question about how we are supporting business was also important.

There is no book that tells you how to achieve economic development—I wish there were. There is no right or wrong and you definitely need to consider the issue from every angle and use every piece of experience. In the end, we make a series of judgments based on evidence. We have become extremely obsessed with evidence and I think that is the only way in which we can make it. We use a series of tools and techniques, which I referred to earlier, to estimate the gross value-added impact on the Scottish economy. Part of that is jobs, as Anne MacColl mentioned, but we need also to consider the impact on the supply chain and the multiplier effect on the rest of the economy. We then make a series of choices, as our budgets are limited, based on whether doing one thing will give more GVA than doing something else. It is a choice and a decision so we must use every piece of evidence available. We use a series of modelling techniques and case studies and I would be happy to share those with you.

Mike MacKenzie: There is an important point, to which the convener alluded earlier. You say that you have had your figures independently evaluated and I therefore presume a report has been commissioned and written. Would it be possible to share that report with the committee?

Lena Wilson: A series of reports has been produced and I would be happy to share them. Previous committees have scrutinised this matter and previous commentators have said that they do not believe the methodology. I am open to somebody coming up with a better methodology, but no one has.

Mike MacKenzie: I am not criticising, I am just saying that as we do not have the information it is very difficult for us to take any view.

Lena Wilson: I accept that. I would welcome all comers and any suggestions of better ways of doing things.

I would like to make a brief point about account management. It is not so much about picking winners as backing them. Hand on heart, would we have spotted Steve Jobs? Who knows? I think our approach now means that we are more likely to, as we consider the potential value to the Scottish economy, not whether we are dealing with a big company or not. Lots of our account-managed companies employ fewer than 10 people. Some are pre-revenue companies and some are larger. Research from the National Endowment for Science, Technology and the Arts—NESTA—tells us that only 6 per cent of businesses provide more than half the jobs. We have 300,000 companies in Scotland and fewer than half of them employ anybody—the rest are sole traders. It is very important to focus our limited public sector resource on those that are most likely to grow as jobs will come from growth.

The account management technique is to say that we will provide a trusted friend and adviser who will be the main point of contact, who will bring every resource from every other part of the public or private sector, who will help companies grow and who will identify all the services available. That is the role of an account manager, who might be responsible for up to 20 companies. They will come mostly from the private sector—80 per cent of our staff do—and either they will be experienced in the sector or they will be a product specialist. We also have a range of specialists to support them. We work with a further 8,000 companies a year, but I make no apologies for focusing on 2,000. We focus on 2,000 not because it is a magic number but because there are only about 2,000 very high-growth companies in Scotland.

Part of our job is to grow that number to 3,000, then 4,000 and then 5,000. However, I make no apology for focusing on companies that are most likely to grow, because that is where our economic transformation will come from.

Alex Paterson: I will try not to make similar points but I do want to echo the point about the account management process. In the past, we invited companies to come to us if they needed help. Some might see that as a reactive approach. We are now saying to companies, “We want to be your best friends for the next three to five years,” ensuring that there is a plan for taking forward the business and, as Lena Wilson says, bringing resources from whatever source to bear on helping companies achieve growth faster.

On Mike MacKenzie’s question about prospects, I have already said that our account-managed businesses have indicated their intention to grow. That is ahead of the general business population, which is encouraging. In the Highlands and Islands, the unemployment rate is 2.5 per cent and the labour shortages that are kicking in will affect some of our big opportunities. For the renewable energy sector and oil and gas, which is also kicking off now—indeed, members will have noted Global Energy Group’s purchase last week of Nigg, which is a fantastic step forward not only for the Highlands but for Scotland—having the skills and people is one of the big challenges in trying to capture opportunities. It is a bit of mixed bag; although prospects are good and a number of companies are doing very well, a number of companies are struggling. However, there are a lot of opportunities out there and we simply have to focus and capitalise on the positives.

With regard to fragile areas, we think it vital for sustainable economic growth to happen across the whole of the Highlands and Islands. We will not be successful if such growth happens only in Inverness, Elgin or Fort William. As a result, our remit includes the strengthening communities function, which is a very important element of what we do. For example, renewable energy, which has been mentioned, is critically important and will not only affect the inner Moray Firth but have huge opportunities and implications for communities. Indeed, every community development trust in Orkney has wind turbines generating income that can be invested in other community projects.

One of our top priorities is superfast broadband. As I told the committee last year, I want the Highlands and Islands to be known for two big things in five or 10 years’ time: first, as an international centre for marine renewables and, secondly, as one of the most digitally connected regions in Europe. If that second thing does not happen, we will slip behind. Getting superfast broadband out to every community is a vital part of our work.

We talk about account management—we actually account manage 46 Highlands and Islands communities in the same way that we account manage businesses by, for example, supporting projects that they propose. In Colonsay, new crofts have been introduced and the population is growing. In other parts of the Highlands and Islands, such as Lochaline in Mr MacKenzie’s neck of the woods, which I visited recently, the erection of new pontoons is bringing in new income from the tourist infrastructure. Such a move will benefit not just a small number of people but the whole community. We are very much focused on working with communities and using our community account model to develop income-generating assets and new economic development opportunities.

We need to address certain critical issues with regard to community development in fragile areas. It is important to help communities to access their assets but how do we fund that? How do we help communities to access land, renewable energy-generating opportunities and so on? After all, that is only a means to an end, not an end in itself. It is about helping to generate income, which can then be ploughed back into communities, and such an approach is working very effectively. I repeat, though, that renewable energy and superfast broadband will have huge opportunities and implications for the whole of the Highlands and Islands, including our most fragile and remote areas.

I will not repeat colleagues’ comments but we changed the measures in this year’s operating plan to get a better handle not just on what or how much we are doing but on what difference we are making. For this year, we set a target of creating between 600 and 700 jobs. We have already created 760 jobs, 40 per cent of which are in our fragile and challenge areas. A lot is happening in those areas and I assure members that HIE is focusing on not only big fancy projects but practical local interventions to strengthen and build communities. After all, we need to achieve growth across the whole region, not just in certain pockets.

Mike MacKenzie: You mentioned 600 jobs. That information is not in your written submission. Could you share those details with the committee, along with the information about GVA?

Alex Paterson: The half-year report that we took to our board yesterday included the figures to the end of September. I am happy to send that to you.

10:30

Patrick Harvie (Glasgow) (Green): The largest element in table 1 in the Scottish Enterprise submission, which deals with globally competitive business, is “RSA and SMART support”. Is that treated as a single pot or can you break down what is being spent on those separate schemes? Which gets the lion’s share?

Lena Wilson: We can break that down. The lion’s share goes to regional selective assistance, which is used for major inward investment deals, for example.

Patrick Harvie: That is what I thought. In the previous session of Parliament, substantial RSA grants were given to large, profitable businesses without lasting benefit—the grants were given on the assumption that jobs would be created or preserved, but the jobs simply disappeared once the money was spent. Has there been a recent review of RSA, or is one planned?

Lena Wilson: We should remember that RSA is triggered only when jobs are created. Indeed, there is a series of clawback provisions that can be used if companies do not see through the full range of the proposed projects. Recently, that has not been so much the case in Scotland. Some companies, such as Motorola and Freescale Semiconductor, which received grants in the distant past, reduced in size in Scotland as a result of changes in global electronics and microelectronics. We then worked with them to transform their operations into global hubs for R and D. The economic impact of 200 R and D jobs might be greater than that of the, say, 1,000 jobs that they used to have in their plants.

There are many examples of areas in which the changing global economic fortunes of companies have caused the demise of their operations in Scotland. We are not a cheap location any more. We do not seek those kinds of jobs. Anne MacColl spoke about the fact that we are rich in R and D. Recent announcements have shown that there is a strong pipeline of investment in those high-value jobs.

Patrick Harvie: Would you accept that, if grants are being provided from the public purse for private sector businesses on the basis of job creation, and those jobs disappear as soon as the grants disappear, we might as well have been spending that money to employ people to deliver public services?

Lena Wilson: If that were the case, that would be true. However, it is not true to say that, in the majority of cases, the companies disappear when the grants disappear.

Patrick Harvie: You are confident that we will not see that happening in the current session of Parliament.

Lena Wilson: I would not say that we will never see that happen because, as I said, we can never forecast what will happen to businesses, but it is not correct to say that the majority of companies disappear when their grants disappear. That is just not true.

Patrick Harvie: I did not say that the majority did that; I said that there have been substantial examples. Are you confident that we are less likely to see that happening in the current session?

Lena Wilson: There have been more that do not do that than there have been that do that. However, the ones that do that get the press. We like bad news. That goes back to my point about optimism—we do not talk about all the good news. We take the issue seriously. There are rigorous guidelines and clawback measures. Our job is to put in the minimum amount to make something happen. What I want to stress to the committee is that we are in a globally competitive environment, and sometimes that incentive matters. That is why Scotland attracts 20 per cent of all the foreign investment in R and D that comes into the United Kingdom, even though we have only 9 per cent of the population.

Patrick Harvie: Sometimes, when things go wrong, scrutiny might feel like bad news. We will have to keep an eye on the situation.

Lena Wilson: Scrutiny is essential. I make it clear that I am not against scrutiny.

Patrick Harvie: Understood.

Anne MacColl, when you were talking about the emphasis that is being placed on increasing exports, you specifically mentioned China and salmon. Obviously, from my point of view, anything that increases global food miles is not necessarily welcome. However, there are also concerns about the local environmental impact of fish farming, and a concern that, if we expand production dramatically, local ecosystems will come under significant stress. Am I right in assuming that the support that is provided to businesses in relation to that export opportunity would be contingent on their compliance with environmental regulations and that, if operators flout or break environmental obligations in Scotland, that support will be withdrawn?

Anne MacColl: The industry advisory group, Scotland Food and Drink, works closely with the food and drink industry to identify where the export opportunities are and where they are coupled with capacity. Obviously, regulations on planning and environmental concerns are taken into account when we look at export opportunity. The two things are tied closely together under the overall strategy for the development of Scottish food and drink and how it plays out internationally.

Although our role is not to be an environmental agency, Scotland Food and Drink, which works closely with us to develop strategies, looks carefully at supply and demand when looking for opportunities. In China, we have seen an opportunity that Scottish fish farmers have gone after and ramped up because the margins that they get when they export to that part of the world are significant. There is a real playback into the

Scottish economy from that. We have to ensure that that strategy is fully regulated and we are working closely with industry and environmental bodies to ensure that supply matches demand.

Patrick Harvie: Thank you.

Chic Brodie: I have a couple of questions to address to Mr Roughead. Am I right in understanding that you said that, notwithstanding the increase in funding, which might or might not have come as a surprise to you, we are still not going to meet the target of a 50 per cent increase in tourism?

I notice that your submission mentions the once-in-a-lifetime opportunity in the year of creative Scotland, but it has missed something that is very important to the area that I come from—the 700th anniversary of the battle of Bannockburn. I am sure that the Earl of Carrick will be birling in his grave if he does not feature in VisitScotland’s programme.

Did you anticipate the increase in your budget? If you did, why are you still saying that you are going to miss your targets?

Malcolm Roughead: The target, which was set in 2005, was put together in conjunction with the Scottish Tourism Forum and various other agencies. It was based on the World Tourism Organization world growth forecast, which at that time was for growth of around 4 per cent per annum. On a 10-year projection, that would accumulate to growth of 50 per cent. At that time, it probably seemed reasonable to assume that the industry could achieve 50 per cent growth in 10 years. Clearly, events since then have overtaken that ambition, which is why we are now looking at the overall strategy for Scottish tourism alongside the industry and our partners who are sitting around the table with us today. The target is not achievable. The economic situation has changed dramatically during the past five years. We have to recognise that things have changed, so we have to adapt our approach.

We are looking at what is realistic and what the industry will sign up to. Ultimately, if the industry does not sign up to something, it will not work. It does not matter what VisitScotland tries to do or how we try to help—

Chic Brodie: Forgive me, Mr Roughead, but as someone who has run businesses, I know that we all face competitive advantage and disadvantage. Such a large marketing budget has to be deployed in such a way that we increase our market share and do not just accept what other organisations say is going to happen. What have you done that is different to increase our market share of international tourism?

Malcolm Roughead: VisitScotland has looked at how we deploy the revenue that we generate and what we are given through grant in aid, so that we deliver the maximum possible return on investment. That allows us to look at the various markets, whether it be in business tourism, events, or leisure tourism—we look across the spectrum. By looking at the conditions in those markets, we can turn up the volume in European markets or in North America if we see signs of recovery coming from there or, as I mentioned earlier, we can focus on the domestic market.

In the past few years, we have worked on getting much closer to the industry so that we can offer it channels to market that it would be unable to afford on its own. Using the digital platforms and promotional reach that we have, given our budget, we have been able to engage with a lot more businesses in the past few years. We are seeing growth in numbers, but that is not yet reflected in value, largely because prices are being suppressed. That is not an action that I would advocate, because it is important to add value rather than cut prices but, unfortunately, it is happening and we end up generating volume but not value. Having said that—

Chic Brodie: Again, forgive me. Clearly, you have a strategy. I do not detect the level of optimism that Scottish Enterprise seems to have—I will come to that in a moment—but your written submission states:

> “We have a three year window ahead - what VisitScotland calls The Winning Years - where the country can work to grow the tourism industry beyond all expectations.”

How do you plan to invest? What is your strategy to ensure that we grow the tourism industry beyond all expectations?

Malcolm Roughead: The next three years, which you rightly refer to as the winning years, offer a major opportunity for Scottish tourism.

Chic Brodie: I know what they offer, but what are you doing to ensure that we capitalise on them?

Malcolm Roughead: We have a number of activities. We are looking at the business tourism side, where we have an opportunity to make a major step change. The SECC is coming on board and it will be taken into a new league through its ability to cope with major conferences. The expansion of the Edinburgh International Conference Centre will take it into a new league of conferences that it can attract. That development allows us to work with partners and the city marketing bureau to go out and bid for major conferences, which have a knock-on impact. SDI can follow them up, for example, and they act as a catalyst for inward investment and leisure tourism. That is one area.

Chic Brodie: Do you have a set of targets and outcomes that you plan to achieve in the next three years that will ensure that we meet the expectations that you mention in your submission?

