



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 2 November 2011

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**Wednesday 2 November 2011**

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**  
**10<sup>th</sup> Meeting 2011, Session 4**

**CONVENER**

\*Gavin Brown (Lothian) (Con)

**DEPUTY CONVENER**

\*John Wilson (Central Scotland) (SNP)

**COMMITTEE MEMBERS**

\*Chic Brodie (South Scotland) (SNP)

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

\*Patrick Harvie (Glasgow) (Green)

\*Angus MacDonald (Falkirk East) (SNP)

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

\*Stuart McMillan (West Scotland) (SNP)

\*Anne McTaggart (Glasgow) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Stephen Boyd (Scottish Trades Union Congress)

Jim Boyle (Poverty Alliance)

Rachel Gwyon (Scottish Government)

Alex Neil (Cabinet Secretary for Infrastructure and Capital Investment)

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

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Committee Room 1



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 2 November 2011*

[The Convener opened the meeting at 09:32]

### Draft Budget 2012-13 and Spending Review 2011 Scrutiny

**The Convener (Gavin Brown):** Good morning, everybody, and welcome to the Economy, Energy and Tourism Committee. I invite everybody present to ensure that their mobile phones, BlackBerrys and so on are turned off and not just switched to silent, otherwise they will interfere with the sound equipment.

Agenda item 1 is scrutiny of the draft budget 2012-13 and the spending review 2011. We have three panels of witnesses. On our first panel, we have Stephen Boyd, the assistant secretary of the Scottish Trades Union Congress, and Jim Boyle, the convener of the Poverty Alliance. I spoke to both witnesses shortly before the meeting started and they indicated that they did not wish to make opening statements. That is my kind of witness, I have to say, gentlemen. [Laughter.] I welcome you both, and we will move straight to questions.

**John Wilson (Central Scotland) (SNP):** I will start by making a declaration: once upon a time I was an employee of the Poverty Alliance; I also shared an office in the STUC building in Woodlands Road. So I know both organisations, and the work that they do, well.

I welcome the STUC's written submission and have a general question to open up the debate. What are the panellists' overall views of the budget, as set out by John Swinney, and what impact might it have on the areas of interest of the STUC and the Poverty Alliance?

**The Convener:** Who wants to go first?

**Stephen Boyd (Scottish Trades Union Congress):** I am happy to go first.

**The Convener:** You were making eye contact, so you get to go first.

**Stephen Boyd:** As we made clear in our submission, we absolutely understand the position of the Scottish Government in introducing its draft budget. It is a particularly difficult settlement. The United Kingdom Government's approach to the present economic challenges, and its adherence to an austerity strategy, has left the Scottish Government in a difficult position. We appreciate much that has been done in the budget and our

submission points out a number of specific initiatives that we strongly support. We could also point to some areas of the budget about which we are not so happy. For example, we argued to this committee's predecessor throughout the course of the previous Administration that the continuing small business bonus scheme represented a substantial waste of scarce resources. Also, although we understand the Scottish Government's position in introducing the freeze in the council tax, we think that it will lead to a number of difficulties for jobs and services. The budget is a bit of a mixed bag.

Mr Wilson asked about the budget's impact. Our overriding concerns at the moment are the state of the economy and rising unemployment. For a period, the labour market in Scotland was performing better than the labour market in the UK as a whole. However, over the past month, we have seen a significant rise in unemployment and a significant fall in employment.

The economy is suffering from a serious deficiency in aggregate demand and there is very little that the Scottish Government can do to address that at Scottish level. When monetary policy is having minimal if any impact on the economy, we need to see a strong fiscal response at UK level. Without such a response, I fear that the current weak position of the economy, and the deteriorating labour market conditions, will continue.

**Jim Boyle (Poverty Alliance):** As members will know, our specific focus is on the eradication of poverty. We look at the budget through that lens and ask how it will help to make Scotland a more equal society.

There is much to be welcomed in the budget, such as the move towards preventative spend, the announcement of apprenticeships and the increase in the health budget. However, we are concerned about the budget's priorities. Are the priorities the priorities of Scotland's citizens—especially the people who have experienced poverty over the past 30-odd years, and the people who are moving into poverty now? Is the budget only about mitigation, or is it about development? Does it ask how we can develop a more socially just society? In many aspects of the budget, those questions are not factored in. The emphasis on preventative spend is welcome, but we do not think that where the money is allocated will help to mitigate, or start to eradicate, issues of poverty.

