The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 5 October 2011

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE

8th 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:

Colin Borland (Federation of Small Businesses)
Bill Jamieson (Scotsman Publications Ltd)
David Lonsdale (Confederation of British Industry)
Professor John McLaren (Centre for Public Policy for Regions)
Ian Shearer (Scottish Retail Consortium)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 6

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 5 October 2011

[The Deputy Convener *opened the meeting at 09:50*]

Devolution (Time) Bill

The Deputy Convener (John Wilson): I call the meeting to order and ask members and visitors to turn off their electronic devices, such as mobile phones and BlackBerrys.

We have received apologies from Gavin Brown, the convener. I understand that he is still on paternity leave; we hope to see him back after the recess.

Item 1 is a legislative consent memorandum on the Devolution (Time) Bill. Members have a copy of the memorandum and an explanatory background note.

If members have no comments, do we agree to note the LCM and endorse the Scottish Government's view that pre-legislative scrutiny to establish compatibility with the Sewel convention and any consequent requirement for legislative consent should apply to all bills introduced to the United Kingdom Parliament?

Members *indicated agreement.*

The Deputy Convener: I suspend the meeting to allow our witnesses to take their seats.

09:52

Meeting suspended.

09:54

On resuming—

Draft Budget Scrutiny 2012-13

The Deputy Convener: I welcome the first panel of witnesses, who are Bill Jamieson, executive editor at Scotsman Publications Ltd, and Professor John McLaren of the Centre for Public Policy for Regions. I remind members that we received a paper from the CPPR before the meeting as an additional contribution to the debate. I also remind people to ensure that electronic devices are switched off.

I ask the witnesses to make short opening remarks.

Bill Jamieson (Scotsman Publications Ltd): Thank you again for your kindness and courtesy in inviting me to give evidence, which I appreciate. I will make a few opening remarks.

My general brief was to speak on the impact that the Scottish draft budget might have on the wider economy. When I spoke to the committee about four weeks ago, three witnesses were summoned. We were all asked our views on the prospects of recession—whether a recession would occur. Two witnesses said that a recession was unlikely; I put my hand up to having said that a recession was probable. Since then, I am afraid to say that almost all the data flow has been negative—the risk of a recession has increased.

The biggest overhang for the business sector in Scotland is the worry about what is happening in the euro zone, which puts a huge dampener on business confidence. The sooner that boil is lanced, the better, but that is out of our control. I do not know which is more depressing: picking up the papers and seeing some of the implications of a disorderly default by Greece in the euro zone and of other events or our utter helplessness when faced with that. That is a big depressant on business confidence and could be a big threat to Scottish manufacturing and service exports. About 46 per cent of our exports go to the euro zone, so any tumult or disorder there will impact on our export performance.

Members will have seen yesterday that the Belgian bank Dexia has applied for Government assistance. That has set off another chain reaction of sales of bank shares across the euro zone and has put us back in the situation that we were in when the Lehman Brothers crisis occurred. Capital movement in the banking sector has frozen. That is worrying here, because it impacts on our banks' ability and confidence to lend to business and in particular to the small and medium-sized enterprises sector.

The Government frames its draft budget against a background that has constantly changed and darkened for the worse. If I was to emphasise concerns in the draft budget, I would emphasise ensuring that the budget will do the maximum possible to help the SME sector, because that sector is likely to have the greatest potential for employment creation. If small firms can take on two, three or four people, that can make an enormous difference. That is the concern.

Professor John McLaren (Centre for Public Policy for Regions): I will not say too much by way of introduction, as we have only an hour and the CPPR has commented on the budget.

I concur with Bill Jamieson. The short-term budgetary picture is pretty bleak—we have about five years of real-terms cuts. However, even in the medium and long term, the picture is pretty bleak. Bringing not only net borrowing down to reasonable levels but net debt as a share of gross domestic product down to 40 to 50 per cent means small increases in public spending for probably 10 to 20 years. Even then, we will face the rising demographic impacts of an ageing population.

After the first decade of devolution, in which we received quite a lot of extra funds—about 5 per cent a year in real terms—the picture will be completely different not for a few years, but for quite a long time. That decline in the supply of funds will be met by a rise in the demand for those funds, which will leave the Parliament a tricky situation to deal with for some time.

10:00

As well as the euro zone problem that Bill Jamieson mentioned, there is great uncertainty in the US, where house prices are still falling and they have still not got a hold on their debt position. China is looking good at the moment but there are worries about inflation and the eventual impact of democratisation on growth, which is difficult to judge. It is to be hoped that the middle east has already seen democratisation, but it is difficult to tell what will come of that and what the impact will be on oil and so on in the long run.

Basically, a huge area of uncertainty is likely to remain with us for some time to come. It will require a degree of flexibility in our thinking. We are not looking for certainty or knowing what is coming down the line; we will have to keep adjusting our expectations and what comes through in the budget as time goes on.

The Deputy Convener: Mr Jamieson, I would like to think that we invite rather than summon witnesses to give evidence. We are scrutinising the budget and we welcome invited witnesses to participate. I do not think that the committee has ever summoned anyone, although we might have to do that at some point in the future. We invite witnesses to give evidence.

Bill Jamieson: Thank you.

Rhoda Grant (Highlands and Islands) (Lab): Your opening statements mentioned that support for small and medium-sized businesses is important. Does the budget do that? Could the budget do other things that would give SMEs more support and help to grow the sector?

Bill Jamieson: Yes. One of the problems that the Economy, Energy and Tourism Committee has been looking at is the effectiveness of the rearrangement of the supervision of the SME sector, which was, in broad terms, hived off from Scottish Enterprise to local authorities. There is an issue about how effectively we monitor how good that local authority oversight is. There might have been a case for greater co-ordination of that role. Are we doing the best that we can and spreading the best examples that we can right across the 32 local authorities? That is point number one.

The second point that concerns me is that there has been a continual downgrading of the economic forecasts for the United Kingdom and for Scotland in recent months. The downgradings that worry me are those for 2012, which are coming right down to below 1 per cent. In other words, the economy will be even slower next year than it has been this year. That is worrying because many SMEs are now in their third year of very tough trading conditions. I call them the fingernail club because they are hanging on in there. The prospect is that next year will be the year in which they will throw in the towel or their banks will throw the towel in for them. That is a real worry. Are we stewarding our SME sector as effectively as we can? It is not just a question of giving it more money or more grants; there is a lot that we can do.

I will leave the issue of non-domestic rates to Professor McLaren on my left. There is a real concern about the implication in the budget planning going out to 2014 of a continuous increase in the non-domestic rates burden. That is assuming a great deal about the health and sustainability of the SME sector. In the current climate, I would take nothing for granted.

Professor McLaren: Bill Jamieson talked about the tough trading conditions and the outlook for the economy. That is worrying across the board.

One thing that has happened in this downturn is that, although output has fallen quite considerably—as much as it did in previous downturns in the 1970s and 1980s—unemployment has not risen that much. The situation is unusual in that unemployment has risen quite a lot in the United States but it has not risen very much in the UK. I am not entirely sure why that is the case, but it could be for a number of reasons, such as labour hoarding and wage restraint. As Bill Jamieson said, if conditions keep on being tough, labour hoarding might stop and more people might go on to the dole. Small and medium-sized companies are perhaps less able to keep these people on over a number of years. That could be looked into a bit more.

Over time the Scottish Government consistently puts in place measures such as export policies and tourism policies, and I have concerns about how much those are geared to large companies rather than to small and medium-sized companies, which have different interests. Exports are vastly dominated by a few companies in a few sectors. Perhaps policies need to be widened out to look at advising or encouraging smaller companies to get involved in such areas.

Rhoda Grant: I would like to clarify that point. Do you both believe that it is about advice and support to small companies? Our inquiry into the business gateway—we will consider our draft report later on this morning—is looking at the standard and quality of that service. Over the next year, which you see as the time when many SMEs will throw in the towel, should something else be delivered at that level to help them?

Bill Jamieson: You cannot do enough to help the SME sector at present, as it is the sector that shows the greatest potential for enterprise and expansion.

The Scottish Government is constrained in what it can do by way of, for example, giving the SME sector a tax holiday. A tax holiday for two years for the sector would be a very good idea. Lifting the non-domestic rates burden would also be an important development for the SME sector, but I am afraid that all those matters fall outwith the bailiwick of the Scottish Government. Nevertheless, I am sure that it has formidable lobbying powers and will continue to use them.

Professor McLaren: One issue that might be interesting to look at—this is again a matter for the UK Government, but that does not mean to say that it cannot be lobbied or encouraged on it—is that some people, including people at the Bank of England, have put about the idea of having a public investment bank that helps small and medium-sized companies.

A lot of this is contended by the banks, but some people get the impression that large companies that already have quite a lot of cash find it easy to borrow, although they do not need to, whereas small and medium-sized companies that do not have much cash are finding it very difficult to borrow. The Government—at the UK level at this stage—could move in and assist with that.

Bill Jamieson: That is a very good point. The latest Bank of England credit conditions survey shows that, in the third quarter, demand for loans from the business sector was flat and its prediction for the fourth quarter is that demand will turn down. We do not know the extent to which that downturn is because businesses are unable to get the loans that they want or because businesses that anticipate a rejection are not even applying for loans.

It is not a question only of the supply of credit, which would certainly help; there is also a big issue to do with demand for credit and confidence. A Scottish Government agency could give some practical help to the SME sector to help businesses do the best presentation that they can and thereby convert the loan application into a successful report. Are we really doing that to the best of our ability?

Chic Brodie (South Scotland) (SNP): I want to ask about Bill Jamieson's comments on the wider economy. I will come back later with a number of more substantive questions.

In your excellent article on quantitative easing on Sunday, Bill, you said that although inflation is running at 4.5 per cent it is set to fall sharply early next year because the VAT rise will be taken out of the calculation. In other words, you are expecting inflation to fall.

Bill Jamieson: No. I was paraphrasing the Bank of England's position—or rather the gamble that it is taking. It is a huge gamble for the bank to hit the QE button and the decision has been taken on the supposition that inflation will fall quite sharply.

Chic Brodie: But you feel that inflation will fall because of VAT.

Bill Jamieson: It will fall to a certain extent.

Chic Brodie: Professor McLaren, you say on the first page of your briefing paper:

> "The NHS resource budget line rises in line with inflation ... Inflation expectations for 2011-12 and 2012-13 are now higher and further allocations may need to be made in order to maintain this commitment."

Do you think that inflation will rise or fall?

Professor McLaren: Perhaps I could have expressed that better. I meant that inflation expectations for this and next year are higher than they were at the time of the previous budget. The inflationary rises that have been built into the budget for national health service resource are based on the Office for Budget Responsibility's March report. Since March, inflation expectations have gone up, which means that, although inflation next year will be slightly lower than it is this year, it will still be higher than expected. For example, the inflation expectation to match the level for next year and keep NHS resources funded was about 2.5 per cent. Most outsiders now expect inflation to be 2.8 per cent, which means that there is another 0.3 per cent to add on. We have even more of a situation this year: the OBR suggested 2.9 per cent and the latest deflator is 3.7 per cent. As a result, to keep NHS resources up to scratch this year, you will need to add in almost another percentage point to match inflation.