Malcolm Roughead: As I said, the industry is setting a target for the industry. We are part of that and we support it. As an organisation that receives grant in aid, we clearly have targets, and we look at the economic impact of VisitScotland. A report that was produced this year by Deloitte in London looked at the economic impact of VisitScotland. I will not reopen the conversation about how difficult it is to measure economic impact, but there is a spectrum between £280 million and £436 million. I am more than happy to share that document with members.

The Convener: I will follow up on Chic Brodie's question. Extra money is going to VisitScotland for 2012-13 and the year after that. Can you give the committee—either now or in writing, which might be easier—a clear breakdown of where that extra money will go, what it will be spent on and what return you hope to get on the investment?

Malcolm Roughead: Absolutely. We are in the same position as Scottish Enterprise and Highlands and Islands Enterprise in that our board has not signed that off yet but, as soon as we have it, I will be more than happy to share it with the committee.

The Convener: Can we get it before we have to submit our report to the Finance Committee?

Malcolm Roughead: What is the date for that?

The Convener: It is 16 November.

Malcolm Roughead: We will get it to you.

The Convener: Thank you.

Chic Brodie: I turn to the enterprise agencies. I have not had much to do with HIE, but my perception is that, in the past few years, the stature of Scottish Enterprise and particularly SDI has grown among the business community. Let us lay aside the optimism that we share and look at the current economic outlook. Scottish Enterprise is talking about £5 billion to £7.5 billion of GVA over the next 10 years against the current United Kingdom and international economic outlook while its resources are constrained. Why do you believe that you can achieve that level of GVA? To what do you attribute your optimism?

10:45

Lena Wilson: I strongly believe that that is achievable because of all the evidence that we collect on our choices, which I referred to earlier. I do not want to go over the ground that I have already gone over, but we based what we said on as much evidence as we could gather. We have looked all over the world to find out what other economic development agencies do. GVA is the hardest thing of all to measure, but people are flocking to Scotland to ask how we do that. We are learning all the time, but we gather the most evidence that anybody gathers, as far as I can find. I have worked for the World Bank and in 40 countries around the world to help them to do that. I still have those contacts, and I act in an advisory capacity. We gather everything that we can.

Chic Brodie: On that level of optimism, you mentioned the pursuit of intervention, and the report mentions equity investments and loans interventions. Can you help the committee by explaining exactly what risk assessments you make? What sectors and products do you choose, and what technical and commercial due diligence do you do on companies?

Lena Wilson: I will certainly help the committee with that, but I would like to finish my point about optimism first. If I were speaking in June, I would be much more optimistic about the economy than I am now. The economy is extremely fragile, which is extremely concerning. I do not think that any of us knows what the next year will bring. All the evidence that we have from all the commentators shows uncertainty. Business sees uncertainty about the future, and we have to monitor that regularly. If anything has to be reflected in our estimations on impacts, that must be.

We must look to alternative sources of funding. A key part of Iain Scott's job as chief financial officer is to consider new ways of funding. We have a professional investment team to deal with investment scrutiny, the majority of whom come from the industry. All of our funding on the investment model is co-funded, so we rely heavily on our private sector investment partners, who have a lot of experience of due diligence. We do best-practice commercial, financial and market due diligence, and we consider the management team. The management team is often the most important part of the diligence. Whether the team can take matters forward is considered. We use the best practice that you will find anywhere in the private sector, and we take the same commercial approach, but we bear in mind one additional thing. It is not just the commercial return, which we can reinvest, that is important; the economic impact on the country is also important. We add that in as well.

Chic Brodie: Right, but on the basis—

The Convener: You can ask just one more question, Chic, as I want to bring in other members before we close the discussion.

Chic Brodie: Certainly, although I had several more questions.

On the power that Scottish Enterprise effectively wields in working with businesses, I was surprised that you said that you still talk to small businesses, including single-owner businesses.

Lena Wilson: With the potential for growth.

Chic Brodie: Okay. What banks do you talk to? Do you still talk to the standard banks that have always been talked to and which are more hesitant about lending at the moment? What new entrants to the banking market do you talk to?

Lena Wilson: We have seen a couple of new entrants to the banking market in recent days. We have seen new business-lending banks that are coming on to the scene, which we definitely encourage. I hope that we have shown that there is a market for such lending in Scotland and that it should be stimulated. In our travels, Anne MacColl and I talk to banks and financial institutions all over the world. A Japanese investment bank is one of our co-investors, we have people in London who talk to the financial community all the time, and the same is done in New York. We talk to anybody and everybody.

Similarly, as I said earlier, I am encouraged by some recent movement by our main banks and their leadership. John Rendall of HSBC and Philip Grant of Lloyds Banking Group have welcomed me and my team with open arms and want to work with us more. I am encouraged by that, and I see agitating on behalf of business as being a key part of our role.

Chic Brodie: I have one more, very brief question, which is for Anne MacColl.

Last year, 1.8 per cent of our exports went to China. Do we have the distribution infrastructure to handle a growth in our exports of 40 per cent by 2017?

Anne MacColl: It is an extremely stretching target—we are being asked to deliver a 50 per cent increase in exports over the next six years—but I genuinely believe that we have the capacity to do that. We have seen some highly encouraging figures from the index of manufacturing exports, which in quarter 2 of this year has shown a rise in exports of 2 per cent in comparison with last year. I mentioned salmon exports; whisky exports have increased by 22 per cent over the past six months, so we have a lot of positive indicators.

In addition, there has been a significant increase in the number of companies that have never ventured into exporting or internationalisation that are looking to do so for the first time. Our role is to ensure that we provide the right advice to those companies here on the ground in Scotland, that we prepare them for those markets and give them a good steer as regards market intelligence to help them to understand where the growth opportunities lie, and that we enable them to hit the ground running when they arrive in those new markets through our network of 22 overseas offices, which are there to provide the expert advice and intelligence that they need to help to deliver that growth.

John Wilson: As a follow-up to that, I would be interested to find out where the 22 trade and investment offices that you have throughout the world are based. We read in reports that Scotland has an opportunity to export around the world and to attract companies into Scotland. Where is the largest of your 22 operations based? What type of support is provided? Are they independent Scottish operations, or are they part of UK operations in places such as North America, China and Hong Kong?

Anne MacColl: As I mentioned, we have 22 offices overseas, which vary in size. Where we choose to locate them depends very much on the international opportunity that we see in a particular geographical area. For example, we have offices in Moscow, the middle east—the middle east office is highly significant at the moment—Boston and Tokyo, and we have two offices in China because of the level of opportunity that exists there.

We remain flexible as regards where opportunities will grow and develop. We have a model that tracks closely where opportunities lie, which we are prepared to flex. For example, we saw an opportunity in Canada, which meant that we increased the resources that we have there. We now have two people working there, one of whom works for SDI. The second person is funded collaboratively through VisitScotland and the Scottish Government.

The spread of offices represents the level of opportunity that we see. Out of a total of 230 people that SDI manages within the Scottish Enterprise remit, 85 are based overseas. Although the location of the offices is important, it should be borne in mind that the people who work in those offices as our sales and marketing workforce for Scotland are extremely mobile—they spend 70 per cent of their time outside those offices talking to customers and helping Scottish companies to make links with distributors and buyers overseas.

Lena Wilson: In answer to the other part of your question, it is a Scottish resource.

John Wilson: I welcome that response, and I would welcome further details on the work that is being done. In particular, I would like to know how flexible the budget is when it comes to opportunities to open up other markets.

Unfortunately, I do not think that we have much time to address those issues today, but I would welcome a written response on them from SDI and Scottish Enterprise, if that would be possible.

My other question, which is for Scottish Enterprise, relates to the urban regeneration companies budget of £12.5 million, which has been withdrawn from Scottish Enterprise and brought back into the Scottish Government's portfolio. I note with interest the final paragraph on page 7 of the Scottish Enterprise submission, which states that the agency will

"continue to work closely with the URCs and hope to continue to play an active part on their Boards."

What difference will the withdrawal of the £12.5 million budget from Scottish Enterprise make to the work that you do with the urban regeneration companies, given that you say that you will continue to play an active part on their boards?

Lena Wilson: That was a strategic shift. It was the last remaining piece of Scottish Enterprise's remit on regeneration that had not transferred over to another agency. Under the cabinet secretary's reforms, local regeneration is no longer part of our remit, so it was always the plan to move that from Scottish Enterprise. Urban regeneration companies are important for the regeneration of local areas, but some of them work on nationally significant projects. For example, think of the Clyde Gateway, which is important to the east of Glasgow and the Commonwealth games, and which has an interplay with tourism.

It is not unusual for us when we are not a funder of something to play an active strategic part on its board. We have worked with the Irvine Bay Regeneration Company and North Ayrshire Council on how that company can play a part in renewables. That is a strategic approach. Anne MacColl and my infrastructure people have met the company. We can continue to bring our expertise and be a strategic partner even if the budget has shifted elsewhere. Local regeneration is no longer a part of Scottish Enterprise's role.

Anne McTaggart: I have a quick question for Lena Wilson and Alex Paterson. Lena Wilson talked about focusing on the companies that are most likely to grow. I assume that that includes social enterprises. Given the importance of credit unions in Glasgow, where they are used by one in five people, what importance do you place on them? What budget have you allocated to assist credit unions?

Alex Paterson: To be honest, there is not a specific line in our budget for that. I am pretty sure that our strengthening communities work includes work with credit unions, but I would need to get back to you on that. I cannot pretend to give you a straight answer now.

Anne McTaggart: I would appreciate that.

Lena Wilson: Similarly, we do not have a budget line for credit unions. However, we fund Co-operative Development Scotland. I make no distinction about whether a business is a social enterprise. When businesses are about growth and economic impact, we support them equally. I am happy to provide further information on the issue. Co-operative Development Scotland works actively with about 100 companies.

Anne McTaggart: It is the anniversary of the Association of British Credit Unions Ltd, and we have a cross-party group meeting tonight with credit unions, so it is important that we have those figures. Credit unions are important in the communities that we work in. They strengthen communities and provide value, particularly in the current financial situation.

Lena Wilson: I would not be surprised if, for Scottish Enterprise, that figure was fairly low, because we are the country's growth agency. I cannot imagine that credit unions are being account managed. Perhaps the support is provided in another way—maybe credit unions are aligned more with the business gateway than they are with Scottish Enterprise.

Stuart McMillan: Page 9 of the Scottish Enterprise submission shows an increase in funding for internationalisation support for business. Will you explain how it is anticipated that that money will be spent? Will it mostly be spent in the field or mainly within Scotland to assist companies?

Anne MacColl: We want a combination of both. There is an increased demand from Scottish companies to internationalise and to develop their export play. The growth in funding is for the programmes that we provide in Scotland to assist Scottish companies with their export strategy and with preparedness for internationalisation through market intelligence.

By the same token, another piece of that budget will be allocated to strengthening the overseas trade resource in the offices and locations where we view the highest degree of opportunity for Scottish companies and where we see the potential for further inward investment in Scotland. It is a combination of both aspects.

11:00

Stuart McMillan: Would you say that there is the potential to open another office in a different location?

Anne MacColl: We are flexible and always looking for opportunities to do that. I have mentioned the office that we recently opened in Canada. We also opened an office in Dubai around 18 months ago, which has been significant in terms of trade opportunities. We always stay close to the markets to help us to understand where the new opportunities might be. They may be in Asia or in some of the fast-growing markets that I described earlier. We need to have enough evidence to suggest that it is important that we open an office. If we have that, we will absolutely look at it.

Stuart McMillan: My second question is about the section on the transition to a low-carbon economy on page 4 of the Scottish Enterprise submission. Bearing in mind the UK Government's announcement last week regarding the carbon capture and storage opportunity at Longannet, how will we get to where we want to be in the transition to a low-carbon economy and how can we get the full economic benefits for Scotland?

Lena Wilson: The CCS announcement was disappointing. I firmly believe that Scotland can be a world leader in carbon capture and storage. The transition to a low-carbon economy is vital for our country and the planet, but it is also a massive economic opportunity. We are heavily shifting resource into advising companies on the opportunities of carbon reduction, waste management and related efficiencies, as well as pursuing the renewables industry and working with the oil and gas industry on the contribution that they can make. We have a very balanced portfolio. I see Patrick Harvie rolling his eyes at the mention of the oil and gas industry. The engineering expertise that we have in that industry will make a massive contribution to the renewables industry in dealing with hostile environments.

Stuart McMillan: My final question is mainly for Scottish Enterprise and VisitScotland. The Scottish economy centres not just on Glasgow and Edinburgh but on places elsewhere, particularly in the west of Scotland. I raised this issue at the same time last year and have raised it on a number of occasions over the past four years. We should be trying to promote other areas such as Inverclyde and West Dunbartonshire, trying to bring in inward investment and helping to create and stimulate employment opportunities. Inverclyde has not had much of a tourism industry, but the new Beacon arts centre that will open next year, which will be a 500-seat facility, could host conference events. Things do not always have to go to Glasgow or Edinburgh. I am keen to hear what you intend to do to promote areas outside the two large cities.

Malcolm Roughead: From the tourism perspective, our strength is our diversity, and you are absolutely right to say that the focus should not be centred on one place. The success of the tall ships event, in which EventScotland invested £40,000, demonstrates that a legacy can emanate from that type of investment, with the number of berths in the James Watt dock increasing from 45 to 65. That type of return allows local communities to realise the benefit of working together. There are many examples of that throughout the country, from the Highlands and Islands down. A lot of investment and partnership work is going on, and you will start to see the benefits of it in the near future.

Lena Wilson: We are an active member and have senior staff in all the community planning partnerships. Indeed, I attended a community planning partnership in North Ayrshire just last month. The job is not about how much money they can get out of Scottish Enterprise—that does not relate to economic impact—but it is our duty to work with every part of Scotland to make people aware of the global opportunities and what is happening in the world and to help them with their own economic assets and how they can play into those opportunities. We cannot make an investor go anywhere, because that is not sustainable. We should acknowledge the driving force that our cities are, but it is our duty to recognise that every area of Scotland is important. A successful economy is one in which everybody benefits.

Stuart McMillan: Absolutely. It is about helping people help themselves.