Chic Brodie: Does that agree with your expectation, Bill?

Bill Jamieson: As the Bank of England—a central bank that has got its inflation forecasts wrong for nine successive quarters—will tell you, this is not an exact science.

Patrick Harvie (Glasgow) (Green): I will pick up on a number of suggestions that have been made about what the Government might do. Obviously an amount of guesswork is involved about what might happen in the wider economy—there are factors that we cannot control—and regardless of whether the optimistic or pessimistic expectations come true, we need some helpful ideas. John McLaren suggested the establishment of a public investment bank and I would be interested to hear his view on whether the chancellor's credit-easing proposal would have the same effect. Will it come good and provide value, particularly to small and medium-sized businesses?

Both witnesses referred to the advice provided to small businesses and members have mentioned the evidence that we have taken on business gateway. Of course, other things are happening outwith the budget. For example, we expect a procurement bill to be introduced this session, even though some disappointment has been expressed that it is not being introduced early doors to give small and medium-sized businesses more of an opportunity to get a slice of public sector spending. After all, such a move could not only help with public service delivery but support those businesses or give them opportunities.

Professor McLaren: What is the chancellor's credit-easing proposal? Are you talking about quantitative easing?

Patrick Harvie: No. At the Tory party conference a new scheme aimed at getting credit direct to businesses was announced. I do not know any more detail—I am not sure that anyone does.

Bill Jamieson: There are no details.

Patrick Harvie: In general terms, then, and without knowing the details of the United Kingdom Government's intentions, do you get a sense that that is its objective? Is it the same objective as that of the public investment bank that John McLaren proposed, which, I presume, would provide loans backed up by public money directly to businesses?

10:15

Professor McLaren: All those things are possible and they could help, but it comes back to the bigger picture. They are being announced during a party conference. If they were that important and people had that much confidence in them, they would have been done before and I suspect that they would not have been announced at a party conference. It comes back to the issue of what we do to kick-start the economy or try to keep it going a bit more, which is incredibly difficult at the minute, because the whole world—at least the whole of the developed world, if I can use that expression—is in the same position. Even on something like quantitative easing, we have to ask, "Did it work before and will it work again?"

On credit easing, I guess that the banks are saying, "People ask us for money. If it sounds like a good idea, we give it to them, but the economy as a whole is not growing and we don't want to give out bad debts to a company that wants to build up its manufacturing capacity but will have nobody to sell to because the economy as a whole is still stuck in a rut." The nub of the issue is how you get over that, and it is pretty much impossible to tell at the minute.

There are similarities to the 1930s, but other things are not that similar. For example, the Government is about three times the size now that it was in the 30s, so there are already huge stabilisers kicking in compared to what happened back then. It is difficult to tell what will ultimately come from this—whether there will be another slump or slow growth. The best thing to do to get things moving is to lance some of the boils by, for example, getting to grips with what is happening with the euro and what is happening in Greece. I know that that does not have an awful lot to do with you, but I am trying to describe the big picture of what will get us out of this. Nobody really believes what is happening with the markets. Until that is resolved, you cannot move on and people cannot say, "Okay, now we see where we are going." Until America says what it is going to do with its long-term position—

Patrick Harvie: I know that this is a difficult question, but our role in scrutinising the budget is to try to figure out whether there is stuff that the Scottish Government can do—I am talking about initiatives that could be funded with the current budget, or different policy decisions that could be made—that will have a chance of making a difference. It is easy to get drawn into a debate about imponderables on the world stage that the Scottish Government really cannot affect very much.

John McLaren: Sure. With the bigger picture in mind, the budget should be geared at getting the fundamentals right, so that when growth comes back, we are in the best position possible to do well. That comes back to skills, which relates to schools as well as further and higher education. The higher education budget is extremely important in terms of the quality of graduates and for the innovation and research that is carried out in that sector. It is good that that money is being sustained, but the long-term position is less certain.

The position on further education is more difficult, because its budget is being cut quite substantially. The issue of how to take forward vocational training, which was recently covered in England by the interesting Wolf report, would be worth looking at again in Scotland.

Maintaining the education maintenance allowance is a positive move, but we cannot keep training people and putting them in job support schemes and so on. The recession may go on for quite a long time and we have to think what we are going to do. I do not have an easy answer, but one point is to train people for the jobs that we know are going to come. We know that there will be more jobs in areas such as long-term care, for example. Pushing people in the direction of where the jobs will be would be a good idea.

Bill Jamieson: The issue of credit easing suddenly popped up out of nowhere because of implicit doubts about whether QE on its own would work. The Bank of England could launch QE tomorrow. It could kick off with £50 billion, which could rise to another £300 billion, but where does the money end up? It ends up sleeping within the banking sector; it does not automatically get lent out to the business sector. That is a big problem.

Within the limitations that we have, one of the first things that you will hear from the small business community—you will hear it far more eloquently from it than you will from me—is that it would be helpful to have a simplified system whereby small businesses could comply with all the regulation that is attached to employment, say, or planning. Is there a simplified one-stop shop—a single place that businesses could go to—that would help the SME sector to take people on? I am not talking about abolishing the regulation; I am talking about making it easier for them to comply.

Another, slightly longer-term suggestion is that we look at a separate company constitution for small firms, which would mean that a small firm with a turnover of less than £X million would not have to comply with all the rather onerous articles of association and disclosure regulation that conventional companies have to comply with. In other words, we would make it as easy as possible for people to get into business, get a business going and take on one, two or three extra people.

Patrick Harvie: If there is time for one further question, I would like to raise the issue of non-domestic rates. There is disagreement about the scale of increase that is proposed, but it seems to me that that disagreement is more a case of people talking at cross-purposes than it is of their fundamentally disagreeing on what is proposed. It also seems to me that the Government is hinting at doing something a bit more creative than just raising revenue from non-domestic rates—it is thinking about the types of business that should pay more, such as the alcohol and tobacco retailers and the large retailers. It is talking about continuing the small business bonus scheme, which would mean that the impact on small businesses would be different.

Does the potential exist for an even more creative approach, whether through different levels of non-domestic rates or different arrangements for relief, to ensure that businesses have an incentive to do things such as local procurement, paying the living wage or not letting their directors and chief executives stash their wealth in tax havens? Could we do something more creative with business rates that might raise some revenue from the businesses that, frankly, can afford it, but which would not hit as hard those that are struggling?

Professor McLaren: Bill Jamieson is probably better able to answer the second part of your question.

As regards disagreement, there is no disagreement on the overall figures—the increase by 2014-15 and the cumulative increase over the three years are exactly the same. There is some contention about how you get there and the role of factors such as inflation and economic growth.

Business rates are supposed to be under the control of local government. To my mind, if they returned to local government control and there was greater potential for variation, people could do different things. Levies could be more local, depending on the sort of landscape that an authority had and whether it was a city area or a rural area. A more imaginative approach could be adopted that was suited to the local area but, to allow that to happen, control of business rates would have to be given back to local government, just as control of council tax could be given back to local government. I do not have a specific suggestion on what the arrangements might be, but I think that they should be localised because that will accord more with what is needed in an area.

Bill Jamieson: I never quite understood why the powerful and compelling logic for a council tax freeze for domestic rate payers did not automatically carry over into the business rates system. Why do we assume that businesspeople are more capable of withstanding rate increases? It seems to me that, given that a real problem is coming up over the next financial year—the figure that I saw for the real-terms change in departmental expenditure limit spending for 2011-12 was a 7 per cent cut—we will see an acceleration of labour shedding in one form or another by the public, or Government, sector over that period. At the same time, there are real pressures on the private sector, to which we are looking for employment creation to soak up the people who are leaving the public sector.

One thing that I found very heartening was an appendix to the Scottish Government's economic strategy document that contained a list of all the companies that have made investment decisions in the year to date. Business people take great heart when they see announcements and stories about other companies making investments. That is compelling for business confidence.

The Scottish Government could make more of that. It champions enormous investment in the renewables sector—which is a huge gamble—but it must remember that there is more to the economy than renewables. It must champion the whole private sector, not just the renewables sector. We need to hear a bit less about Scotland as the Saudi Arabia of renewables and a bit more about how we can generate business confidence and recovery across the board. That would be a helpful and positive step.

Patrick Harvie: A more creative use of business rates—whether at national level or devolved to local level—might involve offering incentives for more socially and ethically responsible behaviours, so that businesses have the opportunity to reduce the rates that they pay by adopting those behaviours.

Bill Jamieson: Yes.

Patrick Harvie: Yes?

Bill Jamieson: I accept your point, Mr Harvie, but you will find that most businesses do everything that they can to comply with the law of the land. Within that law, and within the general business milieu, there is a tremendous incentive for businesses to be more concerned, for example, about sustainability and not using wasteful products. That is increasingly built into the culture.

One can see that many companies have voluntarily undertaken measures of which you would wholly approve to meet and satisfy a public acceptance that that is what must be done. I am not sure that piling another layer of social and ethical agendas on to companies, on top of what they already do, is the best thing. They know that they have to do those things if they are to grow their businesses and build support from their customer base. A good company does that.

Patrick Harvie: Not even to crack down on the businesses that siphon their wealth to Monaco?

Bill Jamieson: Mr Harvie, very few SMEs in Scotland are run by fat cats.

Patrick Harvie: That is the point: such a change would benefit the SMEs and attack the bigger guys.

Bill Jamieson: Yes, but please do not run away with the idea that every single little entrepreneur has a tax haven in Grand Cayman.

Patrick Harvie: No, I never suggested that about SMEs.

The Deputy Convener: I see that Chic Brodie has a question. Is it a supplementary?

Chic Brodie: I had a question on what Patrick Harvie said, and I have a question for Professor McLaren.

The Deputy Convener: I will bring in Mike MacKenzie first.

Mike MacKenzie (Highlands and Islands) (SNP): Thank you, convener. I have a number of questions for the witnesses, which I will ask one after another as that might speed things up a bit.

You have touched on a number of things, and talked about the world economy and the UK economy. To what extent do you feel that, in the sense that they are anti-Keynesian, the UK Government's economic policies are exactly the wrong economic policies for the difficulties that we face and that its fiscal policies are therefore also wrong? The UK Government's approach seems to be analogous with paying off your mortgage more quickly while starving your children to do so. Do you agree with that?

Do you think that John Swinney is correct, given the volatility of the economic situation, to maintain a degree of flexibility within his budget? We have heard the criticism that there is not enough detail at this stage, particularly on how the capital reprofiling will work. Is he wise not to commit to exact figures for that at this point, because of the general volatility?

Do you agree that, of the interventions that the Scottish Government could make, some will be economically beneficial in the short term whereas others will produce benefits in the longer term? Professor McLaren talked about skills from school onwards. Do you agree that, although an intervention like that would give a long-term economic benefit, perhaps it is right to concentrate on things that will give a short-term economic boost?

My last question—

The Deputy Convener: I will ask the witnesses to answer the first three questions. You can then ask your final question, Mike.

Mike MacKenzie: Sure.

10:30

Professor McLaren: The question on anti-Keynesian policies is a difficult one that some economists and commentators pretend is not difficult. They say that they know the answer and either that we should definitely have a fiscal stimulus or that we should definitely reduce borrowing as fast as we can. The truth is that we do not quite know, but Governments tend to take a policy and stick with it because they are criticised pretty heavily if they move away from it.

Almost every country, partly through automatic stabilisers and partly through fiscal stimulus packages, tried a fiscal stimulus to begin with. That could be said to have worked, as there was a little bounce back in the economy when they were introduced and the economy is now going down as they have started to tail off. Perhaps we need another stimulus. The trouble is that we do not know whether another stimulus would just have another temporary effect or get us back on the right path. If we keep on having just the temporary effects, we will find ourselves heavily in debt without a booming economy, which is what has happened to Japan over the past 20 years.

One reason why markets want borrowing to be reduced, even though interest rates and borrowing for the UK and other countries are already low, is that, when politicians say that we need another big stimulus but will definitely balance the budget in the long run, the markets believe what they say on the stimulus but not what they say on balancing the budget in the long run. They do not believe that politicians will get their house in order. That is why, although most economists are probably in favour of a bit more fiscal stimulus, some others and a lot of politicians are saying that we should get our houses in order and why the markets like the UK's overall position. I know that I have not come down on one side or the other, but that is because I think that it is difficult to do so with any certainty at the moment.

David Cameron said yesterday that we should all pay off our debts. If you were an individual, you might say to the Government, "I'll pay off my debts if you pay off your debts." However, if we all pay off our debts at the same time, there will not be much growth around—that is for sure.

As I said in my opening statement, it is good to maintain flexibility. Maintaining flexibility on capital is a good idea, but we need a steer on where it is intended for the capital to go. That is partly because we need a long-term plan with capital—it is spent over so many years—and partly because, if the Parliament's committees are to discuss the budget, they will have to discuss where the capital will be spent. If we do not know where the capital will be spent, it is pretty difficult to discuss the worthiness or otherwise of that policy. Therefore, I agree with flexibility but think that we need detail. I know that a capital programme is due to be announced in October. I hope that that will help.

I am not sure about the final question. Short-run measures are needed to boost the economy, but it is difficult to know what they will be. I strongly agree with the longer-term measures in the budget on preventative spending, whether they are on early years interventions or other such work. It is a difficult policy to follow as the budget is coming down, and in that sense it is a brave decision. We know that preventative spending gives the best returns in the long run, but politicians have tended not to go for it because it takes a long time to get those returns. Increasingly, we will have to go for preventative spending because it will make an ageing economy more manageable if we do the right things in early years care and elderly care.

Bill Jamieson: I felt that the approach that the chancellor set out in his speech earlier this week showed him to be a closet Keynesian. He is Keynesian up to a certain limit, and I would not say that the Conservative Government has abandoned Keynesianism at all. By the way, the same Government has also somersaulted on its monetarism. You may remember the 1970s monetarism. That is totally out of the window and we now have reverse monetarism—nodding and winking to the Bank of England that it should go ahead with quantitative easing and with expanding the money supply, because that is what we need it to do. It is perhaps indicative of the complexity and seriousness of our situation that fiscal and monetary policy is being taken to the utter extremes of its known limits. I think that you will find that the Conservative Government is prepared to be interventionist because of the concerns about recovery.

The transfer from the resource budget to the capital budget is good. I certainly approve of it. I was a bit concerned about the lack of detail, because we need to be assured that it will take place and, if we do not have the detail, what assurances can be given that the changes will be effected? However, I hope that we will have more detail in due course. From what I have read, every austerity programme or Government containment programme in the past, going right back to the 1920s, has succeeded by virtue of flexibility. If flexibility had been taken out, the policy would have collapsed. Therefore, there ought to be some wriggle room.

There was another question, but I have forgotten what it was.

Mike MacKenzie: It was about short-term or long-term stimulus or interventions that would gie us a boost.

Bill Jamieson: I slightly part company with John McLaren's answer on that. For the restoration of confidence in the longer term—certainly at the household level—it is good that households are paying down debt. That may mean that there is a squeeze on consumer spending now, but I cannot see a revival in consumer confidence happening until most people feel more comfortable about the balance of their household debts and assets. When that comes, as it will, we will have a far more confident and resilient recovery. We have to go through it.

Mike MacKenzie: You mentioned the idea that banks are still not lending, but they say that businesses are not asking them. To what extent is that due to the fact that, in 2008, banks tore up lending agreements and overdraft agreements with impunity, irrespective of the legality of doing so? Little seems to have been done to restore the trust between the businesses that need to borrow money and the banks as their financial partners. Given the Scottish Parliament's limited powers, what can we do to restore that trust, which is fundamental to business and to a successful economy?

Bill Jamieson: That is a very good point. Everything that you say is on the button. Lending is the single biggest concern and complaint that I have come across as a business journalist in Scotland over the past two years. It is not the interest rate on the loan that has aggravated and irritated businesses so much as the breach of terms and conditions and the breach of trust or agreement. What can be done? There might be a case for the Scottish Government to be the ringmaster in a series of meetings between the banks and business organisations such as the Scottish Chambers of Commerce, the Federation of Small Businesses and the Confederation of British Industry to sort out what would help to make a business application more successful, and to provide assurance that the tearing up of terms and conditions of loans can be stopped or mitigated. You are absolutely right and you have identified a real problem.

Professor McLaren: I agree with Bill Jamieson. Bill and the people to whom you will speak later in the meeting are probably better informed than I am on the issue. It would be a good issue for them to comment on, too.

Stuart McMillan (West Scotland) (SNP): Three key issues have arisen this morning. One is about flexibility, which Professor McLaren and Mr Jamieson have mentioned. Another is about the restraints on what the Scottish Government can do. The third point is that unemployment has not risen much in the UK, which could be down to labour hoarding. On unemployment, page 6 of the paper that we have received from the CPPR discusses wages. I ask Professor McLaren to explain a bit more about the comment:

> "This trade-off between a pay-freeze and job cuts remains highly relevant."

Does that mean that the CPPR supports what the Government has undertaken and proposes should continue, or is it that you would like to see something else?

Professor McLaren: More than 50 per cent of the budget is spent on wages, so if that can be kept flat, that takes away a substantial part of the need to find cuts elsewhere. It is a trade-off because if those cuts are made, jobs will be lost, but if wages can be kept down, more jobs can be retained. However, it is easier to do that for one or two years but much more difficult in years 3 and 4. Even if there is a 2 per cent pay increase in years 3 and 4, people who are earning more than £21,000 will already have had a 10 per cent real-terms cut in their wage, which is quite a lot. If that 2 per cent increase is taken away, the cut will be getting on for 15 per cent, which is a lot to ask. The flip-side of such an increase is that more jobs would have to go.

We need a national debate on that issue. In Ireland, for example, wages have gone down considerably, partly because of the acceptance that that is what must be done to maintain the number of jobs. Another reason why it is a good idea to retain as many jobs as possible, partly through a pay freeze, is that, when people become unemployed, they start to lose their skills, and the more they lose their skills, the more difficult it is for them to get back into employment when jobs are available. A pay freeze, or even a move to having more part-time jobs, will keep people in employment and maintain their skills. It is important to continue to do that as far as possible.

Bill Jamieson: I agree with all of that. However, you must not overlook the imperative of structural reform in the Scottish Government and the drive to ensure that everything that the Government does is done in the most efficient manner so that you get more bang for your buck. That is why reform of

Scottish Government institutions and of public services is imperative. I would say that it takes precedence over job hoarding.

Stuart McMillan: From what Professor McLaren said, it seems that he is fairly supportive of the proposals for a few years, but not for the medium to longer term. Is that correct?

10:45

Professor McLaren: The issue needs to be discussed a lot more in public. I support a pay freeze over a number of years, as far as is possible, but that will not happen unless people buy into it. For a number of years in Ireland, there have been agreements between the public sector and the Government, and various plans have been agreed by a number of bodies. In Scotland, we have not had a discussion about how we are taking action collectively, to help ourselves. If we have that discussion, people will be more likely to accept a pay freeze, instead of standing back and saying, “Well, we want our rise.”

It is important to have the debate. If people think that structural change is more important—as I do; it is the timing that is the issue—then fine. More jobs will be lost. People might think that it is more important that those who are employed are paid a fair wage. I hope that people accept that keeping more people in jobs, rather than keeping fewer people in jobs but at a higher wage, is the better thing to do, given that we are talking about a relatively short period.

Stuart McMillan: On page 8 of your briefing, “Analysis of the Scottish Government’s draft budget 2012-13”, you said

> “The price of ... matched funding through government budgets as opposed to through academic fees, is around £230 million by 2014-15. In other words this is the sum that now cannot be spent on other public services as a result of a no Scottish-student fees policy for Scottish universities.”

Does that mean that you do not support the Scottish Government’s proposals on fees for students in Scotland?

Professor McLaren: No. The paragraph just highlights the cost of the decision that the Government has made. It is important to remember the flip-side of any policy.

It is a good thing that funding for higher education is being maintained at a level that is competitive with England, but how that is done is open to question. The Beveridge report and a number of other commentators said that we should consider the issue. I think that the Government said in its first paper on the issue that there were a number of ways of doing it but, during the election period, the Government focused in and said, “Oh, we won’t do it that way. We will make sure that higher education is free.” It is about having an open mind and acknowledging the different ways of looking at the issue, because the Government’s approach will work in the short run but could become increasingly expensive.

How higher education is funded is an important issue for public debate, because it involves a large budget. If the population as a whole thinks that we should be spending more on higher education and therefore less on other things, whatever they might be, that is fine. However, there has not been as much debate about all the alternatives as there could have been.

I welcome the support for higher education, but I am a little concerned about what has happened to further education and I am a little concerned about what will happen further down the line. For example, we do not know how many English students will come. Many English students come to the University of St Andrews or the University of Edinburgh—I think that those universities account for 40 per cent of students from the rest of the UK—which are the universities that will charge £9,000 for each of the four years. If the English students do not come, there will be a bit of a hole again; if they do, there will be extra money—but those are imponderables at the moment.

Stuart McMillan: Do the panel members have thoughts on whether business rates in England will rise or decrease over the spending review period?

Professor McLaren: As far as I am aware, rates will rise, certainly in the first year—I have not seen anything about the longer term. It is interesting that Scotland has not followed what has been happening in England for quite some time. To get rates down to the English level, we have not been having rises. It is not clear to me why we would need to follow what happens in England, as we could build up a competitive advantage by not having rates rise as fast as they rise in England. That is a choice for the Scottish Government.

Stuart McMillan: Do you know by what percentage rates might rise? Will a rise be attributed to increased buoyancy in the economy, the retail prices index or anything else?

Professor McLaren: From what was in the budget statement, I think that it is intended to increase the rates at the same rate as RPI. I am not sure what growth implications are built in. Whatever they are, they will have been built in before March, since when the growth forecasts have been declining. There is also not necessarily a straight crossover between growth and growth in non-domestic rates. The growth of companies within their existing premises does not affect non-domestic rates. The companies would all have to be in new premises that did not get rates relief for that growth to turn into an increase in rates. There is quite a lot of uncertainty there, which is one of the things that we highlighted.