Lena Wilson: Indeed.

The Convener: We are slightly over time, but one member has a brief question to ask. I hope that the panel can bear with us.

Rhoda Grant: In 2008, both enterprise companies had a big drop in their budgets. Since 2008, the budgets have continued to fall but there is quite a disparity between the two decreases. In cash terms, Scottish Enterprise's budget has fallen by 3.2 per cent, but Highlands and Islands Enterprise's budget has fallen by 28 per cent in the same period. Is there a reason for that? Has there been a shift of funds?

Forbes Duthie (Highlands and Islands Enterprise): We are not aware of any particular shift in funds. We talk to the Scottish Government about how it allocates funds to us, and it would probably be best to get it to respond in detail.

We have operated within our budget and, recognising the fall that has occurred, we have looked at alternative sources of funding. We have brought in funding from other agencies and items such as property sales to augment the budget. There were transfers to Skills Development Scotland and when Careers Scotland moved from Highlands and Islands Enterprise to become a separate agency—about £11 million was involved in that. Careers Scotland was a large component of our overall budget, and in percentage terms it was probably a smaller budget component for

Scottish Enterprise, so that probably accounts for a significant part of the difference. As for the other details, the Scottish Government can probably give you some of the rationale and reasons behind the changes.

Over the past three years, we have brought in an extra £133 million to our budget through European funds, the Big Lottery, property sales and property rents. We are actively trying to increase our budget well beyond what we traditionally get from grant in aid, although that is obviously an important part of our income.

The Convener: As time is up, I want to request just one more thing of the panellists. There is a heading in the budget document called "Strategic Forum", under which your organisations, Skills Development Scotland and the Scottish Further and Higher Education Funding Council have to make £85 million of efficiency savings over the spending review period. I do not want you to give answers today, but could you give the committee a breakdown of how you envisage that money being saved and which organisations will take the hit over the three years? We have had some mention of efficiency savings, but it would be very beneficial to get a breakdown of how they will happen, given the sheer size of the sum involved.

Lena Wilson: We probably could not do that at the moment. The target was given to us in the budget settlement announcement, and I have never before seen so much of my colleagues as I have since then. It has been the greatest degree of collaboration that there has ever been among the agencies. We have six or seven work streams on, for example, how we share premises and back-office functions. Each chief executive is sponsoring a particular work stream, and between now and the end of December we will work through all of them so that we can present exactly how the efficiencies will be achieved. We have had a target laid down that we must achieve, and our job is now to work out how we achieve it.

The Convener: In that case, could I request what may therefore be a collective submission? In advance of this committee reporting to the Finance Committee, it would be good to know what the state of play is.

Lena Wilson: We can certainly do that.

The Convener: Even if the state of play is that, for example, you have worked out the first £5 million of the £20 million efficiencies in year one but the other £15 million is work in practice, it would be good to have that in writing.

Lena Wilson: To show the collaboration, I can tell you that Malcolm Roughead has kindly nominated one of his staff to be the overall co-ordinating programme manager. I am sure that, through his good offices, we can provide that information. It is not a problem.

The Convener: Finally, I want to come back to a point raised about Scottish Development International. Your budget is going up this year by about £5 million—if I read the figures correctly.

Anne MacColl: Yes.

The Convener: How much of that £5 million is going on internationalisation as opposed to inward investment?

Anne MacColl: The budget will increase to £37.8 million next year, and there is always a fine balance between how much is allocated to inward investment and how much is allocated to internationalisation. Our teams, both overseas and in Scotland, operate with both hats on at the same time. They work with Scottish companies to help them internationalise, and at the same time there are teams both in Scotland and overseas that are spotting opportunities for inward investment.

The way that we see opportunities develop is driven very much by the market. For example, if we have a specific inward investment project, we gather a team around it to ensure that it signifies a win for Scottish investment. It is difficult to give you a clear-cut breakdown between internationalisation and inward investment because they are so closely intertwined.

The Convener: Okay. I thank the panellists for their comments and answers and for sticking with us slightly over time.

I will suspend the meeting while we change panels.

11:11

Meeting suspended.

11:18

On resuming—

The Convener: We stick with the draft budget 2012-13 for our second panel, which is slightly smaller than the previous panel. I welcome Niall Stuart, who is the chief executive of Scottish Renewables. Having a much smaller panel makes asking for an opening statement easier.

Niall Stuart (Scottish Renewables): I am not sure whether "panel" is the right word.

I will make a short opening statement on the main themes of the budget and spending review that relate to the terms of reference that the committee has shared with us. At the heart of the budget, the main priorities are clearly economic growth, increasing employment, increasing investment and the transition to a low-carbon economy. I assert strongly that renewables have a significant role to play in all those objectives.

I highlight the fact that the sector is already a major employer in Scotland—we think that about 5,000 jobs in Scotland are directly in renewable energy. Skills Development Scotland has done the most comprehensive forecast of employment, and it projects that the figure could increase to up to 40,000 jobs by 2020.

On investment, our database suggests that some £750 million of projects have started generating in the past 12 months alone. Scotland has a pipeline of renewables and renewables-related infrastructure projects of £50 billion. That opportunity will be funded predominantly by the private sector, but the public sector must make key strategic investments if we are to maximise the economic, employment, social and environmental benefits of renewables.

Those investments fall into four or five categories. The first relates to technology development, primarily in offshore wind and in wave and tidal energy, which is why we have been pleased by the Scottish Government's commitment to fund research and development in those subjects. The second category is investment in infrastructure to ensure that suitable sites are available for large-scale renewables-related manufacturing.

The third form of investment is in statutory consultees, such as the Scottish Environment Protection Agency, Scottish Natural Heritage, Marine Scotland and planning bodies, to ensure that the consent process is effective and efficient. Fourthly, if the industry is to expand at the rate at which we all hope that it will, huge investment will be required in training and education to ensure that we have an adequate workforce for the future. We could of course do much more on all those investments if the Scottish Government had access to the fossil fuel levy to fund them over and above what has been committed.

We see huge merit in the consideration of and debate about tax increment financing, in business rates incentivisation and in the enterprise areas that the Government has said that it wants to consider.

It seems that we cannot open a newspaper these days without seeing debate about the costs of different energy choices. I say emphatically that increasing gas prices—not renewables prices—have driven recent increases in consumer bills. No matter which choice Scotland and the UK make, further price increases are inevitable. That is why energy efficiency is important, whether that is from an environmental or economic point of view. Energy efficiency will be key to tackling fuel poverty most effectively and efficiently.

Scotland has a massive economic, environmental and employment opportunity, and limited public sector investment is necessary to capture it. The impact of renewables on costs has been overstated.

We will follow up today's evidence with a significant submission to the committee—I hope that that will be provided later this week.

The Convener: I will ask just one question then open up the session to other members. Money will be spent on renewables under various budget headings in the budget document, such as those for SE and HIE, to name just two. The budget also has an energy line. Across those headings, is it clear to Scottish Renewables how much money will be spent in the next financial year just on renewables rather than on other energy-related matters?

Niall Stuart: Over the spending review period, the major Government commitments are reasonably clear. They relate to the prototyping for offshore wind energy renewables Scotland, or POWERS, fund; the wave and tidal energy research, development and demonstration support, or WATERS, fund; and existing commitments to wave and tidal energy. What is unclear is the impact of tax increment financing and, for example, whether the proposed schemes will succeed. As energy cuts across many parts of the Government and is core to many Government objectives, spending on it will always be divided among different departments and agencies.

Angus MacDonald (Falkirk East) (SNP): As Niall Stuart says, it will certainly be interesting to see how the TIF bids develop. I am sure that he was as pleased as I was to hear the encouraging words from HIE and Scottish Enterprise about supporting future renewables projects. He will know that the Government has said in the past week or so that it wishes to reduce the import of wind turbines from Denmark and Germany, which have been the world—or certainly European—leaders in producing turbines, with the intention that the majority of turbines will be manufactured here. There are already the plans at Machrihanish and the new BiFab plant in Arnish. What will Scottish Renewables do to support that aim and to ensure that we are self-sufficient in wind turbines in the near future?

Niall Stuart: We need to be encouraged by the commitment of Gamesa, Doosan and Mitsubishi, who are all likely to be major players in the development of offshore wind turbines. Those three companies have come to Scotland and located their research and development facilities here, which puts us in pole position for capturing the manufacturing opportunities once they have a product that is ready to manufacture.

I have already touched on the other two key points. The Government must share some of the cost of developing the next generation of turbines and investing in key ports and harbour sites to ensure that there are suitable facilities so that the location attracts people to come and manufacture in Scotland. We should not be in any doubt: offshore wind is seen as the major economic opportunity for just about every country in Europe with a coastline on the North Sea, so Scotland is competing in an incredibly competitive international market.

We should be encouraged by the fact that research and development facilities are here, partly by virtue of our strength in academia. That is a huge vote of confidence in the work of the enterprise networks. The two remaining challenges for us are in supporting technology and investing in infrastructure and skills so that companies have the highly skilled, highly trained workforce they need to bring manufacturing to Scotland.

Angus MacDonald: Let us return to the tax increment financing system. Are you aware of any projects that are being considered that use that financing scheme, or is there still a fair way to go?

Niall Stuart: The one scheme of which I am aware is Fife's proposal to fund the reclamation of land at Methil—there is a constraint on space with BiFab's significant manufacturing activity there. That is exactly the kind of scheme that Scottish Renewables and our members would like to see, and it would achieve the outcome you mentioned in your previous question and bring manufacturing to Scotland. I know that there has been a big emphasis on bringing turbine manufacturing to Scotland, but we should not overlook the significant international activity already based in Scotland through companies such as BiFab and Steel Engineering. Both SSE and Iberdrola have based their headquarters for offshore engineering, which will manage all their offshore wind sites around the UK and internationally, in Glasgow. They are both already supporting significant numbers of highly skilled engineers.

Rhoda Grant: You mentioned that skills and training were a high priority. A constituent told me about a shortage of divers and people who can operate subsea vehicles and the like. Such training does not come through normal further or higher education institutes but through private companies and very expensive short courses that are not funded at all. Student loans are unavailable for such courses and that means that people have to find the money, often from banks, which are not willing to spend at the moment and are particularly not willing to fund such development. How can we fund development to ensure that there is no skills shortage and that young people in Scotland reap the benefit?

Niall Stuart: First, I commend Skills Development Scotland for the analytical approach it has taken to identifying the skills needed in the sector over the next 10 years rather than jumping in and trying to set up courses. Secondly, there is good news about the expansion of the oil and gas industry in the North Sea, despite some of the scare stories about the impact of the tax raid carried out by George Osborne, the chancellor. Exploration and production are both increasing, which means that renewables are expanding and the oil and gas sector is likely to expand. That will put pressure on significant skills, such as those in subsea work that you have already identified. You are also right to say that there is limited public sector support for such training, which is perhaps something that Skills Development Scotland and the Scottish Government need to consider again in assessing the cost and benefits of dedicated public sector support for such training issues.

11:30

Rhoda Grant: On advice and guidance for companies operating in the field, it has been put to me that if it were not for our wind and wave resource many companies simply would not invest in Scotland because of the difficulties in dealing with all the different agencies, including Marine Scotland, councils, the Scottish Government—and even the Crown Estate, which also deals with offshore issues. Is there any way of streamlining the whole system—perhaps by setting up a one-stop shop to give advice? I have heard, for example, that the investment that companies are required to make before they even know whether their plans will be allowed to continue makes the whole thing a very risky business.

Niall Stuart: Every destination has its costs and benefits and its strengths and weaknesses. You have pointed out that Scotland's wind, wave and tidal resource is probably unrivalled. We have had a range of views on the ease of navigating the emerging planning system for offshore wind and wave and tidal developments, but there is evidence that the current set-up and emerging processes in Scotland are likely to be as efficient as, if not more efficient than, those in other parts of the UK and that the UK compares very favourably with other European jurisdictions.

As for the Crown Estate, which you mentioned, I point out that it and Marine Scotland have invested significant amounts of money in capturing baseline geophysical and environmental data that have been used to guide developers towards the sites that are most likely to offer the resources that they need and for which they might be successful in obtaining planning consent. The process is always going to be complex, difficult and costly but I would say that we have more or less struck the right balance between protecting sensitive environments and facilitating the development of renewables to tackle climate change.

Patrick Harvie: Angus MacDonald and you briefly discussed TIF, which will be appropriate in certain circumstances and not in others. Even in those circumstances where TIF could work, though, it is in essence a method of using future public revenue to support developments that are deemed to have some public benefit.

However, there is a much simpler—and perhaps less risky—way of supporting renewables developments. In speaking to the spending review, the Cabinet Secretary for Finance, Employment and Sustainable Growth said that local authorities would be expected to make greater use of their existing borrowing powers. No matter whether we are talking about rural councils using public land for wind developments, even small-scale ones, or more urban circumstances where it would be more appropriate to use heat pumps and other renewables devices, the fact is that the public sector's uptake of renewables in public building and public land has been pretty low. Are we not missing a huge opportunity in Scotland to drive demand in the renewables industry, particularly in some of the smaller companies that provide those devices rather than the huge renewables developers that have very large wind developments, by getting local councils to borrow money and invest it in something that will generate revenue that can be used to pay back the debt? Would that not help to create the sense in Scotland that renewables are shared and that we all have a common benefit in the revenue that they generate?

Niall Stuart: You asked about four questions there.

Patrick Harvie: Sorry. You could, of course, just say yes to all of them.

Niall Stuart: On the distinction between using TIF and using borrowing powers, the priority for our members—and, indeed, for Scotland's economy—is to secure large-scale manufacturing in this country. As a result, our organisation does not have a strong view about whether any preparatory works should be funded through TIF or local government borrowing powers. However, we feel very strongly that Scotland would miss a massive opportunity if it did not undertake those works to capture that investment.

You also touched on local authorities and businesses deploying renewables. A tiny percentage of feed-in tariff-scale deployments in Scotland have been from businesses rather than households. I do not remember the exact figures but can provide them to the committee as a follow-up. I am sure that significantly less than 10 per cent of small-scale deployment of solar and wind has been in the public sector or from private sector businesses.

Patrick Harvie: There has been very little in the public sector.

Niall Stuart: There is no doubt that local authorities can do a huge amount more to generate revenue through investing in their estate to deploy small-scale solar and wind power and ground and air-source heat pumps.

Chic Brodie: Scottish Enterprise said that offshore wind represents a significant economic opportunity for Scotland, which you just echoed, with the potential to create a large number of jobs—28,000—and a GVA impact of £7.1 billion. I fully support the need to optimise the manufacturing opportunities behind offshore wind, wave and tidal power and believe that we can build the manufacturing base to support that. However, notwithstanding the Government's huge investment in ports through the national renewables infrastructure plan, it was suggested to me at a recent meeting that our ports were not fit to support the installation and maintenance of offshore wind. Will you comment on that?

Niall Stuart: First, I will quantify the opportunity. If Scotland is to build the 10GW of offshore wind agreements that developers have signed with the Crown Estate, that will require an investment of about £30 billion. In the United Kingdom as a whole, there are agreements for some 45GW at £3 billion per gigawatt. That is a market of more than £120 billion to develop over the coming years, so there is a huge opportunity.

The fact that the Scottish Government has worked with the enterprise agencies to develop a national renewables infrastructure fund of some £70 million answers your question to some extent. The fact that Fife Council is considering using a tax increment financing scheme to fund an extension to Methil harbour tells us that significant investment is required in our port and harbour infrastructure if it is to be made ready for large-scale manufacturing for offshore wind.

Chic Brodie: Harland and Wolff, for example, is already supporting the offshore wind industry. Future offshore wind developments will not only be on the east coast and around the north-east, but will come down the west coast. I have a particular predilection for the opportunities at the west coast ports, notwithstanding Govan. Will you comment on that?

Niall Stuart: The industry has grown in phases and will continue to do so. The earliest developments were in shallow water close to shore. You mentioned Harland and Wolff, which was perhaps ideally placed to capture the work to support some of those investments in the Irish Sea. The next phase of development—round 3—will go further offshore into deeper water and will involve using larger turbines to drive economies of scale. That is where the Scottish oil and gas sector's expertise is likely to be crucial.

You are right to say that the majority of the sites in Scottish waters are on the east coast but that we should not forget that there are also sites on the west coast. That is why the national renewables infrastructure plan clearly identified Hunterston as a major opportunity, and Kishorn and other sites on the west coast as opportunities.

In the medium term, the main centre of gravity for development is likely to be in the North Sea, but there are also opportunities on the west coast. We suspect that, over the next five to 10 years, the Crown Estate will engage in further leasing rounds with the industry to open up further sites. Many of those are likely to be on the west coast.

Mike MacKenzie: I am interested in what inhibits us from taking up opportunities fully—especially when the inhibitors would not cost much money to overcome, which is important in these times of financial difficulty.

You touched briefly on planning, and you might have seen the newspaper story this morning that suggested that, although the Scottish Government has been pretty good at giving consent for developments of more than 50MW, local authorities have not been very good at giving consent for developments of below 50MW.

To what extent are the Crown Estate Commissioners inhibiting offshore development, perhaps through a lack of local knowledge or sensitivity? Fairly recently, a licence was granted for the Kintyre array, but the developers had to walk away from it because the location had been chosen insensitively.

I apologise convener—I am doing my usual thing of wrapping up a number of questions into one.

The Convener: That is all right.

Mike MacKenzie: I appreciate that microrenewables may be beneath Mr Stuart's radar, but their economic significance is sometimes understated and undervalued.

The other day, I was speaking to a German developer who regarded the Scottish planning system as being a bit like going to the casino and throwing a lot of money on the table without having any idea what the outcome would be—even well into the process and after considerable up-front expenditure.

To what extent is the Westminster Government inhibiting us from taking up our opportunities? I am thinking in particular of the feed-in tariff review—it seems to have been going on for ever with no sign of an outcome, which is causing increasing uncertainty. I am also thinking about the renewable heat incentive, which was another good initiative from Westminster, but which seems to have been subject to delays and prevarication.

What are your comments on all those issues?

Niall Stuart: The first question was on local authorities. Local planning authorities have an incredibly difficult job to do in striking the right balance between giving consideration to development proposals and working to protect local community interests and environmental sensitivities. On the whole, we would say that most planning authorities get the balance right most of the time. I would be happy to come back to the committee with more detailed information on some of the more technical aspects of the planning system—perhaps by going into the differences in approach among local authorities, which may contribute to the sense of uncertainty around the likelihood of a decision going one way or the other.

Issues to do with microrenewables arise in the planning system. However, a huge amount of early engagement now occurs between our agency and local planning authorities in discussing where developments would be best sited, would be most likely to be approved, and would be most likely to meet local environmental sensitivities. That gives developers some certainty as they go into the process.

Another issue—which we will follow up—concerns delegated planning powers and the lack of a formal route of appeal. Many of our members do not really understand the process or how outcomes are arrived at.

You asked about the Crown Estate. On the whole, our members are positive about the Crown Estate and the processes that it has implemented. Irrespective of people's views on the Crown Estate, the fact is that the UK has far and away both the largest potential market for offshore wind, at 45GW, and the largest market for wave and tidal power by 2020, at 1.6GW. Both those figures exceed by some margin the plans of any other country in the world. The Crown Estate has facilitated, grown and worked with the industry to set out ambitions for the future on a scale that no one envisaged just a few years ago.

11:45

On your point about microrenewables, as I have said, the public sector and local authorities are missing opportunities for the deployment of microrenewables to generate revenue and cut their environmental impact. We will write to you with some specific examples of where we feel that the planning system is not treating microrenewables appropriately and proportionately.

Have I answered all your questions?

Mike MacKenzie: Yes, pretty much. Thank you for that. I also mentioned the delay in introducing the feed-in tariff and the RHI.

The Convener: We are focusing on budget scrutiny. I wonder whether we could restrict our questions to that.

Niall Stuart: Yes. Our members are extremely disappointed with the repeated delays in the roll-out of the renewable heat incentive, which are undoubtedly having an impact on the growth of the renewable heat industry in Scotland.

Mike MacKenzie: Could you please follow up some of those points in writing?

Niall Stuart: Yes.

Mike MacKenzie: Cheers.

Stuart McMillan: Our predecessor committee undertook an energy inquiry. One of the things that came out of that inquiry, which everyone on the committee found interesting, was the fact that the Danes were sending people over to Scotland to learn how we were training people in the renewables sector. I was a wee bit frightened at the time, as that reminded me of stories that I had heard about the shipbuilding industry in the 1970s, when people from the far east came over to learn how to build ships—and look at the state of the shipbuilding industry here now compared with the shipbuilding industry in the far east.

Can you, the Scottish Government and Scottish Government agencies do anything further to promote the training opportunities that exist in Scotland to get more people through that training so that we can take full advantage of the jobs that will be created? It is not just about the manufacturing of the turbines and the creation of offshore facilities; there is also the supply chain behind it all. What more can you, the Government and Government agencies do to ensure that businesses in Scotland maximise their opportunities to get into the renewables sector?

Niall Stuart: I will start with your first question. It starts with good careers advice for people who are still at school or in further or higher education and for people who are already in the workforce and are looking to retrain or specialise in another sector. It is about ensuring that they understand the scale of the opportunity and the current and future demands for already well-understood skills. We are looking for mechanical and electrical engineers, electricians and welders. The skills that the industry will need already exist; the fact is that we will need many more people in those disciplines at every skill level, from the semi-skilled to craftspeople to those with post-doctoral qualifications. We need to hammer home the fact that those opportunities exist.

Your second question was about support. Scottish Enterprise and the business gateway are placing a massive emphasis on the growth in renewables. You are absolutely right that we should not conceptualise the industry as involving just Scottish Power, Scottish and Southern Energy and their immediate suppliers. There has been massive investment in Scotland’s civil engineering industry through the growth of the onshore wind sector, and every legal firm in Edinburgh and Glasgow has identified renewables as a growth area. The growth in the sector has also, in some ways, made up for the slowdown in construction, and it has contributed to the haulage industry. The growth in renewables has created opportunities across all kinds of economic activity. Scottish Enterprise, HIE and the business gateway network are very much aware of those opportunities and are signposting people to them.

Stuart McMillan: Many people in areas that were unsuccessful in getting into the NRIP may feel that, because they do not see any developments in their area, renewables are not for them but for other parts of the country. How can the agencies engage with such communities to let them know that there are opportunities for them?

Niall Stuart: The NRIP tried to do a number of things, the first of which was to identify from our existing port and harbour assets those that were suitable or which could be made suitable for offshore wind. Secondly, it looked at where development was going to take place and considered where it would be best supported from. The NRIP therefore tried to identify existing industry assets and future priorities. It had to make some difficult choices about where the big opportunities were.

However, I know that Scottish Enterprise and HIE consider the NRIP not as a final document but as an indication of the best thinking at that time. For example, I do not think that Renfrew was identified in the NRIP process, but Doosan Power Systems has since confirmed that it wants to go ahead with offshore wind turbine manufacturing at Renfrew. I am sure that Scottish Enterprise and HIE will now identify that as a potentially major site and ensure that, if necessary, finance will follow for that location from the national renewables infrastructure fund.

I would therefore say to every port, harbour or constituency that they can all offer something to the growth of offshore wind power or wave and tidal power and that they need to continue to speak to Scottish Enterprise, HIE and the Scottish Government and make the case that they should be in the plan as it goes through its next iteration.

Stuart McMillan: My final question is on smaller schemes. What advice or recommendations would you give local authorities and community interest companies on trying to utilise, through the budget process and existing agencies, the infrastructure that once powered engineering and industry in certain locations in order to turn it into smaller-scale hydro schemes to benefit local economies?

Niall Stuart: Again, we could undoubtedly do more with public sector and voluntary sector assets to generate not just energy but revenue at a time of increasing pressure on budgets. The first step for any local authority in that regard is to audit its assets and take professional advice on how it can convert them to produce some generation. In fact, Partnerships for Renewables was set up to give such advice and take forward projects with the public sector.

John Wilson: We have had a good discussion around the renewables debate, but I want to draw it down to basics. Do you think that the Scottish Government is ambitious enough in its budget process regarding opportunities for Scotland to benefit from the renewables revolution?

Niall Stuart: I am sure that our members and the wider renewable energy industry would love Government to invest greater amounts of finance, but I think that we all understand that we are in a time of great pressure on public sector budgets. We support the Government's intention to move spending away from revenue and into capital. The investments that we are making through the national renewables infrastructure plan and POWERS to support offshore wind technology development and the investments that we have made and will make in wave and tidal technology development have all been welcomed by our industry and are hugely significant for its development.

In addition, the investments in Scotland compare favourably with similar commitments that have been made south of the border, where there is a £60 million ports and harbour fund compared with a £70 million one that the Scottish Government has committed to in Scotland. I think that our spending levels on wave and tidal development are similar to those of the United Kingdom as a whole, despite our significantly smaller budgets. I therefore believe that our industry is comfortable with and hugely supportive of the commitments that the Government has made in all the different areas that I have talked about.

John Wilson: Thank you.

I have a follow-up question. Do you think that the infrastructure to develop the renewables revolution has been supported enough by the private sector? You referred to the Scottish Government's £70 million ports and harbours fund. Do you think that some of the port authorities have been ambitious enough in their contribution to such infrastructure investment in Scotland? You said earlier that the renewables industry could develop with only limited public sector resource. Do you think that, in terms of the renewables revolution that could take place in Scotland, private sector agencies are contributing enough investment to make ports and harbours more suitable for the companies that want to locate in Scotland, to allow offshore wind turbines and other developments to take place?

Niall Stuart: The £70 million that has been designated by the Scottish Government is only a small part of the investment that will be required to make the port and harbour sites ready for renewables-related manufacturing. From memory, I think that the intention is to leverage in between £250 million and £300 million of private sector finance, alongside the £70 million. Most of our ports and harbours regard offshore renewables as their biggest opportunity for growth over the next decade and they understand that, if they want to capture that opportunity, they will have to invest significantly—and if it is the right choice for their business, they will invest significantly. I am therefore confident that the owners and operators of our ports and harbours will make the investments that are required to bring in significant levels of renewables manufacturing to Scotland.

The Convener: Thank you for your contribution. We look forward to reading your written submission when it comes in. We will be particularly interested in your comments on various budget lines once you have had a chance to review the level 4 figures.

I suspend the meeting for a minute or two.

11:58

Meeting suspended.

11:59

On resuming—

The Convener: I welcome our next witnesses to give evidence on the draft budget for 2012-13 and the spending review: Norman Kerr, director of Energy Action Scotland; and Andrew Faulk, policy manager for Consumer Focus Scotland. I welcome you both and apologise for the late start and for keeping you waiting. Would either of you like to make an opening statement before we go to questions?

Norman Kerr (Energy Action Scotland): Given that the committee is on a tight timeline, I can forgo that.

Andrew Faulk (Consumer Focus Scotland): I will go along with that.

The Convener: There is a budget line on fuel poverty in the level 4 figures that were published on Monday. It is entitled "Fuel Poverty/Domestic Energy Efficiency/Climate Change" and the figure is at about £65 million or thereabouts. Obviously some measures that we take can help with all three of those headings, some might help only with fuel poverty and some might help only with energy efficiency. Do you have a sense of how much of that budget is allocated to fuel poverty or to measures that will make an impact on it?

12:00

Norman Kerr: No. The cabinet secretary has said, quite rightly in some cases, that any impact on energy efficiency will at some point have an impact on fuel poverty. For example, replacing an old, inefficient boiler under the boiler scrappage scheme will in turn help people to reduce their fuel bills, which might impact on the fuel poverty of a person who is not eligible to access a fuel poverty programme.

It is difficult to separate out energy efficiency and fuel poverty measures unless there is a dedicated budget line. However, in this year's budget, we see that the budget has been spread across those three areas, although the biggest proportion continues to go into the energy assistance package and we are not aware that there is any proposal to change that. The lion's share will continue to feed through the energy assistance package.

The Convener: I suppose my question is, do you have a clearer sense than I do at the moment of how the £63.4 million for the fuel poverty budget breaks down?