Rhoda Grant: The figures that we have heard for the money being transferred from revenue to capital range from £200 million to £750 million. How much should be transferred? Obviously, the money would have to come out of revenue spending and that would have an impact. How much do you suggest should be transferred and where should it go to have the maximum impact on the economy?

Professor McLaren: During downturns, capital is always hammered. In the mid-1990s, before there was a Scottish Government, the same thing happened. Transport and housing were both hammered both at the UK level and at the Scottish level. It is the easiest thing to do because it does not involve taking people's current jobs away; it just affects some proposed future project. It is politically easy to do that, but studies have shown that it is better to reduce resource. Most countries that have been successful in reducing resource have reduced benefits, which might have got out of hand in certain countries, such as Canada and the UK in the past. Obviously, we cannot do that in Scotland because benefits are retained at the UK level. In Scotland, the decision that has been taken not to reduce capital spend by as much as was going to happen is a good one.

It is difficult to tell how much should come out of revenue spending, because we do not have an awful lot of information on the worth of the different types of capital projects. It would be useful to do cost benefit analysis in each area, as is already being done in transport for road and rail projects. Doing that gives a list of what seem to be the most efficient projects, which can then be prioritised. The same can also be done in housing and other areas. Housing cannot be compared with roads, so a subjective decision still has to be made, but at least the most efficient projects and how much return you would get from them can be ranked, which allows you to think about where to put the cut-off point.

A good example of a project from times when we had much more money than we do now is the Borders rail link. I do not think that that project ever did particularly well on cost benefit analysis, so it would have been well down the list of priorities. If the decision on the Borders rail project is in the public domain, it does not mean to say that you will not do it, but you will have to explain why you are doing it—and it will not be for economic reasons. You might still do it for social reasons or for an economic reason that is more widely defined, but the decision will be more transparent. I am afraid that that is the best help that I can give you at the moment.

Bill Jamieson: I have to make two points in answer to a very good question. I have a natural inclination to encourage, as far as possible, investment for the long term, and maximising the switch from resource to capital spending. When we undertake these capital projects, we add to the effectiveness and efficiency of Scotland as a platform for investment. In other words, the better roads and infrastructure we have, or the faster broadband we have, the more it adds to the plus points for a company that is thinking of locating or expanding here. Capital spend is a plus and it brings rewards.

The second part of your question was about who advises on where the capital spend should be made. I do not have a very good answer to that. I do not know to whom the Scottish Government would turn for guidance on which projects are likely to be the most efficacious, which projects are likely to be better for the longer term and which projects are shovel ready, which is a big concern given the immediacy of the downturn that we face. I am not sure to which experts the Scottish Government should turn, whether Scottish Enterprise, the Scottish Futures Trust or people in the planning system. There may well be a brainbox whom I have missed, but it would perhaps help if we had a bit more transparency about that. You raise a very interesting question.

Chic Brodie: I return to Mr Jamieson's point about the focus on renewables. That is a major sector but, as we go through the spending review, we should not ignore the huge opportunities for the likes of the food and drink sector. We have also seen investment in tourism, and we all go around talking to social enterprises and small businesses. Notwithstanding the major challenges that they face, we would agree that there is a different culture and approach in Scotland these days.

Professor McLaren, I do not want to rehearse the NDR argument, as your report makes clear what the number is, which is consistent with the Government's position. However—I am trying to be helpful—you may want to look at your numbers again, because the local government numbers in your report are out by £10 million.

You mentioned wages and efficiency. In your report, you say:

> "It is difficult to reconcile this with the various claims made by governments that substantial efficiency savings, largely via productivity gains, have been achieved, especially on a consecutive, year on year basis."

You use as the basis for that the situation in the UK from 2005 to 2009. Given Scotland's employment figures and its better unemployment position than the position down south, do you accept that there is something different in the savings and efficiencies that are being made in Scotland and the strategy that underpins those?

Professor McLaren: I do not think that I do. I will talk it through and see whether I change my mind as I am talking.

Both the UK National Audit Office and Audit Scotland have repeatedly expressed strong concerns about the validity of the claims that are made about efficiencies, and I think that they have been quite right to do so. Robert Chote, when he was at the Institute for Fiscal Studies, said that efficiencies are used by all political parties for their convenience. I think that John Swinney told a committee in 2006 that he agreed with Audit Scotland that the Government was making claims that it could not really back up. Nothing has changed since that time to make Audit Scotland change its mind, so I still agree with John Swinney's view from back then.

The odd thing about efficiencies is that, if they are being made, we should be getting more output for the same input, which means that the level of productivity should be rising. We do not have Scottish productivity figures at the public sector level, but the Office for National Statistics has done some work on the UK that shows that, for the decade starting in 2000, there is no increase in public sector productivity at the UK level. If all those efficiency savings are being made at the UK and Scottish levels, why are they not turning up in the labour productivity figures that are being calculated by the ONS? That just puts another question mark alongside them.

Efficiencies should lead to higher productivity and therefore to stronger growth and an improved employment record but, if you look at the figures for Scotland, they do not make an awful lot of sense. Output has been flat recently, but the employment figures have got a lot better over the past year. That suggests that productivity is worsening considerably in a number of sectors and overall, which does not make us think that the economy should be improving.

11:00

If we drill down into some of those figures, the biggest increase in employment across the different workforces in Scotland in the past six months has been in health and social work, which have done particularly well. I am not quite clear how the bringing forward of capital investment helps health and social work. Employment in health and social work has increased by 15 per cent, which I think equates to about 30,000 or 50,000 more people working in the sector in one quarter. Does anyone have any ideas about which hospitals or social work departments those extra staff have been working in? That is just not true, so the figures are highly questionable.

A couple of weeks ago, we did a paper—I can send it to the committee—that looks at every sector of the economy. In almost every sector, there is a huge question mark over what is happening. You mentioned tourism. Tourism is an area in which we should clearly have a national advantage because of what we have in Scotland. The biggest impact on tourism is in hotels, restaurants and catering—50 per cent of it comes through that sector—but the hotels, restaurants and catering sector has not grown in more than a decade, according to the official figures. It appears from the official figures that all the new hotels and restaurants that we see are not making any money. I do not believe that. I believe that they are making money and that tourism is doing a reasonable job, even if it could probably do better. Those are the figures that we are supposed to be using to determine whether Scotland is doing well or badly but, given their lack of robustness, I would say that it is impossible to use them to give a view on the performance of the Scottish economy.

Chic Brodie: I hate to say this but, some six years ago, I sat in a room like this one with you when you talked about figures and said that you did not know where they came from or how they stacked up. It would appear that nothing has changed.

Professor McLaren: If you would like to talk to the Government economists and statisticians about that, I would be happy to join you.

Chic Brodie: They are the people you referred to six years ago.

Your report mentions what Audit Scotland said in 2005. I ask the question again: given the employment performance of Scotland, what do you think has changed since then to generate Scotland's performance vis-à-vis that of the rest of the UK?

Professor McLaren: Will you define exactly what you mean?

Chic Brodie: Unemployment has fallen by 33,000 in Scotland, whereas it has increased by 44,000 in the UK. There is more employment in Scotland, so what, fundamentally, has changed?

Professor McLaren: There is a bigger picture here. We also did a paper, around election time, that looked at Scotland's performance from about 2000. We concluded that, since then, Scotland had done well in comparison with the UK on a number of measures, including GDP per head, productivity, employment and unemployment. That is what the figures said, but it is very difficult to understand why that was.

After the downturn in 2007, Scotland had an awful first year, in which its labour market went way down. It has bounced back up to the position that it was in before. I do not understand that and have never seen an explanation of why it was so bad in that first year and why it bounced back so much in the second year. However, there are oddities not just with the health data, but with the construction data, which fell off a cliff and then came back up a bit, although not by as much as in the UK.

To me, the interesting question is, how did Scotland improve over the period from 2000 to 2007-08? If we could understand that, we might be able to understand what has been happening more recently. However, given the standard of the Scottish data, we are stepping on very soft ground when we consider the past three or six months.

Chic Brodie: I am not saying that the CPPR's report is totally negative, but I would like you to say what is good about the spending review and the proposed budget.

Professor McLaren: We said a bit about that in the report and the press conference. To me—although perhaps not to Bill Jamieson—the move to preventative spending is well worth it, and should be enhanced. It will be difficult to keep it going, however, because of the amount by which the budget will go down.

The move to reduce the cut in capital is good. The move to maintain higher education spending is good—I am not saying that I would have done it in the same way, but I welcome the fact that the level has been maintained.

Those are my top three.

Bill Jamieson: I thought that the overall rhetoric of the draft budget was good. I was certainly struck by the recognition of the need to support enterprise in the difficult situation that we are in, and I was glad that the specific budgets for Scottish Enterprise, Highlands and Islands Enterprise and others in that group have been respected.

Like Professor McLaren, I thought that the switch from resource to capital spending was to be encouraged.

With regard to the earlier question about productivity, one area in which Scotland is making a difference is the work of the Scottish Futures Trust. Before its establishment, we had private finance initiative projects and a very inefficient use of capital. I get a sense that the SFT is delivering a more efficient use of capital, and you might want to broaden the research work that it does. Why can the SFT not employ its disciplines over a wider remit?

You asked about employment. I addressed the issue of whether there was a Scottish exceptionalism. That has been mentioned with regard to the strong performance of manufacturing exports earlier this year and—as has also been mentioned—the labour market statistics. I would strike a note of caution, in addition to the point that Professor McLaren made about correcting the overshedding that occurred during the recession. Professor Donald MacRae, at the Bank of Scotland, put down a marker to say that we cannot expect Scotland's recent labour market outperformance to continue into the next year. Coming from him—a source who has been amply quoted by the Administration—that is a warning to take note of.

Mike MacKenzie: It seems that we are suffering nationally and internationally because of a failure to properly resolve the banking crisis that arose three years ago; part of that seems to be to do with the tendency of the banks to be the architects not only of our misfortunes, but of their own misfortunes. Given that we are in uncharted territory, we need to question some fundamental aspects of banking. The crude mechanism by which banks deal with risk or attempt to manage risk has historically been one in which the greater the risk, the greater the interest rates. For instance, in the case of Greece, interest rates on borrowed money—not the recent rates, but the previous ones—were as high as 16 per cent. Such punitive interest rates drag Greece down, drag banks down and drag the rest of us down. Do you agree that we should have a fundamental review of the way in which we deal with risk, so that those risks do not become self-fulfilling prophecies?

Professor McLaren: The failure to resolve the banking crisis is a huge problem. When we were in full crisis, there was an opportunity to re-imagine how things would be, but the banks pretty soon got their act together, and they got their lobbying together in the States and almost every other country. With every little bit that they are pushed back on, there is a wave of negativity. They have 3,000 reasons why something will be bad, and there have been only a few strong people, such as Volcker in the States and one or two people here. We can always get negative points, but we must move away from where we were, and I think that we have lost that aim.

The UBS problem came up the other week. Whenever something like that happens, people say, "Well, maybe now," but it goes away again. Therefore, there is still something to be done, but it is incredibly difficult to do because things are so complicated and internationally connected. However, that does not mean that individual countries should not start to do something themselves.

The report the other week—who was it by again?

Bill Jamieson: Do you mean the Independent Commission on Banking report?

Professor McLaren: It was a professor's report on the future of the banking system, which proposed good steps; I cannot remember what it was called. I was a bit disheartened that he was looking for the proposals to be implemented by 2019, I think. A lot will happen by 2019. Many people who are currently in charge of banks or bank regulation will be dead by then, so I think that a lot of what has been said will be forgotten. I am more with the John Kay-Martin Wolf-type view. Let us be fairly bold. We will always hear siren remarks, but let us treat them with the disdain that they deserve.

One difficult thing about Greece is that the interest rates are punitive. If Keynes was around now, he would be saying, "This is Germany all over again." On the other hand, Greece has to change dramatically to be viable. Just getting rid of its current debts will not be enough; it will simply build up more debts because it is not in a viable state. That must be addressed. The politics of that are an absolute nightmare.

Bill Jamieson: Mike MacKenzie is absolutely right. There is a colossal problem with the banks and with our understanding of risk. As the nature of risk has changed, financial transactions have become more complex and sophisticated. That is one huge lesson.

At the same time as we are asking banks to be more prudent and conservative, we are, of course, asking them to take more risks and to be more generous in lending to the business sector. That is a concern, although I would not go quite as far as Professor McLaren goes.

Banks are a problem, but a bigger problem has engulfed us. That problem, which is political and governmental, has certainly engulfed the euro zone. If we consider the origins of the Greek crisis, we will find that Greece's adoption of the euro was set up on the basis of some very dodgy statistics that everybody seemed to go along with for the sake of expanding the euro zone. That was a fundamental error, which has come home to roost. There is a political crisis in Europe because of a marked reluctance to grasp the nettle of what has to be done. Therefore, I counsel a bit of caution about saying that it is all a banking problem. It is much worse than that.

Mike MacKenzie: I have a final comment to make rather than a question. We must be careful that the medicine does not kill the patient.

The Deputy Convener: If members have no more questions, I have one or two questions for Professor McLaren in particular. He mentioned the data that is being used in the analysis for how we should go forward, and he referred to ONS statistics. Do we have sufficient data gathering to give us accurate analysis for the way forward? A common complaint has been that some data that is collected is not of the quality or sufficiency to allow us to make accurate predictions or to be as accurate as we can be about the way forward and about what is happening in the UK and Scottish economies.

11:15

Professor McLaren: As Chic Brodie suggested, the data has been a problem for a long time and has not really improved. The only way to improve it is through measures such as conducting better surveys and having larger survey samples.

The data is important for determining policy. We have talked about hotels and restaurants. If they have formed just about our worst-performing sector in the past decade, what should our tourism strategy be? If we believe the figures, it is clear that that strategy has not worked. If we do not believe the figures, has the strategy worked? Do we need a different strategy?

As far as I can see, the financial services sector is virtually a black box—it moves all over the place and nobody understands why. That is important partly because the industry is important. Within it are the banking and insurance sectors, which have perhaps done different things and might need different policies.

According to the latest data, construction output is at its highest-ever recorded level. Finding somebody who works in construction and who understands that is difficult, especially when employment is still noticeably lower than its 2007 peak.

All those factors make us wonder what policy should be put in place. According to the data, our tourism policy is all over the place and we should do something that is radically different. If the data is incorrect, we need to correct it soon, so that we can use it to determine the right policies.

The problem is not just for Scotland—problems exist at the UK level, too—but dealing with smaller and smaller areas below the UK level is particularly problematic. Having said that, our data is much better than that in Wales and Northern Ireland, so it is not all doom and gloom.

Bill Jamieson: I endorse what John McLaren said. I hear complaints from those sectors about the quality and accuracy of data. However, I counsel members not to have too-high expectations of statisticians and forecasters. If we thought that the Bank of England's record on inflation was right off the mark, we have only to look at the OBR forecasts for economic growth to see that forecasters can miss by even more.

The Deputy Convener: In a previous life, I relied on data from the annual survey of hours and earnings. The Scottish data that was collected was a very small percentage of that. The analysis was based on the available information, which skewed particular areas.

The analysis was based on average income levels in local authority areas. The level of data that was collected made it difficult to calculate accurately what was being earned. Aberdeen City Council and the City of Edinburgh Council had the highest average earnings in Scotland. Later, Aberdeenshire Council crept up to that level. That information was based on an analysis of a very small percentage of hours and earnings in those areas, because the level of data collection was better in cities than in rural areas. That might answer the question about why the figures on tourism and hospitality are inaccurate—I suggest that the data is not being collected at the required level.

Professor McLaren: The data is published; the problem is that it has no analysis whatsoever. If we analysed it, we would start to say, "That doesn't seem right," and perhaps to understand the problem a bit better. However, as no analysis takes place and as the figures are not graded as highly reliable or less reliable because of the sample size, we cannot judge for ourselves what is going on.

A good example is the construction sector's output—its GDP contribution—which was revised just over a year ago. I am not giving the exact figures, but they are in our papers. Growth between 2000 and 2006 was something like 15 per cent, followed by two years of only 3 per cent growth. When the figures were revised, that flipped round to growth over the first six years of 5 per cent, followed by growth of about 12 per cent in only two years. That was a complete changeover. What we thought happened did not happen—the reverse happened. If the Government had followed the original data in its policies, it would have got them wrong, because the data was so far wrong—if it is right now.

The Deputy Convener: I thank the witnesses for their evidence. I look forward to Mr Jamieson's paper on social easing, which he suggested earlier.

I suspend the meeting to allow a change of witnesses.

11:20

Meeting suspended.

11:26

On resuming—

The Deputy Convener: I thank our next panel of witnesses for appearing before us. Our witnesses are: Colin Borland, head of external affairs at the Federation of Small Businesses; David Lonsdale, assistant director at the Confederation of British Industry Scotland; and Ian Shearer, interim director at the Scottish Retail Consortium.

Do any of our witnesses wish to make short opening remarks?

Colin Borland (Federation of Small Businesses): I hope that our evidence will be a refreshing contrast with the erudite contributions that we heard from Professor McLaren and Bill Jamieson. We at the FSB are not economists, and I would not presume to pronounce on macroeconomic issues, on which I am not qualified to speak. I expect that we will focus most of our remarks on those items in the spending review and draft budget that will have a practical impact on our members, and on the areas in which we would like a little more debate or detail. In concrete terms, that means the series of announcements on non-domestic rates; the welcome announcement that the small business bonus scheme will be retained; the reform of empty property relief; the questions around the public health lobby; and—most significantly—the announcement that there will be a major review of how the business rates system operates ahead of the 2015 revaluation.

Ian Shearer (Scottish Retail Consortium): I thank the convener and the committee for inviting the Scottish Retail Consortium to give evidence. I will make some brief opening comments, on which I am happy to expand in response to questions.

Our evidence focuses exclusively on the proposed supermarket levy. As you can imagine, that has been the entire focus of attention in the retail world since the shock announcement a fortnight ago. We assume that it is the reason why we have been invited along today. That does not mean that we have no interest in the rest of the budget, but we often work—as we are doing for today's purposes—with CBI Scotland's lead on the wider aspects, and we support its comments on those areas.

We appreciate as much as any sector does the tough economic and fiscal context in which budget decisions have been made, but the latest proposal for a levy on supermarkets sticks out in the budget. It appears to be punitive, and it is counterproductive to the budget's overall growth and economic objectives.

The new tax has caused profound anger among the companies that are affected, and has raised serious concerns among a wider range of business organisations, which feel that several core principles of equity, continuity, financial certainty and evidence-based policy making are at stake. We hope that a number of those organisations will respond to the committee's call for written evidence.

It seems astonishing that there was no mention in the Government's manifesto of a tax policy of such magnitude. On 14 June, the Cabinet Secretary for Finance, Employment and Sustainable Growth gave a written answer to Parliament, in which he stated:

> "The Scottish Government has no proposals to bring forward a proposal for a large retail supplement to business rates."—[*Official Report*, *Written Answers*, 14 June 2011; S4W-577.]

What message does it send to senior businesspeople in world-class companies when the finance secretary says that and then does the opposite?

11:30

We hope that the committee will consider what message that sends about Scotland as a place to invest and as a place where large retailers are welcome. The commitment in the economic strategy is to make Scotland the most competitive place to do business, so why does that not apply to supermarkets? This is all in the context of a market in which retail sales have been falling markedly and consumers and the Scottish and global economies are in an exceptionally fragile condition.

The retail sector as a whole came to the new Scottish Government and Parliament with a clear and positive message of partnership working towards recovery, investment and jobs, and was constructively discussing a vast range of policy areas—particularly health, incidentally. Supermarkets were renewing their initiatives through the Scottish Government's grocery retailers forum in order to help to grow sales from Scottish food and drink producers. Those efforts have been rewarded with a £110 million bill over three years. As our written submission points out, retailers already pay a disproportionate amount of business rates and, as members have heard, costs are rising as a result of inflation.

One of our big concerns is over the inadequate detail about the levy. Estimates suggest that the supplement could, with six months' notice, add an incredible 22 per cent to the rates bills of affected stores—just a handful of companies. We must be clear that the policy is not yet supported by any evidence that it is truly a health measure other than in name. Rather, it is an illogical and discriminatory revenue-raising exercise that is aimed at a few companies that have been judged able to afford it.

David Lonsdale (Confederation of British Industry): I thank the committee for the kind invitation to appear before it today. I apologise for not giving members more time to consider our written submission, which I sent to the clerks at lunch time yesterday.

The submission makes three or four headline points. One highlights the number of positive and welcome moves in the Scottish Government's spending review and budget. I am sure that we will go into detail on some of those during our discussion. We also highlight one or two missed opportunities, such as those on the outsourcing agenda and the lack of an air route development fund, and a couple of areas in which we think cuts are premature, such as those in planning. According to our members, the welcome reforms to the planning system in the past few years have not been borne out in substantial improvements in the performance of the system. We also mention the sting in the tail, which Ian Shearer referred to, of the tax rises in the budget: the retail levy and the changes to empty property rates relief. We think that those are unhelpful to the economy. I am happy to answer any points or questions and to get into the discussion.

Rhoda Grant: My question is for Colin Borland. The previous panel told us that help for small businesses is crucial to the economy, but is there anything in the budget that provides that help? What would you like to be in the budget that would help and encourage small businesses?

Colin Borland: The stand-out measure is the continuation of the business rates relief scheme, or the small business bonus scheme. There is no doubt that the scheme has been a lifeline for many businesses in the past couple of difficult years. The commitment to the scheme for the life of the spending review is most welcome. As we return to growth, we hope that businesses, rather than simply using the savings to keep going, will reinvest them to make it easier to employ people, buy goods and do business.

The reform of empty property relief is controversial. Our position is that the arguments are finely balanced. On the one hand, we would not want a small independent landlord who loses a tenant through no fault of his own to be subject to penal tax rates. On the other hand, many members still tell me that they cannot get premises in a town centre because two or three large landlords control everything and have no incentive to drop their rents. That is why, during the Scottish Parliament election campaign, we called for a review of how the system is working to get behind the stories and find out what the economics are.