Norman Kerr: No. In the current year, about £12 million has gone to the universal home insulation scheme and £1.5 million to £2 million has gone to the boiler scrappage scheme out of a budget of £48 million. I think that we can assume that the percentages will be similar in future, although that has not been said explicitly.

Rhoda Grant: What amount of funding will be required to meet the fuel poverty eradication targets that have been set? Is the budget adequate or do we need more funding in different areas?

Norman Kerr: Some years ago, Energy Action Scotland calculated that in 2006 we were looking at expenditure of £170 million per year over a 10-year period. We have not been able to access that level of expenditure and we are now thinking about revising that figure to around £200 million per year. That does not all have to come from the Scottish Government but we believe that the majority of it should. The £65 million that the convener spoke about is somewhat short of where we believe that the funding should be. We are looking for the Scottish Government to come forward with at least £100 million more per year if we are to reach our 2016 fuel poverty target.

Rhoda Grant: What other sources of funding are available to help us to meet those targets?

Norman Kerr: The carbon emissions reduction target programme and the community energy saving programme exist to provide funding, but we must understand that that funding comes from a levy on everyone's energy bill—it is not Government funding; it has been put in by the general public. Those schemes are also Great Britain-wide, so they do not apply only in Scotland.

Some of the difficulty has been in understanding how much of that funding we are able to access. The way in which companies have been asked to report their activities to the Office of the Gas and Electricity Markets often means that we do not have the full facts and figures about how much money they have spent in Scotland.

Rhoda Grant: Is that figure obtainable?

Norman Kerr: Ofgem will have a round figure for where the companies have spent their money. We know from the companies that they are below their targets for spending their allocated budgets, and much of that is due to their not being able to find appropriate households, such as people on benefits and households in what they call the super-priority group, which includes the over-75s and people on restricted incomes. We know that the companies are missing their targets by a considerable amount, so we expect the figures that Ofgem will provide to show that expenditure is well below target.

Patrick Harvie: Do you agree with the overall analysis of the fuel poverty budget that SPICe has provided? The fact that it brings in elements from different budget lines complicates things, but the figures suggest that, although there will be an increase in 2012-13 from the 2011-12 level, the fuel poverty budget will still be some £10 million short of the 2010-11 peak, and it will not increase but decrease again after that, in the rest of the spending review period. Is that an accurate statement of where things stand?

Norman Kerr: I believe so. The £65 million figure is certainly down on last year, when there was some £71 million for energy efficiency and fuel poverty programmes. This year, the figure dropped to £45 million or £48 million. It has come back up for next year, but we are not back to where we were two years ago and it is unlikely that we will be in that position during the period that the budget covers.

Patrick Harvie: I wonder whether you agree with a comment that was made by Niall Stuart, who was on the previous panel—I do not know whether you heard it. He seemed to be arguing—I would agree with this—that there is pretty much no option for a cheap energy policy, and that with more or less any energy policy that Governments pursue, we can expect unit prices to continue to rise for the foreseeable future. He suggested that when prices go up, rather than throwing our hands up in anger at the energy companies, the only thing that will make a difference is to do something on the demand reduction side.

Norman Kerr: That is a valid point. If we consider our European neighbours and what they pay per unit of gas and electricity, we see that Scottish consumers have among the lowest costs per unit. Our European neighbours use significantly less energy than we do because of the investment that they have made over a number of decades in their housing stock. Niall Stuart talked about the energy efficiency of homes.

You are correct. The only sustainable way in which to reduce our energy demand is to increase the energy efficiency of our homes, whether that is done through a retrofit programme to improve the fabric and thermal efficiency, through the introduction of microrenewables, through more efficient heating systems, or through a combination of the three. We need to move in that direction if we are to reduce the overall cost to the consumer through energy bills.

A further factor is the small but significant proportion of energy bills that the Exchequer takes to fund environmental programmes. That is a regressive approach because it is a flat fee rather than being based on the energy that a person uses. The current figure for that environmental tax is about £88 a year, and some analysts have suggested that it will rise to £200 or £300 a year. We might do a lot of work to increase the energy efficiency of our homes but not see a reduction in our fuel bills because we add further taxation to them. Energy Action Scotland believes that we need a fundamental review of how we fund such programmes.

Patrick Harvie: I am more willing than some politicians to talk about the need to return to progressive taxation. I very much take your point about the programme being funded through bills.

Earlier, I suggested to Niall Stuart that there might be an opportunity to bring in new sources of revenue. At the moment, we in Scotland cannot affect how electricity companies are regulated or how the Office of the Gas and Electricity Markets does its work. However, particularly by empowering local authorities to borrow, we can invest more. Do you support the idea of using local government borrowing powers to invest in some of the measures that reduce demand through efficiency and in microrenewables, which you spoke about? Public investment in those areas can create the opportunity for something to happen that, in many parts of our housing stock, simply will not happen through private investment. For example, it is difficult to get that sort of investment in tenements, because the ownership is fragmented and factors have no interest in facilitating that. However, the public sector could do that work, which would generate revenue as well as reduce people’s fuel bills.

Norman Kerr: There is another side to that. It is not just about raising the revenue; it is about encouraging people to take action. The social rented sector probably has the best-performing housing stock in terms of energy efficiency. The private rented sector performs poorly. Since 1991, the Scottish house condition survey has shown that the poorest stock that we have is in the private rented sector.

We can raise finance and allow local government to borrow more and give people soft loans or whatever but we also need to regulate the private rented sector and say what makes a house fit to be rented. If you rent a car from a hire company, you expect it to meet certain standards. We are saying that that principle should also be applied to energy efficiency in the private rented sector. People should not be allowed to rent out houses unless they meet a particular standard. We are moving down that road with social housing providers, who are required to meet the Scottish housing quality standard and so on, but we are not doing the same with the private rented sector.

On finance, earlier this year Consumer Focus Scotland and Energy Action Scotland ran a seminar on the green deal, which is seen as a way of helping to raise finance to encourage people to increase the energy efficiency of their buildings. It is aimed not necessarily at people who are fuel poor but at those who want to undertake environmental improvements to reduce their bills. More of that will become apparent once the legislation is implemented in the coming year, before the green deal is brought in this time next year. That is a way of raising finance but, as I said, the issue is how to encourage people to take up the measures. The fuel companies are unable to generate enough interest among the public to allow them to spend the amount of money that they have set aside for such measures, even though they are offering insulation for free. I struggle to see how we will encourage people to fund insulation measures through a soft loan when we cannot even encourage them to take insulation for free.

Patrick Harvie: It will be even more difficult in relation to the more expensive measures, which will need to be used in certain buildings in which insulation is not appropriate.

Norman Kerr: Yes.

12:15

John Wilson: We have been concentrating on the amount of money that the Scottish Government has set aside to deal with fuel poverty, but Norman Kerr is right to raise the issue of the amount of money that the UK Exchequer is raising through energy bills to plough into some of its environmental programmes. Mention has been made of the CERT money that energy companies are putting into communities to address fuel poverty, alongside the money that the Scottish Government is investing in those areas. My difficulty is that we do not have much control over aspects of fuel poverty such as household incomes and budgets.

People are defined as being in fuel poverty when they spend 10 per cent of their income on energy costs. Part of the dilemma is that, despite the work that has been done on energy efficiency in homes, fuel costs have risen. A £200 to £300 increase in yearly electricity costs is the figure being quoted for an average household just now. I fully agree that we must have energy efficiency measures, but we are not tackling the main issue, which is the cost of fuel and the fuel poverty measure. How do we tackle that through the money that the Scottish Government has to spend? How do we get the energy companies to get the CERT money to the hard-to-reach households?

Norman Kerr pointed out that homes in the social rented sector are more energy efficient than those in the private rented sector. Does the same apply to privately owned housing stock?

I would welcome views from Mr Kerr and from Consumer Focus Scotland on those issues.

Andrew Faulk: The quality of social housing is considerably better than that of private sector housing. The percentage of the housing stock that is rated as good is much larger in the social housing sector than in the private sector as a whole. Norrie Kerr is right that the private rented sector has particular issues, which include how we engage landlords.

On the wider point about the rise in energy bills, we agree that if we want to fund the reduction of carbon, which in essence is a public good, it is better and less regressive to take that out of general taxation than to take it out of people’s fuel bills, not least because there tends to be a flat-rate increase on everyone’s bills—that is certainly the case for large chunks of the current increases. That means that the lower users pay more. If someone tries to reduce their bills by cutting back, they have to cut back a long way to make a substantial difference. That exacerbates the extent to which people are in fuel poverty and they will suffer more deeply because of it.

Norman Kerr: To answer Mr Wilson’s point about the Scottish Government’s budget, it is important that the Government’s programmes focus not only on the bricks and mortar, but on the social impact. A lot of time and effort are spent on listening and talking to people when they phone in to find out whether they are eligible for any of the programmes. It is well documented that many vulnerable households underclaim benefits to which they are entitled. That might include benefits from the fuel companies, such as getting on to the priority services register or being registered for the warm home discount scheme or a social tariff. Although we are doing the bricks and mortar and making improvements in people’s homes, a key part of the strategy must be to continue to talk to people so that they understand the programmes.

Before the Scottish Government included microrenewables in the energy assistance package, it undertook a trial to find out whether people could use the technology that was to be put into homes. There is nothing worse than giving someone an efficient heating system or a new microrenewable technology if they cannot use it and they simply revert to using oil heaters or direct access electric heaters. We have a significant role in ensuring that, where possible, people’s incomes are maximised through the impact of our interventions. We should not lose sight of that.

John Wilson: Mr Kerr mentioned the fuel poverty target for 2016. Through the budget and through the work of the Scottish Government, private sector organisations and other agencies, will we meet the target of eradicating fuel poverty by 2016?

Norman Kerr: I am ever hopeful but I think that if we continue to get this budget we will certainly miss that target. That is why I have suggested that we must get at least £100 million from the Scottish Government, which must be matched by private sector investment.

John Wilson: Do you agree with the UK Government and Consumer Focus Scotland that if fuel prices continue to rise at the current rate, given how we calculate fuel poverty, we will have to review or revise the fuel poverty targets?

Norman Kerr: Before I answer that, I want to say that both Mr Faulk and I appreciate the committee’s decision to change the time of our appearance from 11 o'clock, as it allowed us to attend the fuel poverty forum meeting at which the cabinet secretary was speaking. He has asked the forum to review both the strategy and the current definition. I make it clear that he has not suggested that the definition should be moved or changed, but he certainly thinks that we should consider what is happening elsewhere in the UK.

A household is deemed to be in fuel poverty if it has to spend 10 per cent of its income on fuel. That was set in 1986, when fuel poverty was defined as having to spend, as a percentage of income, double the normal expenditure on fuel which, at that time, was 4 or 5 per cent of income. Even in today's market and even with the current increase in fuel prices, average expenditure is still about 5 or 5.5 per cent because of the rise in incomes. In that respect, the original 10 per cent figure has quite nicely mirrored what has happened. I know that people complain about the current price of fuel but, in terms of percentage of income, average expenditure on fuel is still about 5 per cent. We need to draw a line in the sand somewhere and, as far as the 10 per cent figure is concerned, I think that the double the national average expenditure definition is still relevant. People have asked whether someone who earns £100,000 a year and lives in a very old house with a swimming pool could actually be in fuel poverty because they have to heat the pool and, under the current definition, it could be argued that they would be. Therefore, we might have to look around the fringes. However, if we extracted that type of household from the fuel poverty figures we would still be taking out only a couple of thousand households; we would not be drastically revising the estimates for the number of fuel-poor households.

Andrew Faulk: Two years ago, we undertook with MORI a survey of people's feelings about their energy bills. At the time, the official fuel poverty rate was 28 per cent, so the fact that about 25 per cent of our sample said that they sometimes or always struggled to pay their energy bills indicated a fairly close correlation between the official rate and the response on the doorstep. As a result, we are not looking to change the definition. We would certainly be very wary about doing so without looking in great detail at what we planned to do instead and its likely impact.

Norman Kerr: We might need to do something. The Hills review recommended measuring the depth as well as the breadth of fuel poverty and I think that it would be interesting to examine how we know whether our interventions have actually taken people out of fuel poverty. We could, of course, be too clever about all this and then find that the amount of information that we gather on the doorstep has become so intense that we trap ourselves into being unable to find out whether we have had any impact at all.

John Wilson: I am interested in Mr Kerr's comments about earnings. Energy prices have increased by between 50 and 60 per cent over the past five years, but I do not recall average earnings going up by the same amount over the same period. However, that is a debate for another day.

The Convener: Before I bring in Mike MacKenzie, I would like to double-check something. Norman Kerr answered John Wilson's question on the 2016 target. Does Consumer Focus Scotland have a view on whether the 2016 target is likely to be hit?

Andrew Faulk: Our view is much the same as Energy Action Scotland's view. We have a reasonable idea of the spending that we would need to release to achieve the target. As Norrie Kerr says, there is a wide range of sources of spending, and we must ensure that as much of that spending as possible gets allocated to Scotland and is delivered in Scotland for the benefit of consumers in Scotland. This is not just about the Scottish Government's budget, although that will clearly be a part of it.

Patrick Harvie made a good point when he talked about dealing with blocks of flats. Schemes with mixed tenures—including the private rented sector, the private sector and the social rented sector—in the same block need a Government scheme because nothing else will be able to work across tenures to implement energy efficiency measures.

The Convener: We have only about five or 10 minutes left and four members want to ask questions. I therefore ask everyone to keep their questions and answers as focused and to the point as possible.

Mike MacKenzie: Do you agree that we need to solve the problem for more than one year? According to the figures, we had less fuel poverty a few years back, although we now have a regime under which people are genuinely taking up opportunities to insulate their homes better, with the level of loft and cavity insulation not quite at 60 per cent but getting there. To an extent, we have picked the low-hanging fruit. Do you share my concern that it is not good enough just to solve the problem this year or next year only to find ourselves, two years down the road, right back where we started because of continuing high energy prices? Norman Kerr probably understands where I am coming from, given what I said the other day.