On that basis, we obviously look forward to developing the system and contributing to the evidence. The measure could be a spur—it could certainly ease a brake on economic growth that it is argued exists.

Ian Shearer: I make it clear that the SRC represents small retailers as well as large ones. We support the small business bonus scheme, and it is worth pointing out that all the large stores affected by the large retailers levy already pay the large business supplement, which is 0.7p on the poundage. I estimate roughly that the stores that will be affected by the levy pay about £2 million in total towards the small business bonus scheme.

David Lonsdale: I guess that there is also a question mark about the definition of a small firm.

Our membership includes companies of all sizes, from sole traders right up to corporates and trade associations. A number of measures in the budget support business. We have heard about prompt payment. There is also small business rates relief and the protection of support for the enterprise networks, the business gateway and so on. Grants are another element.

I disagree with Colin Borland's comment on empty property rates relief, which I think will also affect small firms. They are not immune to the state of the economy and the reality that, from time to time, their premises—for example, a pub or an office—can be empty, so I suspect that they will get caught up by the reform of the measure in due course.

Rhoda Grant: Are things missing from the budget that would assist small and medium-sized enterprises?

Colin Borland: It is difficult for us to comment in detail when we are looking at a budget at this level. We are talking about issues such as how much money will go to enterprise agencies and local authorities. When we get to specifics about, for example, what business gateway will do post-2012, we will probably be in a better position to say, "This is how it should be funded, and we think that this would be an appropriate amount." When we are still having a high-level debate about how the pot will be divided up, it is difficult for us to comment in any detail.

David Lonsdale: I guess that the one area for us is the need for more support through direct air links to overseas markets, which I highlighted in our written submission. We can obviously go via London, Schiphol or some of the other airports, but direct air links would have provided some direct support for small firms. The previous witnesses talked about the need to enhance the export potential of the SME marketplace. That is one measure that could have helped but has not been taken forward.

Ian Shearer: One thing that is missing is an overall reduction in business rates. We support Bill Jamieson's comment in the previous evidence session when he asked why the principle of the council tax freeze does not apply equally to businesses in general.

Another point is that there might be a perception that the large retail levy will help small businesses by tilting the playing field to keep larger businesses at bay. We understand the desire to support small business owners, but we also need to hear more from the consumer's perspective, because the intense competition in the supermarket sector delivers massive benefits for consumers by keeping prices down. The money that they save as a result is, in turn, spent on other goods and services, and ripples out to small businesses.

Rhoda Grant: I will come back on the health levy. There has been a lot of speculation about it in newspapers and the like, but we have not seen the detail of what it will mean. Would it be possible for the large supermarkets to recoup the cost of the levy through increasing the price of tobacco and alcohol? If not, are they considering whether to sell those products? If they do not do so, they could avoid that tax. Where is the industry on the issue at the moment? What talks has it had with the Government about the levy?

Ian Shearer: It has been suggested that the large retail levy is linked to minimum unit pricing, the purpose of which is to reduce sales. If minimum unit pricing is introduced, there will be fewer sales and therefore fewer profits from alcohol sales. We know that the level of the minimum unit price is also under discussion—and we should bear in mind the fact that the higher the price, the lower the retail sales.

Another point about minimum unit pricing is that it is not evident whether the retailer will benefit from the price increment. After all, consumers tend to switch. Cost-conscious consumers seek out own-brand products; after minimum unit pricing is introduced, those consumers might well switch to completely different—and in some cases branded—products. Indeed, they might well switch to on-line and distant sellers of alcohol based in other parts of the UK.

Finally, the timescale for introducing minimum unit pricing is not yet clear. The bill is about to be introduced and we expect the Scottish Parliament to pass it by next summer, but the provision itself might not come into force until 2013 at the latest.

On the other hand, we have been told that the levy is going to be introduced in six months' time.

Rhoda Grant: What discussions have supermarkets had about ways of recouping the levy? Are they considering increasing prices on those particular items, increasing prices across the board, cutting jobs or something else?

Ian Shearer: All these burdens add to pressure on the supermarket cost base, which can have a knock-on effect on prices. You also have to bear in mind the intense pressures on commodity prices and fuel bills, the effect of inflation and so on, all of which affect small businesses and other retailers as well as supermarkets.

Rhoda Grant: Might supermarkets simply stop selling those products?

Ian Shearer: You asked about the discussions that we have had with the Scottish Government. A number of business organisations have raised concerns about the levy with the finance secretary. We are looking forward to meeting him in about a fortnight's time but so far Scottish Government ministers and officials have told us that the levy will apply to retail stores with a rateable value above £300,000 that sell both alcohol and tobacco. Indeed, over the weekend you might have read press speculation about whether the levy will apply if a retailer decides not to sell one of those products. We are trying to clarify all those details.

David Lonsdale: There are myriad aspects to this issue, some of which we have set out in our submission to the committee. When the Scottish Government publishes the regulations and its policy intention, it must also provide a business and regulatory impact assessment to make clear the proposal's impact. After all, the impact will be felt not only by retailers. If, as we fear, the measure has a knock-on impact on retailers' investment intentions north of the border, it will have implications for the construction sector, store fit-out companies and others in the supply chain. There are a lot of questions to answer and we are seeking a lot of detail. Given that it is a large tax and that there is no indication in the budget of the amount that it will raise, it is perfectly reasonable to expect a regulatory impact assessment to be forthcoming. I hope that the committee agrees and that it will say in its report that such an assessment is expected from the cabinet secretary and the Scottish Government.

The Deputy Convener: Do you have any comment to make, Mr Borland?

11:45

Colin Borland: I suppose the obvious point is that, as the levy will not apply to our members, we do not a direct financial interest in it.

Most of the information that we have received was issued when the large retail supplement was proposed at the turn of the year. At that time, three quarters of our members agreed when we asked them whether they supported the idea that large, out-of-town supermarkets should pay a higher percentage of their turnover in business rates.

It is important to acknowledge that a quarter of our members do not pay any business rates because they do not have non-domestic premises and that another quarter do not pay any because of the small business bonus. However, of the half that do pay, about half cite business rates as a major barrier to the growth and expansion of their businesses. When we were looking at the large retailers supplement, figures from the Scottish Government showed that the businesses that were being targeted by that measure would pay about 2 per cent of their turnover in business rates. So, the argument could be made that business rates are a disproportionate burden for smaller retailers, and any moves to level the playing field and make it easier for them to compete would be welcomed.

I raise two caveats regarding the specific proposal. First, although it was never explicitly stated, there was a tacit discussion about how we could use the extra revenues that would be generated by the large retailers levy to help small businesses in hard-pressed town and city centres. We know that business rates cannot be hypothecated, but the new levy has been earmarked for public health measures. Rather than that, we would like to see a renewed focus on how the money could be used to level the playing field a bit for us—how we could use those revenues to help our hard-pressed town centres, which, by extension, would broaden and strengthen our economic base.

Secondly, we do not want to repeat the mistakes that were made with the social responsibility levy. There is a question mark over the principle of targeting retailers that sell certain products through tax. I accept that the damage that tobacco does to people's health is fairly incontrovertible. However, if we are happy with the principle, will it be extended to the taxation of high-fat foods sold in chip shops and kebab houses and other products that have social ills attached to them?

Notwithstanding those two caveats, our members are broadly supportive of the overall principle.

David Lonsdale: The Scottish Government has opened a door with the new tax on larger retailers. Given fact that the aim is to tackle alcohol and tobacco sales, it is naive and short-sighted to think that the threshold that has been proposed, which is reputedly in the region of £300,000 of rateable value, will not be lowered in due course to target smaller retailers. If we accept the principle of the levy, that question must be asked. The public health lobby is keen to see the rateable value threshold lowered so that more shops and retailers are caught up in its agenda.

I do not accept Colin Borland's point about fairness. I visited the Scottish Government's website yesterday, where it provides a helpful guide to non-domestic rates. It explicitly states:

> "The principal purpose of a revaluation is to ensure the fair distribution of the rates burden."

A revaluation is carried out every five years. So, fairness is built in: there is a poundage rate, there is a discount for smaller firms, and larger firms pay a supplement to co-fund that. I therefore do not accept Colin Borland's point about fairness.

Colin Borland: I am not sure—

The Deputy Convener: I am keen to develop this issue, but I ask that any answers that are given be brief. A number of committee members want to ask questions.

Colin Borland: I will be very quick. The people who believe that the 2010 revaluation of non-domestic properties was fair are possibly in the minority. If the business rates system was not a blunt instrument and was a fair system, we would not be contemplating a major redesign of the system between now and the revaluation in 2015.

Ian Shearer: Colin Borland mentioned competition between large and small businesses. I reiterate that everyone in Scotland consumes products and services from retail, so there are far more consumers than small business owners. I am often puzzled as to why we do not hear more champions of retail competition and what it delivers for millions of consumers as well as for all the business owners in the FSB, the licensed trade and so on.

Colin also mentioned the social responsibility levy. Business organisations including the FSB and ourselves campaigned against the levy because the economic conditions were not right to introduce it. We welcome the fact that the Scottish Government recognises that the conditions are not currently right. Why does the same principle not apply to large businesses that are facing this sudden and unexpected hike in business rates?

On the point about whether the new levy is a health levy, we already have excise duties on alcohol and tobacco, which were traditionally described as sin taxes, which was a good name for them, but the new levy cannot be a tax on sin; it seems to be a tax only on supermarkets.

Chic Brodie: There has been a lot of talk about fairness and equity, which I want to dwell on for a minute. We have talked about retail competition. My question is for Mr Shearer. What proportion of the consortium's income comes from large supermarkets, and what proportion comes from small retailers?

Ian Shearer: The Scottish Retail Consortium is a component of the British Retail Consortium, but we have a sort of devolved structure in Scotland.

Chic Brodie: What are the income proportions?

Ian Shearer: Membership of the consortium includes a very wide range of large and small businesses. I emphasise that we represent retailers right across the piece, not just grocery retailers but large and small non-food retailers—

Chic Brodie: I understand that, but—

Ian Shearer: Within the membership structure we also have many trade associations representing retail sub-sectors, such as the Booksellers Association and the British Shops and Stores Association, which represents ironmongers shops, for example. In Scotland on my board I have the Scottish Grocers Federation and the National Federation of Retail Newsagents. So, within the membership we have that mix. The SRC has always tried to present a balanced view of the retail sector as a whole.

Chic Brodie: I am sure you do, but I repeat my question: what proportion of the SRC's income comes from the large supermarkets vis-à-vis the proportion from the rest of the retail trade?

Ian Shearer: The members of the organisation are listed on the website. I do not have the information about all the different subscription levels with me.

Chic Brodie: But in the case of the supermarkets the level is significant.

Ian Shearer: We have many retailers within the membership of the BRC—and several trade associations, too.

Chic Brodie: I am clearly not going to get the answer.

I disavow Mr Lonsdale's point—I am sure that the Government will lay out the impact assessment. In fact, I do not believe that it would have reached its decision without already having done so. What does the £110 million represent as a proportion of the aggregate revenues of supermarkets in Scotland?

Ian Shearer: The Scottish Government was quoted last week as saying that the levy represented 0.1 per cent of retail turnover in Scotland. That figure is not relevant, because it refers to the turnover of all retailers in Scotland, which is about £25 billion a year. I do not have the figure for the turnover of the companies affected by the levy.

David Lonsdale: Mr Brodie raises an interesting point. I guess that the inference from the 0.1 per cent figure is that it is not a big deal and therefore the retailers should just accept it. The £30 million tax that will be introduced from next year represents one tenth of one per cent—or 0.1 per cent—of Scottish Government expenditure, so, based on the formula, it is not a big deal for the Scottish Government.

Chic Brodie: I was not trying to make that point; I was just looking for information.

On the clear understanding that the levy is a health levy, would you be prepared to share your views about what happened at the weekend, when some supermarkets suddenly abandoned the three-for-two offers and—talk about fair competition—started to sell by unit at a lower or equivalent price?

Ian Shearer: Before I answer that question, which I will do, I will make a supplementary point about your previous point about turnover. We need to consider individual store profitability, because it impacts on investment decisions.

I should also emphasise that it is not only a £30 million to £40 million hit per year. Supermarkets have some of the lowest margins in the business sector. If we assume for the sake of argument that the approximate industry margin is 3 per cent to 5 per cent—let us say that it is 4 per cent—the cost to affected retailers of a £40 million tax is, in effect, the equivalent of having to sell an extra £1 billion-worth of goods and services to make up that £40 million.

Your next question was about the Alcohol etc (Scotland) Act 2010. The SRC and other trade associations worked closely with the Scottish Government when it developed its proposals not only for that act but for the previous one—the Licensing (Scotland) Act 2005. Large and small retailers put in every effort to comply with the 2005 act when it came fully into force two years ago and have put in every effort to comply with the newer restrictions, including the restrictions on promotions.

When the Scottish Government consulted on the Alcohol etc (Scotland) Act 2010, many organisations pointed out that it would have little or no effect on online and distance retail. That appears to be the theme of the weekend's coverage. However, I emphasise that, although supermarkets have an online presence, many other businesses sell alcohol online.

Chic Brodie: I take your point about margins and cash on cash—I understand that from supermarkets—but that is compensated for by the volume of sales that supermarkets make. That is aided and abetted by out-of-town shopping centres where you have captive buyers, in that people will not shop around. If they go into a supermarket, they shop there and then go home. Evidence of that belies, to some extent, the retail competition to which you referred.

I know that the supermarkets are businesses, but do they subscribe to the idea that Scotland needs to change its relationship with alcohol and tobacco?

Ian Shearer: Every time the Government has made proposals on alcohol and tobacco, supermarkets—and, indeed, all off-licence retailers—have been in close discussions about the proposals. We acknowledge the Scottish Government's commitment to introducing minimum pricing. Until 10 days ago, we thought that that was the next proposal on alcohol and tobacco and we were about to begin work on the minimum pricing bill. We work extremely closely with the Government by expressing our views and making comments on the principles and practicalities of such measures.

Chic Brodie: That is fine. However, your first act after the announcement—only days later—was to say that people could buy alcohol online.

I have a question for Mr Lonsdale. I read his report—which is, I am surprised to say, largely positive. It suggests that

"Ministers should challenge sacred cows".

What sacred cows should they challenge?

12:00

David Lonsdale: As someone who is in a senior position at CBI Scotland, to hear that you are delighted and "surprised" that our report is positive means that we have to do a better communications job. We highlight a number of positive policies that the Scottish Government and other Administrations implement, but a lot of them do not get taken up by the media, which tend to focus on areas of disagreement.

The submission that we sent yesterday is quite explicit, as was the pre-budget submission that we made to Mr Swinney about some matters. We have talked about Scottish Water in the past, and there are comments on that in our written submissions. We have also talked about the reform of public services and greater use of the private and independent sectors to deliver public services, whether in health or in other spheres. Those are some of the key areas.

When we talk about sacred cows, we are talking about politically difficult issues, and we acknowledge that. There is no great rush from any of the political parties to broach such matters, but the Government getting a better deal in some areas could help firms to develop and it could create some new opportunities, as well as creating a better deal for service users and customers and freeing up money for the Government to invest in other areas of the economy that would help business.

Chic Brodie: I have a final question for Mr Borland. The Government has committed to making available 25,000 modern apprenticeships. What is the current appetite among small businesses for taking on apprentices?

Colin Borland: The appetite remains strong. If we ask our members whether they recognise the potential value to their business of taking on an apprentice, they will say that they do. The second question to ask them is a little bit harder—why are they not doing it? When all these apprenticeships are being offered, why is it the large public sector organisations or public limited companies that take them on?

We identified a number of barriers to apprenticeships in a report that we published a number of years ago. The move—which is, I understand, on the cards in Scotland now—towards the pooled apprenticeship model that operates in Australia is positive and would be welcome because it would let small businesses take on apprentices and train them and would also remove a lot of the administrative burdens. Also, in that model, the apprentice goes around different businesses and gets a wider range of experience of working in different types of organisation.

At the moment, it is difficult to wave a magic wand and get apprentices into small businesses, but with the reforms to the system that we have recommended, I am confident about moving forward with modern apprenticeships.

Patrick Harvie: Before I ask my question, I suggest to Mr Shearer that he should not assume that just because consumer voices are not represented on the panel, the committee will not hear from organisations that represent consumer interests—whether we regard them as consumers or just as people, as I like to think of them.

I also hope that we get an opportunity to hear an answer to Chic Brodie's question about the SRC's sources of income. If we are to understand the answers that we are given, it is important for us to know who pays the piper.

My first question is for Mr Borland and it is about the changes to tax relief on empty properties. You raised a slight concern about that, but argued that the issue is finely balanced and that there are benefits as well as risk. Your concern is about the impact that it might have on small landlords who simply lose a tenant. Do you agree that that impact will be determined by the detail and that it is not an argument against the principle of finding ways to ensure that empty or vacant properties, or indeed derelict land that is being held back from development—often by speculators—are addressed within the business rates system?

Colin Borland: Yes—absolutely. I think that we can all agree on those points. The proposal that is on the table is to retain 100 per cent relief for the first three months and thereafter to reduce the 50 per cent rate that applies to 10 per cent. As you say, we can model the policy and see what effect it will have.

An interesting aspect of EPR is that the 100 per cent relief is indefinite for certain types of property that have a low rateable value—typically under £1,700—such as disused industrial land and listed buildings. We should look at the issue, because although the first thing that we think about is how we can ensure that there is no tax break for people for having lots of empty shops on their books, there is another question about brownfield land in town and city centres, which could perhaps be utilised.

Patrick Harvie: Yes, indeed. Also, empty shop fronts could be given over to other use, however many units the landlord had. For example, a non-paying tenant could have access until a paying tenant was found.

Colin Borland: Precisely—and why does it just have to be about the retail sector? Indeed, why is it necessarily about the private sector? Why not other sectors? I understand that local authorities are significant landlords in this respect. The Government is saying in one part of its budget, "Maximise your assets and get rid of all your empty properties," and is making it an expensive option to hang on to such properties. Why do not more local authority workers work out of disused units in town centres? We will not sort out our town and city centres and high streets until more economically active people, who have money, are in those towns during the week, in the daytime.

Patrick Harvie: Yes—and until the streets look like attractive and busy places that are being looked after.

Colin Borland: Precisely.

Patrick Harvie: Mr Shearer echoed comments that Bill Jamieson, who was on the previous panel, made about why the logic of the council tax freeze was not followed through into a freeze in non-domestic rates. Am I right in thinking that business owners live in houses or flats and pay council tax?

Ian Shearer: Of course.

Patrick Harvie: So, they get the same benefit as everybody else gets from the council tax freeze.

Ian Shearer: I was making a point about business-property occupation.

Patrick Harvie: Yes, but the business owners who would benefit from a freeze are already benefiting from the council tax freeze. They get the same benefit as everybody else gets from the freeze.

Ian Shearer: Yes. We welcome anything that allows all people in Scotland to have more money in their pockets, which benefits retail—but we do not welcome large retailers being asked to fund that through a discriminatory levy.

Patrick Harvie: "Discriminatory" is a strange word to use. You suggested in your oral and written evidence that the alcohol and tobacco levy is not really a public health measure, but is simply a way of raising revenue—or, at least, you questioned whether it is a public health measure—but when you were questioned you acknowledged that a potential outcome would be that supermarkets decide to stop selling alcohol or tobacco. Again, that might depend on the detail of how the levy is implemented. If a lot of supermarkets were to stop selling tobacco products, surely that would be a great public health measure. The supply of an addictive poison would be reduced. How could that not be a positive public health outcome?

Ian Shearer: Tobacco remains a legal product and adults are free to choose whether to purchase cigarettes. Likewise, retailers can choose whether to sell cigarettes—some do and some do not. We do not know what effect the levy will have on retailers' choices in that regard. The major retailers who sell tobacco provide among the most responsible and tightly-controlled environments in which cigarettes are sold. There is more legislation in the pipeline, because the display ban that was agreed to in the previous session of Parliament has not yet come into effect. If only those major retailers are penalised, and in such a way that they consider stopping selling tobacco, I am not sure what, if anything, you will achieve from a public health point of view. You will simply switch demand to smaller outlets or, in some circumstances, to illicit suppliers.

Patrick Harvie: Surely the reduction in the number of outlets—in the physical extent of supply of those products—would be a positive public health outcome. I cannot think of a public health professional who would disagree with that.

Ian Shearer: I am not sure that that would be the outcome. People who smoke would still buy their cigarettes from other outlets.

Patrick Harvie: Perhaps we should be designing the detail to try to achieve that outcome, rather than simply turning up our hands and saying, "We cannot have this."

Ian Shearer: I am not sure that a supplement on business rates is the right approach to tackling tobacco consumption.

Patrick Harvie: You are extremely welcome to submit written evidence after the meeting to suggest how the supply—from your sector or anywhere else—can be reduced, if not by that measure.

You state in your written evidence that the levy is

"targeted specifically at a handful of companies which the Scottish Government believes can afford to pay it."

That belief is correct, is it not? Those businesses are extremely profitable.

Ian Shearer: It sounds as if we agree that the levy is a raid on profits.

Patrick Harvie: I did not use the word "raid". I am asking whether the belief—which you say the Government has—that those businesses can afford to pay the levy is correct.

Ian Shearer: The Government seems to accept the principle that if you are a small sub-sector of large and successful businesses, the Government may come after you for an extra share of your profits.

You must remember that one or two of the retailers concerned are multinational businesses. Tesco announced its results this morning; it was pointed out that although much of that business is international, the UK market is flat or falling.

The levy is being introduced in the context of the worst sales results in Scotland since 1999. We produce a monthly retail sales monitor, and the figures for August compared with a year ago were 2.1 per cent down on like-for-like sales. The figures for total sales amounted to the second-worst sales drop since the survey started in 1999.

Patrick Harvie: So, you would actually be happy if you were selling more cigarettes.

Ian Shearer: I beg your pardon?

Patrick Harvie: You would be happy if you were selling more cigarettes. Is that what you are saying?