You have said that, if the Scottish Government only spent £100 million a year instead of £62 million a year for the next few years, that would solve the problem. I am concerned that we are massively understating the problem. I reiterate the point that I made the other day. Almost 1 million households in Scotland are now suffering from fuel poverty. I estimate that, to bring the 1 million worst-insulated homes up to the standard of the best-insulated homes—in other words, to make them comply with the Building (Scotland) (Amendment) Regulations 2010 and the 2010 standard assessment procedure calculation—will require a figure considerably greater than the sums that we generally talk about. If we are talking about £50,000 per house for 1 million houses, that takes us to the figure of £50 billion. I am not suggesting that all of that money needs to be spent by the Government or that the whole cost needs to be borne by the Government; however, I think that we consistently understate the problem. Do you agree with me?

Norman Kerr: Yes and no. I take issue with some of your figures. Trying to achieve 2010 standards in all existing homes in Scotland would be the wrong way to go. I do not think that we will ever achieve that. For instance, I do not think that we will ever get the houses along the Royal Mile up to those standards. We need to assess the level at which fuel poverty becomes less likely, and that level will not necessarily meet those standards—it will probably be a bit below that. We need to revisit that and say where we want our houses to be on a scale of 1 to 10. If a modern house that was built in 2010 was a 10, we would probably look to achieve an average of 8. Therefore, we do not see that there is as much work to be done as you think there is to address the problem.

Back in 1984-85, we were bringing houses up to a high standard of efficiency that still exceeds the 2010 figures for about £17,000 per house. You need to factor in economies of scale, the technologies that would be used and how the work would be done. I have an old report on the issue that I am happy to send to you, although I do not have enough copies for all committee members.

12:30

Mike MacKenzie: At a meeting the other day, you suggested to a lady—slightly unhelpfully, I thought—that she should just move house. My point is that, given the housing profile that we have in Scotland, the age of our housing stock and the very low rate of housing replacement post-credit crunch, a significant proportion of our housing stock needs to be brought up to current or reasonable insulation standards, which will carry a big price tag. You mentioned a figure of £17,000. If we are saying that such work needs to be done on about 1 million of our 2.4 million houses, that will cost £17 billion. With respect, we will not solve that through the Scottish Government increasing its expenditure to £100 million for the next few years. We are massively understating the problem. That is of concern, given that, as I think we all agree, energy prices will continue to rise. Is it helpful for us to take such a short-term view, or do we need to take a longer-term view and look at different approaches?

Norman Kerr: I certainly agree that we need to take a long-term view. That is why we continue to press for housing standards to increase. We believe that even today’s standards do not go far enough. That is why we suggest that, in the longer term, we need to regulate the private rented sector and encourage an increase in the level of efficiency of homes in the private sector. That will not happen overnight, but regulation may be required where there has not previously been regulation.

In 1996, when we first had a figure for the number of households in fuel poverty, it was 770,000, not 738,000. The drop was caused by the reduction in fuel prices up until 2002. The increase in the figure has been caused by fuel prices going back up and incomes not matching that, as Mr Wilson said. Fuel went up in price, but our activity level had gone down because we took our foot off the pedal when we thought that the reduction in energy prices was going to solve fuel poverty for us. We have taken the low-hanging fruit and have not developed our microrenewables strategy sufficiently to make it an affordable strategy. We need to invest more in that to bring prices down. Eighteen months ago, it would have cost £12,000 to fit a solar panel system on a house; it now costs £8,000. There are economies of scale, but the Scottish Government must lead the way on that.

Mike MacKenzie: Very briefly—

The Convener: Three members are waiting, Mike. We are way over time, so I ask each member to be very brief.

Anne McTaggart: I will be as brief as I can be. It is a question for Norman Kerr, which ties in with what Mike MacKenzie said about other methods for eradicating fuel poverty.

You mentioned preventative spending, which is an issue that I have tried to highlight in Parliament. I will highlight it again in this afternoon’s winter resilience debate and in this evening’s members’ business debate on fuel poverty, which Jenny Marra will lead. According to the research that Professor Christine Liddell has done, for every £1 that is spent on tackling fuel poverty, the national health service saves 42p. Will you elaborate on that? I know that Energy Action Scotland has done some work on the issue. In the budget, what kind of figures have been set aside for that?

Norman Kerr: I do not think that such cross-cutting thinking is done in the Scottish Government's budget. We need to engage more with our health sector colleagues. The work that Christine Liddell did in Northern Ireland showed that by improving the home of an asthmatic, for example, we can reduce the number of drugs, inhalers and so on that they use. That will result in less cost to the NHS and fewer trips to hospital, which is a success.

Similarly, if someone goes into hospital because they have fallen at home and broken a hip, we do not assess why that happened. Was it because of, for example, their living conditions? We spend a lot of time on aids and adaptations, but we then send people home to exactly the same environment that caused them to go into hospital in the first place. We need to look at how we can bring in the health sector on more preventative spend. We believe that, in many cases, energy efficiency is preventative medicine.

Andrew Faulk: I will briefly extend the argument. You are considering the committee's wider remit for economic development. If you deliver energy efficiency, there will be job creation through the installation of measures and spend will be released for more productive use at the level of local economies. Preventative spending has implications across many aspects of the Scottish Government's aims.

Stuart McMillan: First, on the increase in the number of people in fuel poverty, over the past eight years or so, has there been an increasing trend of pensioners going into fuel poverty as pensions have not increased with earnings?

Secondly, on the difficulties in people taking up home insulation measures—particularly loft insulation—I suggest that some problems are due to the fact that pensioners, in particular, may have a lot of stuff up in their lofts, so the hassle of having it taken out for insulation is prohibitive. Have there been any schemes to help pensioners to prepare their homes? Can they get help to move their stuff?

Finally, in the future, when the Scottish Parliament has borrowing powers, would not it be better for the Government to use those borrowing powers and to have national schemes rather than to put the burden on local authorities?

Norman Kerr: There is a lot in what Stuart McMillan says. Again, I refer to the Scottish house conditions survey. The new fuel poor are not necessarily pensioners—they tend to be young single people in poorly paid jobs, or young families in which one of the partners has stopped working, perhaps because there is a baby on the way. A lot of the support in previous years has gone to pensioner households and not towards the people who are now more exposed to fuel poverty.

Much of the issue is income based. The figures show that if people earn less than £399 per week they are more exposed to being in fuel poverty and that if they earn less than £100 a week they are definitely in fuel poverty. A lot of young people who are unable to access well-paid jobs and who may be living on benefits fall into that category. That is one reason why, when the energy assistance package was revisited, we extended its eligibility to families with young children and carers and did not continue to focus just on the elderly.

On the elderly, an enabling fund was built into the energy assistance package and home insulation scheme that allowed lofts to be cleared to allow access for insulation to be fitted. However, there are still problems; that can involve bringing 30 or 40 years' worth of memories down from the loft, storing the items somewhere in the house, and then putting them back. We have the enabling measure, but the process can still be a big upheaval, particularly for an elderly person. However, we have acknowledged that there is an issue and a number of local authorities have funded that work themselves.

Your last question was whether it should be for the Scottish Government, rather than local authorities, to do the borrowing. I think that it should be a bit of both. The universal home insulation scheme in particular put local authorities in the driving seat, but was funded by the Scottish Government. Local authorities often know their areas much better; they know their priorities and they know their housing stock needs. The success of the universal home insulation scheme—as opposed to the home insulation scheme—was much greater when local authorities were in the driving seat. I take the point that the Scottish Government needs to give strategic direction—it needs to set the standards, progress and milestones—but much of the delivery could be achieved by local government.

Andrew Faulk: I agree with Norrie Kerr about the people who are increasingly fuel poor. Another group comprises those who live in rural areas, because of the higher fuel costs in rural areas. Heating oil costs are double the average gas bill, so areas in which people are dependent on heating oil are affected.

The Convener: I thank Andrew Faulk and Norman Kerr. We will suspend for a few minutes while we change panels.

12:40

Meeting suspended.

12:46

On resuming—

The Convener: Our fourth panel will also focus on the draft budget for the next financial year. Duncan Thorp is from the Scottish Social Enterprise Coalition and George Thomson is from Volunteer Development Scotland, I understand that we will be joined shortly by John Downie from the Scottish Council for Voluntary Organisations. I thank Duncan Thorp and George Thomson for joining us. Would you like to make opening statements on your views on the budget? I see Duncan Thorp nodding, so he can kick off.

Duncan Thorp (Scottish Social Enterprise Coalition): I thank the committee for inviting us to the meeting.

In general, we welcome the Scottish Government's support for the third sector and the encouragement of the social enterprise model, particularly our role in developing preventative spend and early intervention programmes.

On the third sector budget, we believe that we have a pretty good deal in the current context, and that it demonstrates the Scottish Government's sincere commitment to the sector and the recognition of our flexible and innovative approach. It is important to note that we believe that we have cross-party support. I think that whatever Government was in power would be as supportive.

It is clear that we are operating in the context of reduced public sector spending and that we face a bit of a cut in the core third sector budget, but there is also the reducing reoffending fund, for example, which is £3 million over the three years. We also welcome the additional resources from the criminal justice budget to support that scheme.

We strongly welcome the clear commitment to the new preventative spending approach, and recognise that this is the first time it has really been backed up by money. Obviously, parties have been talking about preventative spending for a long time, but this is the first time there has been a concerted effort in that direction. We welcome the £500 million investment commitment over the next three years, but would like reassurances that the allocated money will be spent on prevention on the ground and will not be used to top up current service delivery. It would be good to be consulted on how that money will be spent, and on the production of public services.

There are many good examples of preventative approaches in the social enterprise sector. That is really what social enterprise is all about, but replicating and upscaling successful projects that operate on a local scale is an issue. A challenge for our sector and the Scottish Government is to recognise, replicate, roll out and upscale good projects as part of the preventative approach.

We realise that the sector needs to be developed. The sector's economic contribution is still quite small, but development opportunities exist. We must ensure that we have the capacity to deliver on the promises that we make on our involvement with public sector reform.

George Thomson (Volunteer Development Scotland): I will make a very brief statement. First, I thank you for the invitation to come to the committee meeting today.

Volunteer Development Scotland is a national resource centre for volunteering, so my first point, which gives a context for questions, is that we do not look at the issue from a third sector perspective but from the perspective of what works for the individual—the volunteer or potential volunteer. My voice and Volunteer Development Scotland's voice are trying to reflect something that is of real importance.

The committee's invitation to me to attend today is enlightened, because it enables us to look at ways in which public service investment through the budget is a multiplier and creator of public good and the common good, and to consider how it will bring about partnership, engagement and co-production. Whatever you want to call it, it is the engagement of people on the ground to make things happen.

We have learned quite a lot of lessons about what works. I would like to think that the committee's approach might set the scene for other committees to scrutinise not only the budget and what it does around infrastructure, but whether it leads to greater community engagement and improved outcomes, based on partnership with people.

The Convener: Thank you for your contributions.

I have one very narrow question. I suppose that it is in contrast to what Mr Thomson appealed for, but in terms of pure budget scrutiny, there is only one budget line for the third sector for us to scrutinise. I take on board your point about preventative spending, but in terms of the committee's broad remit, the third sector budget line goes down to £24.5 million for the next financial year. Two years ago, in 2010-11, the budget line was £35.6 million. That is only one budget line, but it is a fair difference.

Do you have a sense of what difference going from approximately £35 million to about

£24 million makes? Is it obvious what impact that will have on the ground?

Duncan Thorp: I do not think that it is obvious, but we recognise that there are budget cuts and that the figures that you cite are significant. I do not have any specific figures on the impact of the cuts on the ground, but we acknowledge that we are operating in that context. That is the challenge for social enterprises. It is not just about Government funding; it is about what we can do within the social enterprise community to upscale, to trade better and to ensure that we have the right framework for us to operate in.

The Convener: I welcome John Downie to the committee.

John Downie (Scottish Council for Voluntary Organisations): I apologise for my late arrival.

The Convener: I do not want to throw you a fast ball, but I will do it anyway. Do you want to say any opening words on the budget on behalf of the Scottish Council for Voluntary Organisations?

John Downie: Generally, the SCVO tends to welcome the budget as representing the right direction of travel, particularly around the prevention agenda. It is a real statement of intent by the Scottish Government.

We obviously have some issues around key areas such as how we deliver prevention through the change fund agenda. Is there an issue in that the agenda gets—let me use the phrase—taken over by public sector agencies, such as local authorities and NHS boards, and that the focus is on structural change and the provision of existing services rather than on prevention?

On the direction of travel, the third sector division budget, which is quite small and is a very small part of the overall Scottish Government budget, and the £500 million on prevention, which is 1.8 per cent of the overall budget of £28 billion and is also quite small, are enabling us to say that there is much more opportunity for the third sector to take advantage of the funds.

Overall, we are happy with the outline, but the issue is how we deliver on the budget because, as we see it, the budget—particularly the third sector division budget and the prevention budget—gives us an opportunity to change how we deliver public services and to do things differently.

Chic Brodie: I want to ask what might be a slightly inflammatory question. The budget is limited and has reduced. Considering the £24 million and the number of organisations such as yours that are involved in the third sector, does the current structure militate against money hitting where it is supposed to hit, at the front line? Is some of the money consumed by administration and competition in the sector?

Duncan Thorp: To a certain extent, the number of bodies means that there is a bit of a crowded sector. That is probably the case for every sector. It is a common comment.

We work closely with other organisations, such as SCVO, on community jobs Scotland. We have a formal partnership agreement with Social Firms Scotland and Senscot. The three organisations are working closely together in a way that they have never done before. We have joint funding from the Scottish Government and we are working together on joint events and so on. We are well aware that there was duplication in the past, so we are making a conscious effort not to have duplication and not to waste resources.

George Thomson: Scotland has been well served by the investment over a number of years. The current budget level is testimony to that.

From the point of view of volunteering, though, the difficult statistic for us all to face is that volunteering activity has been flatlining in Scotland for about 20 years. There has been no increase from the 30 per cent mark of an average of an hour or two a week.

Let us consider what has happened over the past five or six years, with the investment that has already been made. How can we discern whether future investment will bring about greater volunteer activity? The competitive aspects of how the cash is used will have to be considered. Basically, is it bringing about a greater volunteer result?