Ian Shearer: You are talking about companies that also sell clothing, electronic items and food. They are the largest suppliers of healthy food in the country—

Patrick Harvie: The companies make no value judgment between the two.

The Deputy Convener: I like healthy dialogue between witnesses and committee members, but the witnesses should be given an opportunity to answer the questions that you put to them.

Patrick Harvie: I appreciate that. I am sorry. Would Mr Shearer like to continue?

Ian Shearer: I think that I have said what I wanted to say.

Patrick Harvie: In that case, I have one brief question for Mr Lonsdale on another aspect. You have welcomed the protection of higher education funding. Do you have anything to say about the impact of the budget cuts in the further education sector, with regard to the role of colleges in providing the skills that will be needed if and when the economy picks up?

David Lonsdale: I am not on top of the detail of what has happened in that regard, so I will take at face value what you say. It is barely two weeks after the budget, and in our submission we have taken on board the discussions that we have had with members. However, there will be a lot more detail on that issue and on a range of other aspects of the budget, which we will deal with in due course. If we produce policy positions on those areas, I will be happy to submit that information to Mr Harvie and the committee.

Colin Borland of the FSB made an excellent point about the need for modelling and more information. I stress that it would be very welcome if the committee were to pursue the Scottish Government for a business and regulatory impact assessment on the proposed tax rise for firms with empty properties.

The Deputy Convener: Mr Borland, do you want to respond to that?

Colin Borland: We share the concern that while the higher education budget has increased, it appears that further education will be under pressure. That is worrying for small businesses because, frankly, we work much more closely with our colleges than we do with our universities, although not as closely as we would like. We could do a lot better. We are more likely to recruit from colleges and they are more likely to have a hands-on role in developing modern apprenticeships—especially with the current emphasis on tackling youth unemployment. For a number of reasons, if economic recovery in Scotland is going to be linked to small businesses, it will depend on there being a strong further education sector.

12:15

Stuart McMillan: Much has been said during the meeting about the large retailers levy. Mr Shearer said a few moments ago that retailers have a responsible attitude to the sale of tobacco and work within a tight legislative framework in that regard. Do retailers have a responsibility to work with parts of the public and private sectors to tackle health issues?

Ian Shearer: Of course they do. The retail sector takes social responsibility extremely seriously. On alcohol, for example, the sector has led the industry by contributing substantial sums to the Drinkaware Trust, and major retailers pioneered and led the challenge 25 initiative for preventing underage sales. In addition, on own-brand goods, it is the major retailers that have led the branded-goods sector on clear labelling of units and on providing information about alcohol consumption on product labels.

On health issues in general, major retailers have worked with Government for many years on nutrition, healthy eating and labelling initiatives for salt, sugar, saturated fats and so on. SRC announced only in July a major commitment on fruit and vegetable consumption. Major retailers have led the way on all those initiatives.

Stuart McMillan: That has been very helpful. It has certainly put some things in context. However, given what you have just said, how would you justify a major retailer selling four bottles of beer for £1? Further, how would you justify a major retailer continuing to sell three cases of beer or cider for £11? Where is the responsibility there?

Ian Shearer: I think that we are entering into a separate discussion about minimum pricing, which is a debate that is to come in the Scottish Parliament. I was asked here today to answer questions about the budget.

Stuart McMillan: Absolutely, but the evidence that we have received and what we have discussed during the meeting has been about responsibility and the retailers' feeling that the large retailers levy will punish retailers for being successful. However, the wider context is about responsibility and where the levy will go to once it is collected.

The Deputy Convener: The witness has clearly indicated a preference not to go down that route and he has the right to do so. I suggest that you move on to another question, Stuart.

Stuart McMillan: Okay, convener.

On the wider discussion, there was reference earlier to retailers considering not selling alcohol or tobacco products in order to ensure that they do not pay an additional levy. Do you expect that any retailer would stop selling alcohol or tobacco products?

Ian Shearer: I honestly do not know at this stage, because we do not have sufficient detail about the basis of the levy, how it will apply or what the definition of the affected sites will be. I would simply highlight why we have described it as discriminatory, because the businesses who would be affected are only a proportion of the alcohol and tobacco markets. We could end up with a situation whereby some stores in a locality would be hit by the levy which, as I explained earlier, could mean an overnight 22 per cent increase in business rates and substantial levy costs going forward. Elsewhere in the same locality there might be a store—potentially a large store—that sells only alcohol or tobacco rather than the range of other goods that a supermarket sells, but it would not be penalised by the levy. We therefore do not understand the health basis for the levy.

Stuart McMillan: If 25 per cent of a store's profits come from alcohol, you would not expect the retailer to stop selling it.

Ian Shearer: I do not know where that figure comes from.

Stuart McMillan: My colleague Chic Brodie touched on what were called sacred cows. I am keen to understand what those sacred cows are. Do they include stopping the council tax freeze or free personal care? Do they include stopping free concessionary travel, which obviously has a positive effect on tourism, with people travelling around the country? Are those policies that you would like to be removed so that the money could be spent elsewhere?

David Lonsdale: I thought that I had answered that question earlier in response to Chic Brodie when I talked about Scottish Water, its ownership model and how it is funded. I also referred to public service delivery and the opportunities to bring in the private sector. You will see from our written submission to the committee after the budget that we are glowing in our endorsement of the council tax freeze.

Stuart McMillan: What about free concessionary travel and free personal care? Do you have any comments about those two policies?

David Lonsdale: No.

Stuart McMillan: My final question is again for Mr Lonsdale. In the submission that we received yesterday, in paragraph 22 on page 5 you talk about pay in the public sector compared with the private sector. You say that it continues to grow, you make some comparisons, and you call for a pay freeze for public sector employees until 2013-14. Does that mean that you are calling for the salaries of senior bankers to be frozen as well?

David Lonsdale: I am sorry. Can I be clear? I think that you referred to page 5 of the document that I submitted yesterday, but I cannot see where you mean.

Stuart McMillan: The heading at the top of the page is "Where the Scottish Government can save money".

The Deputy Convener: It is the pre-budget submission.

David Lonsdale: Is that our submission from before the budget?

The Deputy Convener: Yes.

Stuart McMillan: I apologise for the confusion.

David Lonsdale: Take me to the reference. Was it page 5?

Stuart McMillan: It is page 5, at paragraph 22. On the fourth line, you state:

> "Pay in the public sector compared with the private sector continues to grow".

David Lonsdale: Yes. What was your question on the back of that?

Stuart McMillan: That being the case, are you calling for the pay of senior bankers to be frozen as well?

David Lonsdale: That is obviously a decision for the companies and the remuneration boards of those companies. The budget submission was about what is within the powers of the Scottish Government. I might add that, in its budget, the Scottish Government announced that it was freezing staff salaries for another year, so one might suggest that it has listened to our submission on that. In that submission, we are talking about the total bill. We have not said that certain people's pay should be cut and so on. We have just said that the wages bill and wages-related bill of the Scottish Government is more than half of total spending and that, therefore, if it has to get a grip on spending, it has to deal with that—and Mr Swinney announced a further year's extension of the pay freeze the week before last.

Stuart McMillan: Indeed. Do you welcome the announcement that people who earn less than £21,000 will have a pay increase? They are minimum increases, but do you think that that is positive?

David Lonsdale: That is why we focus on the global picture for pay restraint and on the wage spending envelope. It gives ministers the flexibility to do things to protect those who earn less money.

Chic Brodie: As representative bodies, you hold a fair amount of power. We have had conversations with power companies. Given that they can make it easier for people to have more money in their pockets and therefore to have a greater propensity to consume in retail stores and so on, what pressure do you bring to bear on them? In some cases, it might be a clash of the Titans, particularly if the supermarkets were involved. What approach do you take to working with your members to put pressure on the power companies in relation to their fuel prices?

David Lonsdale: We represent a number of companies that generate power and a number of companies that are consumers of power. That presents its own challenges when it comes to policy making, but we are a representative body.

As regards price increases, I have explained to Mr McMillan that we supported the council tax freeze. We think that keeping a firm grip on spending and keeping taxes down is a good thing, which is why we are strongly against the large retailers levy and the increase in tax on firms with empty commercial properties.

Ian Shearer: From the retail sector's point of view, the SRC gives its attention to matters that are high priorities specifically for retail. The SRC is not involved in any direct discussions with power companies although, as I said earlier, retailers have substantial concerns about the effect on household budgets of rising costs and prices across a range of areas, including fuel prices.

Chic Brodie: That was the purpose of my question; it was not a one-off. Fuel prices are relevant to the overall budget position that the Government has adopted. When it comes to free spend, it is all very well talking about a council tax freeze, which gives people some ability to have a social income, but if they did not have to spend so much on fuel, they could spend more in your stores.

Colin Borland: It will not come as a surprise to you that the FSB spends a lot of time putting pressure on, and making representations to, the bodies that increase our members' costs—whether those costs relate to finance, utilities, licences or whatever. Because we are talking about an industry that is UK-regulated, most of that direct lobbying will be done by our colleagues who operate on a UK-wide basis, but as you would expect, we are more than happy to make that case and to explain just how difficult energy-price rises are, particularly for small food businesses and small convenience stores that have to keep fridges at certain temperatures. Given that the previous licensing legislation made it necessary to buy an extra fridge for alcohol, reducing energy consumption is not particularly easy.

The Deputy Convener: Members have no further questions. I have just one, which is for Mr Shearer and Mr Lonsdale.

What are yours views on the concept of transferring money in the Scottish budget from revenue expenditure to capital expenditure? What are your priorities as regards expenditure on capital projects? What would your wish list be?

David Lonsdale: As we articulated in our written submission to the committee, we are very supportive of that. I believe that it was a previous iteration of this committee that called—in 2006, I think—for a step change in spending in Scotland so that more would go on capital projects than on revenue or current expenditure. We are highly supportive of that. I read what the SPICe briefing said about the need for clarity on where the money to spend on capital projects comes from, which John McLaren alluded to earlier. We are 100 per cent on side with that agenda.

In our submission, we articulated a number of areas that we think are important, such as GDP-enhancing transport and communications projects. I know that the Cabinet Secretary for Infrastructure and Capital Investment will make an announcement about the Government's longer-term infrastructure investment plan in the next few months. As we said in our submission, we have some ideas on that front too, the detail of which I would be happy to share with this or another committee.

12:30

Ian Shearer: As I mentioned at the beginning, we support the CBI position on wider aspects of the budget and on capital spending, which clearly has knock-on benefits for the economy as a whole and for the retail sector.

The Deputy Convener: I apologise to Mr Borland. Would you like to make any comments?

Colin Borland: I will not be specific. As I said in my opening remarks, we do not get into how things should be divided up. The only thing that I would say about capital spending is that if it is to have an immediate effect, it must be ensured that small businesses get a slice of that action.

The Deputy Convener: I thank Mr Lonsdale, Mr Shearer and Mr Borland for coming along and giving evidence. I remind the witnesses that they are free to make further written submissions once they have reflected on some of the questions that were asked and some of the answers that they have given.

I remind members that items 3 and 4 will be taken in private, as we agreed previously.

12:31

Meeting continued in private.

13:34

Meeting suspended until 17:52 and continued in private thereafter until 18:20.

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