John Downie: The contribution that SCVO gets from the Scottish Government is not a direct purchase of services but a contribution to allow us to help the Scottish Government to facilitate the actions that will build the sector's capability, resilience and capacity, and to bring the experience of the sector together around the policy debates and to influence policy overall. Many parts of the sector are trying to exert influence on their own agenda, whether it is children or older people.

We are looking at the matter from various perspectives. In the case of a number of funds in the budget for the third sector, such as just enterprise and the business support fund, we could argue about whether that is the best way to use resources. Those funds have a set purpose, but we have to look at the evaluation.

Investment in organisations such as ours is to help to facilitate action. It does not go directly to front-line organisations. Most of their funding—certainly for children's charities and education and health charities—comes from other parts of the Government. For example, last week Michael Matheson announced direct funding for an Alzheimer Scotland scheme to tackle dementia. There are examples of funding going to the third sector from a variety of sources. Our funding is for a different purpose, and that purpose is well served.

Given the current budget for the third sector, we have to consider where, with limited resources, we should invest to get the biggest bang for our buck, and what action we want to take to help to reduce youth unemployment, and on the other issues that we want the third sector to help with.

Chic Brodie: I understand that. As you know, I am a great proponent of social enterprise, but I wonder whether we need so many organisations. I ask because of the distribution of the £24 million.

John Downie suggests in SCVO's report that some parts of the third sector struggle to have a meaningful influence in key decision-making processes and therefore in ensuring that money gets to the front end. I am interested in that, which is one reason why I was asking about consolidation, collaboration or merging—or whatever you want to call it. Your report was refreshingly direct and it made a very helpful comment about South Ayrshire. I am deeply concerned about comments being made about the change fund and its allocation for purposes other than those for which it was intended. Would you comment on that?

13:00

John Downie: You have raised a number of issues, including the number of organisations in the sector and their diversity. Of those organisations, 60 per cent receive no public sector funding at all. Some small grass-roots organisations are led by volunteers and driven by a purpose. They are out to help people; that is what they do and what they want to do; and they do not want Government money.

Other organisations raise part of their money, with the other part coming perhaps in a grant from the local authority. There is real variety. However, diversity is one of the sector's strengths. There are 250,000 small businesses in Scotland—which I used to represent—but I do not think that we would be saying to the private sector that it has too many organisations.

We can consider the number of organisations that receive public sector funding, but I think that we should be considering the outcomes from those organisations. When we produced our work programme with the Scottish Government for our current core contribution, we built it around reforming public services, improving employability and skills, and building a third sector in community resilience. We had a clear purpose.

You referred to our paper, and we have obviously been considering the budget. As I said, the change fund has been a particular issue. Analysis of the change fund for reshaping care for older people has shown that only 18 per cent has been allocated for prevention. Measures need to be taken to address that.

Some local authorities are working well with the third sector, but some are not working so well. Glasgow City Council has purchased nearly £1 million-worth of social care from its in-house provider. It is spending more money on consultants, nurses and social workers and it has allocated money to buy residential care. The purpose of the change fund was to change how we do things. I accept that Glasgow has real and particular difficulties that are related, for example, to population and health.

However, if the Scottish Government is allocating money for a particular purpose, it is incumbent on the Government to ensure that the money is actually used for that purpose. We had discussions with the Scottish Government on guidance for the change fund a few weeks ago. In effect, we refused to sign things off. The Government has since consulted us, and we have responded, using input from our members. The change fund on its own merits a debate. We have to learn from what has happened.

There are now a number of change funds to deliver the prevention agenda. A key point in the early years change fund is that it will be funded by contributions from local authorities and national health service boards. That is fine, but we have to be sure that the contribution exists and is directed at prevention. The change funds are the right way to go, and there is some good practice. However, there are areas that cannot use the money. When budgets are reduced for social and residential care, the change fund cannot be used to fill that hole. However, that may be a different debate.

George Thomson: I am reminded of Harry Burns, the chief medical officer, reporting on the tremendous results from Beaconhill in Falmouth, where remarkable outcomes were achieved in employment, health and a range of other things. He said that there was no hierarchy, no funding to start with, no business plan and no targets—but there was a shared vision of what the community wanted to be.

The BBC news reported just a fortnight ago on the remarkable success of the Raploch Sistema project, through which 350 kids in Raploch have become musicians and can be seen walking about with their cellos and so on. They are in an orchestra, they are performing, they are getting the support of their community and they are getting a media profile that is transforming how they look at themselves and how others look at them. That is bringing about fundamental results in that community, similar to those that have been produced by the homeless world cup in another context. It comes back to the challenge of seeing cash—money and budgets—as a catalyst for bringing about prevention and outcomes rather than as the focus. It is not a matter of pounds, shillings and pence but a matter of what works. That is what we are keen to ensure that we share with you. We need to consider what is working on the ground and what is bringing about the positive changes.

Chic Brodie: Thank you.

Rhoda Grant: I guess from our point of view, we are focusing on the part of the budget that falls under this committee's remit—the change fund falls under the remit of the Health and Sport Committee and of the Local Government and Regeneration Committee—and on the £25.5 million, which, I dare say, funds many of your organisations and the work you do in the voluntary sector rather than service provision. I was interested to hear that the 25 per cent cut last year and the further £2.5 million cut in your budget this year have not really had any impact. If you look at it from our point of view, with tight budgets, I suppose you could ask whether there was still fat in the system if those cuts did not impact on what you do and what you deliver to the voluntary sector. Frankly, are you overfunded? It seems strange to me that you can take such a cut without any impact at all.

Duncan Thorp: On that very point, we recognised a while back that the funding would not be there for ever so we have moved more towards a social enterprise model as an organisation. We are increasingly raising money through membership and sponsorship and we are exploring other avenues. We have appointed a business development manager, whose job is to work on those issues. We are continually trying to increase our income streams from other areas, and that is probably the reason that we could cope, if you like. I would not say that there is any fat in our organisation in that there are four paid staff members, a strong board and a large group of social enterprises as members. There is no fat in our organisation; we are, I think, just working more efficiently.

John Downie: The SCVO made 29 staff redundant last year, considering our financial position at that time. Of the core contribution that we received before that, £350,000-worth of the front-line services that we used to deliver were handed over to the interfaces, which were well established. They were actually the best people to deliver the front-line support for local organisations. There was a change in emphasis, because when we were doing that work a national focus was needed, but when the interfaces were established we could transfer that support for local organisations to them. The interfaces are funded directly through that process. There has been a change and our staff have worked smarter and done a lot more with a very tight budget and less money from the Scottish Government.

The purpose of our discussions with the Scottish Government is to ask, if it has £24 million to spend, which interventions will make a difference. We currently have the just enterprise fund and the business support fund, and we can discuss their merits and whether they are the best way to help build capacity in the sector in leadership and organisational development. Bids need to be made and that takes resources. We need to ask whether there is a different way of doing things. There is a need for smarter thinking about money and we can see where there are gaps if we want to build the sector's capacity. Local interfaces are developing, which are reasonably strong, but on health and care integration, for example, we must link housing associations, national organisations and charities that deliver health and care and the interfaces to ensure that the sector is strongly represented by the best people at a local level—whether that means a social enterprise, a voluntary organisation or a large social care charity.

We need to think about whether an intervention is needed that might need to have money spent on it. I agree with Duncan Thorp; we are very much focused on outcomes and on what we deliver, and we are confident that the Scottish Government gets value for money. Our core contribution is about 5 per cent of our total income.

The Convener: You said that if we have only £24.5 million, we must ensure that it is spent extremely wisely. One of my frustrations as a committee member is that, even when the level 4 figures come out, we are told that only level 3 figures are available for the third sector budget. Do you have a clear picture of how the £24.5 million is broken down and spent? All that we get is the headline figure.

John Downie: I have a general idea. The enterprise growth fund has had £4 million spent on it. The just enterprise fund has got £3 million. George Thomson and Duncan Thorp might know the exact figure for the third sector interfaces better than I do, because there are 32 of them: there is one in each local authority area. I think that it is around £8.5 million.

Blocks of money are being spent. Obviously, this budget has allocated £1 million towards cutting reoffending. There is also a contribution to our own organisations, and the SCVO's core contribution last year was £800,000. Duncan Thorp will be able to tell you about the social enterprise element.

The third sector tendered recently for another £1.5 million fund that is for developing markets and helping third sector organisations to raise their game so that they can tender for public sector contracts.

I do not have an exact breakdown, but I know that blocks of money are being spent because we are in discussion with the Government about what it is doing.

Duncan Thorp: I back up what John Downie said. The figure that he gave for the enterprise growth fund is right. Our organisation's contribution is £107,000. I do not have any further breakdown of the figures.

George Thomson: We seem to be trying to piece something together here, and my answer is similar to the others. I think that the key question underneath the convener's question is about the value that we are getting from the net investment. Just like in a job interview, I would say that the best predictor of performance is past performance. To be perfectly honest, I am not that clear on the outcomes during the past 10 years of major investment by the Scottish Government in infrastructure and the other things that we have spoken about.

I can account for my organisation. Our funding was £800,000 this past year. We are a national resource centre for volunteering and we provide a range of free resources to people at source. I can account for our outcomes and performance, but I cannot honestly account for the collective outcome in performance combined with all the other investments. That is an important area for the committee's scrutiny.

I return to my major point. We are particularly interested in whether the investment has led to a better experience of volunteering, an increase in numbers and a collaboration in partnership with people in a way that addresses the issues that we know too well. On that count, it does not look as though we have made the progress that we need to make, so there needs to be a change during the period ahead of us.

13:15

Patrick Harvie: Instead of suggesting that there is fat in the system, I want to come at this from the opposite direction. The UK Government's big society agenda is quite often cynically regarded as a cover for deeply damaging cuts to public services and a cheap way of getting voluntary sector organisations, social enterprises or volunteering to fill the gap. None of us would wish this to happen but, with a frozen budget over the spending review period and given the large expectation that voluntary organisations, social enterprises and volunteering will play a greater role, is there a danger that—despite the fact that many of us would see opportunities in that larger role—we incrementally get back what used to be quite an exploitative relationship and a perception of the sector as a cheap way of providing public services?

John Downie: That could be a danger. As far as the UK Government is concerned, members are well aware that the sector has been lobbying everyone on the Welfare Reform Bill. We very much welcomed the Parliament's decision about the legislative consent motion, because we felt that there needed to be real scrutiny of the bill's potential impact on Scotland. Indeed, the bill itself could blow a hole through John Swinney's spending review.

The question is how we build the sector's resilience and its capacity to deliver more public services, which, after all, is one of the prevention agenda's aims. Actually, the adoption of that agenda has positioned us well; in a sense, there is more money available for the third sector to do things. In a quick state-of-the-sector survey that we have just carried out—although we have not yet released it, we are happy to submit it as evidence—organisations have expressed concern about increasing demand and a worsening of their economic situation, particularly on the finance side. If we want the third sector to step up and deliver in the way that we want it to, we must build capacity. However, the current tendering and procurement system is acting against the best way of doing these things and its low-cost focus is simply not working. Big social care providers are acting like large-scale private organisations and engaging in cut-throat competition, while the small organisations that we want to grow and to be able to deliver more simply do not have the capacity.

I have spoken to a number of local authorities and, among the more proactive ones, East Lothian—I realise that it is Scottish National Party led, but I make it clear that I am not being political—is trying to use its own funding and funding from Social Investment Scotland to establish a local fund for building the capacity of third sector organisations. It has put in £250,000 and is looking for that funding to be matched. That sort of directed support represents a great way forward, because the fact is that when we threw change fund money at certain third sector organisations that had been working on a shoestring for a number of years, many of them did not find it easy to cope with the leadership, management and organisation that are required to take on such responsibility. The third sector has real potential, but our capacity and the money that we have been able to invest have been cut to the bone.

In our survey, most of the larger organisations—in other words, those with incomes of more than £1 million—expected their financial position to deteriorate. In 2009, third sector organisations were spending more than their income and going into their reserves to deliver services. They need to look at what they are delivering and ask whether they can deliver a great service and provide value for money; if they cannot, they will need to consider whether they should stop delivering services for local authorities—services, I should add, that they are basically donating.

There is a range of issues to address but the main ones are resilience and capacity.

George Thomson: I have some good news for the committee. Our research into people's willingness to engage and contribute shows that it has never been greater. For example, 50,000 people a month search our volunteer Scotland database for opportunities to contribute to the common weal. What has been remarkable is that they have left behind 15,000 different search words, which show the kind of things that people are interested in contributing to their communities, including archaeology and the like. Among our population there is a real desire to play out our values—what is important to people and the relationships that they have.

The big society as a concept does not play well, but some of the language that the Scottish Government has used, such as the phrase, "the mutual NHS", which Nicola Sturgeon used, does play well—the idea of a mutual Scotland plays well. MORI research in England has helped with this. We have a very clear view that there needs to be a safety net and that the public services have to provide for us when we need them to, and we need to be able to trust that that will be the case. Once we have that mutual trust, we are only too willing and able to make our contribution to add value in relation to the health and wellbeing agenda.

There is a massive danger that if we present this by saying that—a bit like the big society—the state will get smaller and we need to rely more and more on the community, the mutuality and trust will break down and people will walk away from making their contribution. There is a really important leadership role for Government and Parliament in creating the best conditions for us to combine our resources on this matter.

Duncan Thorp: I agree with much of what John Downie and George Thomson said. On the big society, what you find in England is that there is very much a top-down approach to social enterprises. In Scotland, there is very much a bottom-up approach. There is awareness in the sector that there are capacity and upscaling issues. Social enterprise is not all about the grants; it is about trading in the free market, getting in new sources of finance and giving social enterprises the right framework in which to operate and trade. That is what social enterprises are about. We would not focus so much on the grants or the public sector funding side of things.

As John Downie said, procurement is a big issue. On getting local authorities to procure from social enterprises, we would like community benefit clauses to be the norm in the public sector. You probably know about this issue already, because it has been talked about a lot. Getting such clauses into public sector contracts as a matter of course is one of the keys.

On new ways of getting finance into social enterprises from the private sector or wherever, we give a cautious welcome to social impact bonds, but they are at an early stage at the minute, so we are a bit wary about the topic. We have been talking to the Scottish Government about a loan guarantee scheme. We want the Government to underwrite such a scheme so that private investors will put cash into social enterprises. The taxation system is a big issue. Community investment tax relief could be extended at UK Government level. At a devolved level, a lot of it comes down to procurement by local authorities and other public bodies.

John Downie: The sector recognises that it needs to change and everybody is thinking about that. The biggest question that we and the Big Lottery Fund get is, "How do I change my business model?" We have seen much more collaboration and partnership. A survey that we have seen shows that 30 per cent of organisations are planning to work in partnership or collaboration. The community jobs Scotland collaboration has 470 organisations from the sector all willing to take on young people. That helps build the capacity of the sector, but it also addresses the real problem of 16 to 19-year-olds who are unemployed—there are also quite a lot of unemployed graduates.

It is very much about outcomes. I was listening to Aberlour and Quarriers talk about what they are doing down in Dumfries and Galloway. They are not competing but working in collaboration to provide the best service for the people there, based on their needs. Notwithstanding what I have said about the competition element, the sector is changing. If self-directed support comes in, it will drive change in the sector, which is good because it will be based more on giving people what they need. Over the next five to 10 years people will be much more in control in relation to what they want from us, what they want from the private sector and what they want from the public sector.

John Wilson: I thank John Downie for giving us insight into his interpretation of how the budget line will be broken down and where the money will go. One major concern of the third, social enterprise and voluntary sectors has been about whether funding that the Government has transferred to local authorities to be filtered down to those sectors has gone to them. The 32 local authorities' operation of the change fund has been mentioned. Are the third, social enterprise and voluntary sectors confident that they are getting the best deal from the allocation of that money from the Scottish Government via local authorities? I want an honest answer.

George Thomson: I feel that I am repeating myself, for which I apologise. There is no great sign that the change fund, local authorities and combined efforts are transforming community engagement. One or two initiatives in which we are directly involved—there is one in the NHS in Angus and there is some tremendous work in Stirling Council—have given a bit of insight into ways ahead. That is about a mindset and a way of looking at how to create conditions and change our perspective on what people can contribute.

I will give a quick example. We have discovered that there are 40 archivists in Stirling. They were never recruited; their passion is to get involved in archive work, in history and in cataloguing. We have discovered that the relationship between the council and those archivists has a different set of characteristics that we need to learn from and apply elsewhere.

The aspirations for what we are doing are sound, but the signs do not show that we will bring about the transformation in engagement that we, the Christie commission and everybody else want. Volunteering is a cross-sector matter, so a collaborative approach must be taken to engagement. The success of Sistema Scotland in Raploch has involved a partnership between the charitable sector, the public sector, international partners—through the Venezuelan influence—and Creative Scotland. A combination of our skills and resources brings about such change. We must look at what is succeeding in transforming the lives of the young people involved, rather than having a dogfight about who will get the cash.

Duncan Thorp: I hate to use the phrase "culture change" again, but it applies to local authorities. If we are moving towards a preventative and early intervention approach, that will be a massive change. Christie talked about how profound that change would be. We all know that getting local authorities to do things differently is a massive challenge. Even if the money is available, the issue is ensuring that it is spent on preventative approaches and in full consultation with social enterprises and the third sector.

John Downie: Engaging third sector organisations in the decision-making process is a difficulty, particularly in relation to community planning partnerships, because that involves power, control and who drives the funding agenda.

The change fund provides a good example. Third sector organisations are supposed to sign off local change plans, but that has not happened everywhere. In Glasgow, our indications are that only £200,000 of £8.7 million from the change fund has been spent on the third sector and that only £120,000 is left in the pot. Glasgow City Council might disagree with that, but the feedback from the sector locally, which is worried about speaking up because of its relationship with the local authority, is that an extremely small amount has been spent on it, although we are trying to change how we do things.

In different local authority areas, there are issues with relationships and with how seriously the local authority takes the sector. Some good local authorities are changing the culture and how we work together. That is happening throughout Scotland but, equally, there are areas where we need to change the culture and how seriously the sector is taken.

To refer back to Patrick Harvie's point, the third sector is not always the cheapest option. It is the most cost effective and, most of the time, it is the best option for getting the best outcome. We need to change the dynamic on that.

13:30

John Wilson: John Downie's final point—that the third sector is not always the cheapest option—takes us back to the definition of best value and how local authorities apply that.

I thank the witnesses for the honesty of their answers. The budget scrutiny is not only about trying to ensure that the Cabinet Secretary for Finance, Employment and Sustainable Growth gets the budget right this time, but about how he monitors the budget allocation to the various partners to whom money has been allocated to ensure that we get the change that the aptly named change fund is supposed to bring about. I welcome the comments from the witnesses. I hope that we will be able to address some of the issues.

The Convener: Two members have indicated that they wish to ask questions. I invite them to be as brief as possible, because I am conscious that other members may have to speak in a debate in an hour or so. Mike MacKenzie is first.

Mike MacKenzie: I will do my best, but I am not known for my brevity.

The Convener: You have had lots of chances. Go for it this time.

Mike MacKenzie: When we examine budgets, there is a tendency to adopt the mindset that knows the cost of everything and the value of nothing. How would you address that challenge? The third sector has a particular challenge in measuring the social capital and social value of its outcomes or outputs. Are you able to give us any indication of their value? Perhaps it needs a different frame of reference from conventional economics.

George Thomson: I had a look at the outcomes from the homeless world cup. You may have come across its founder, Mel Young, who is brilliant. I heard him speak at an event a few years back. He asked why the homeless world cup had the value that it does. He said that it started off with the idea of having a competition but that it transpired that the value of being in a team and being supported, cheered on and reflected in a different light led to 38 per cent of the players being able to address alcohol and drug issues, 93 per cent having a positive motivational outlook and more than a third finding housing.

It has been a remarkable transformation for those players, who now include women, which is good to see. Somehow or other, we must get more in touch with whatever brought that spirit about and apply it in our own settings, such as our work in prisons. The vast majority of prisons in Scotland now work on the time banking approach. Prisoners see themselves as volunteers providing support of an hour at a time to different things that, given the constraints, take place in the prison. That credit is then used back in their communities where it makes a contribution and the prisoners are seen in a different light. We get a win-win.

How do we find the right ways to maximise the value of our people? How do we evidence the preventative changes that really work, just as the Homeless World Cup Foundation and other organisations have done? At the moment, we are a long way from having a proper grasp of that.

If I can continue to get on to my soapbox, we must get away from assumptions, from an unsung-hero, unpaid-work mentality and from the idea that people are fodder and a resource for the things that we want them to do. We must transform that attitude, see the value in our own folk, bring it out in dialogue and provide by-products. A football match is a by-product. It is not important; what it brings about is important. In the same way, the Sistema Scotland orchestra is a by-product, and the important thing is the success that it is bringing to the Raploch, which is 25th in the 300 poorest communities in Scotland. A report that the Scottish Government produced on the orchestra and what it is bringing about suggests that it is the most significant investment that has ever been made in the Raploch. We can focus a bit more on that.

Duncan Thorp: One of the keys is measurement and getting the evidence base to show what works and where. That can then be rolled out. Tools such as the social return on investment system and social accounting can be used to measure the social return. A good example that I always use is the Wise Group's routes out of prison programme. If we take one individual who comes out of prison and put them in meaningful employment and support them, we avoid using taxpayers' money for prison, police and court costs, which are massive. I do not have the figures with me, but the costs for one individual can be about £800,000 a year, and that does not even take into account the costs to the NHS of dealing with someone who leads a chaotic lifestyle. If we rolled out across the country a successful project such as routes out of prison, the cumulative impacts would be huge. The key is to measure and to find out which projects work.

John Downie: The sector must get better at providing evidence and showing the outcomes. I encourage members to read the recent report by the University of Edinburgh on a YMCA mentoring programme for young people. Our submission to the Finance Committee contained 18 case studies about projects that are working on prevention. Some of them were great stories but did not have the facts and figures, whereas others had the facts and figures. We need to be much more consistent. Next week in the Parliament, the Edinburgh Cyrenians will launch a report on their work to prevent people from becoming homeless. I do not want to give the results of that, but I encourage members to go along and hear what the Edinburgh Cyrenians have to say. That work is fantastic.

I am on the board of a social enterprise in Glasgow called Impact Arts, which has a £2 million turnover and which works with young and older people. We have just finished a social return on investment report on our craft cafes, which involve working with older people in Govan and Castlemilk. We found that the social return on investment of £1 is £7, but we spent a lot of time and effort to find that out. It is sometimes not the easiest to find out information from public authorities. We need transparency and we must help organisations by providing ease of access to information, so that they can measure what they do.

We recognise that the sector must get better at proving its case, because the outcomes are fantastic. If we are moving to a preventive agenda, we must show that that work provides best value.

Mike MacKenzie: That is helpful—thank you.

Anne McTaggart: On the note of welcoming the community development agenda, I welcome West Lothian Council's idea of ensuring that the money that it spends on community development remains to assist and support social enterprises in the area. Community development is a huge passion of mine, so I am concerned that, in Glasgow, the University of Strathclyde is eradicating the community development course.

John Downie: Community development is extremely important. We have been in discussions with a number of community development organisations, including the Development Trusts Association Scotland, whose director is Ian Cooke and which does a great job in assisting communities in taking on assets. That is an interesting perspective. All the work in the sector starts at a street and community level. There are different layers of community development. We probably need more community development officers. Perhaps they were coming through that course.

The Scottish Government is putting money into different levels of community development. The potential community empowerment bill will have different aspects to do with community development and regeneration, and it can connect all the dots to have a coherent strategy that links those aspects and, for example, communities taking on local authority assets. There is a range of things that we can build into that. There is potential to address those issues and ensure that power and control are transferred to local communities and individuals, so that they have much more control over their own lives, which helps to address inequalities in local areas.

George Thomson: We need to recognise the words that people use. We lost our way somewhat when a previous Scottish Government—two past—produced a 60-page jargon buster for community people on community regeneration terms. I know that I am being a bit pejorative, but I question the idea that a community person would have to work their way through 60 pages to work out what the issue is about.

I take inspiration from the words and relationships that work with people on the ground and the evidence that we can learn from. The one that immediately comes to my mind is a phenomenal success in Perth and Kinross. The NHS and the council have worked in partnership for six years on a collaborative project on healthy lives for people over 65. I understand from one of my colleagues who visited it that up to 500 older people are involved in groups all over the region. They have taken a study circle approach to provide facilitative support with health as the main topic. It is not expensive; it involves getting people together for a community development process. They talk to each other about health, the things that they need to learn about and the things that they want to do. That has led to stories and all sorts of possibilities.

At the heart of Anne McTaggart's question, the thrust of which I fully endorse, is the need for us to realise that community development is a talking process to build trust between people, to find contexts that are meaningful and not to get lost in terms of engagement and empowerment. To some extent, there is a danger that bills that say people have a legal right to be consulted—well meaning though they are—do not actually build trust and relationships.

We have lots of answers and, as I said earlier, people's willingness to engage has never been higher, so let us get on with the job. The connection with the third sector is palpable but, as John Downie said, we cannot make assumptions that it will always be the best sector to undertake work. There will always have to be a partnership approach.

Duncan Thorp: It is our responsibility to engage better with the community sector. We have a good relationship with DTAS, for example, and it is worth recognising that, although the community and social enterprise sectors are distinct, they have a lot in common. John Downie mentioned the DTAS asset transfer programme. It has a really good asset transfer assistance programme for community groups, and that impacts on social enterprise too: some of our social enterprise members speak to DTAS and get support from its programme. It is a question of ensuring that we are all linked up a bit better.

The Convener: I thank our final panel: John Downie, Duncan Thorp and George Thomson. We are grateful for your evidence.

13:43

Meeting suspended.

13:44

On resuming—

Carbon Capture and Storage and Energy Prices

The Convener: Item 2 relates to recent announcements on carbon capture and storage and energy prices. All members will be aware of the announcements made last week. I have had a representation by e-mail from one member to suggest that we invite Chris Huhne to give evidence as soon as is feasible. He has given evidence to the committee before. It was a productive session, so I think that the suggestion is a good one. There will be some scope for it because the bill that we are due to get has been delayed by a couple of weeks. We therefore have capacity.

That is the proposal.

Chic Brodie: Under the respect agenda, it would be worth while to understand the background and have the opportunity to question Chris Huhne as the minister responsible. I am all in favour of exchanges of participation in these committees.

Patrick Harvie: I would certainly welcome the opportunity to speak to the UK minister, but there are also relevant questions for the Scottish Government—less about the causes of the collapse of the current project and more about the built-in assumptions in Scottish energy policy about the deployment of CCS. If CCS will not be available for a number of years, if ever, what does that do for Scottish energy policy?

The Convener: I think that the sensible proposal is that we invite both Chris Huhne and Scottish ministers to appear before us.

John Wilson: I would also like an independent witness. I would not want an evidence session to be just the UK Government defending its position and the Scottish Government defending its position. I would like to see some independent analysis on the impact of the decisions. I am not sure who we would go to for that but, if we are to have an evidence session I would like some balance in the debate rather than just two Governments arguing between each other about the impact.

Chic Brodie: Let me make it clear that I did not want to have a go at Chris Huhne; I just want to understand the strategy, where it is going and the likely implications on our strategy.

Patrick Harvie: Professor Haszeldine would be a reasonable option.

John Wilson: I would accept that.

The Convener: Are members content for the clerks and me to progress that?

Members *indicated agreement.*

Cities Strategy

13:47

The Convener: We have had a letter from the Deputy First Minister on the cities strategy. It was circulated before the meeting and it basically states the same timeline as before: the document will be produced by the end of this year. There is an invitation to a stakeholders event on 4 November; members should let the clerks know if they would like to attend.

The letter is basically a holding letter to say that the Government has been busy and active and that a strategy will be in place by the end of the year, so I do not propose to widen the discussion unless anybody wants to comment.

Angus MacDonald: I just want to say that I was encouraged by the second last paragraph. I raised concerns about non-city areas with the Deputy First Minister when she was at committee, but there is some encouragement in the letter.

The Convener: The point was forcefully made by many of you.

That concludes item 3. The date of the next meeting is Wednesday 2 November, when we will continue with our scrutiny of the budget. I thank all members for their efforts today.

Meeting closed at 13:48.

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