We have difficulty with the priorities in the budget. Stephen Boyd mentioned rising unemployment; in particular, there is rising youth unemployment. That is set against the backdrop of welfare reform, the impact of which in Scotland we will have to consider. We have to question

whether the priorities in the budget and the move from revenue to capital are the best use of resources just now. Could the resources be used in a different way? I have yet to be convinced that the move into capital spend and infrastructure projects will create new and sustainable jobs—in particular, jobs for people who have been out of work for a considerable number of years and opportunities for young people to enter the job market. For the Poverty Alliance, the question is, whose priorities does the budget consider?

We are also interested in the narrative of the budget. Trickle-down seems to be a consistent idea—the idea that wealth, having been created, will then trickle down to the poorest.

Many aspects of the budget are welcome, but we do have some concerns.

**John Wilson:** I welcome those opening comments from the two panellists. We are examining the budget set by John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth. Stephen Boyd said that the STUC had concerns over the small business bonus scheme and the council tax freeze. The Government has given money to local authorities to supplement the freeze. What alternative would the STUC have for that resource? The committee has to come up with ideas on the areas in which we believe the cabinet secretary could have used resources to better effect. Could the small business bonus have been used to better effect elsewhere? We know from feedback from the Federation of Small Businesses that the bonus is helping to keep small businesses afloat and is allowing them to employ more people. What alternative would the STUC suggest?

**Stephen Boyd:** We are very clear on this: we would want that money in the enterprise budget to be used to sustain the collective high-productivity enterprises that will drive employment growth in Scotland over the coming years. I get on very well with the people at the FSB—indeed, I regard them as my friends—but I have to say that I found that part of its written submission risible. The FSB claims that the small business bonus scheme helps its members to the tune of £1,400 on average and that such funding makes all the difference to the viability of those businesses. I think that we need to be quite brutal about this: if £1,400 is all the difference between a business being sustainable or not, that business is not viable. Public policy should not be in the game of sustaining such businesses; instead, we should be channelling the money into the areas where it will really make a difference.

I have spoken at great length to the committee about the STUC's aspirations for the Scottish Investment Bank. We very much welcomed the huge steps that were taken in that respect under

the previous Administration. However, the bank is undercapitalised; the finance that it is providing to companies is more expensive than we would like it to be; and we feel that the money for the small business bonus scheme would be far better used to support the bank. After all, we have a huge investment deficit in Scotland. For years now, companies have been unable to access the patient, committed finance that they need to invest not only in capital projects but, more important, in research and development and other such initiatives. The Scottish Investment Bank could be a major vehicle for such investment, which of course is the kind that will grow employment in the longer term. Frankly, supporting businesses that are not viable is neither here nor there to the Scottish economy nor to driving employment growth over the coming years, and the money could be targeted far more effectively.

**John Wilson:** Thank you for those comments. I am sure that they will contribute to our questioning of the Cabinet Secretary for Finance, Employment and Sustainable Growth.

On the concerns about the transfer from revenue to capital, does the Poverty Alliance agree that the purpose of the move is not only to create jobs but to build infrastructure for the future that will create even more wealth and even more employment opportunities and help people to get out of poverty? Is that not a worth-while objective for the budget?

**Jim Boyle:** We need to see the evidence. For more than 30 years, at a time of apparent boom, that was the narrative: investing in capital produces jobs; jobs produce wealth; and wealth trickles down. However, since 1992, our experience has been that people have not benefited from that model of economic development. We are yet to be convinced that it will meet the priorities of Scotland's poorest people and, as I have said, we need to see the evidence of that.

As Stephen Boyd suggested, this is all about choices and priorities. The fact is that this budget takes no account of poverty eradication. "Achieving Our Potential: A Framework to tackle poverty and income inequality in Scotland" was released in 2008 and has not been updated since; furthermore, the Government has not put in place any framework for anti-poverty or pro-poor economic development. The "If we build it, they will come" approach has failed people in poverty over the past 30 years; and we have seen no evidence that, in this time of economic crisis and recession, such a shift in resources will create employment, particularly among young people in working-class areas who have seen what has happened to their areas in those 30 years. We are talking about young people who have very few

skills to enable them to take the job opportunities that are there. We also see that entry-level jobs are being taken by other people because of the state of the economy. The idea that we can invest in the top and it will trickle down has not worked and does not seem to be the way forward to suit the priorities of people today.

09:45

**Stephen Boyd:** I very much endorse what Jim has said about the disconnects that often appear between the different strands of Government policy—the economic strategy, the poverty strategy, the low-carbon strategy—which are not often as tied up as we would like them to be. It is also important to stress one very positive aspect of the budget, which was the stipulation in the procurement process that new capital projects will deliver new apprenticeships. We see that as one step along a very long road. We must start to make the procurement process work for the people and understand, as Jim Boyle says, that new capital projects will not necessarily tackle the areas that we want to tackle, such as unemployment and poverty. We have to make full use of the scope of European procurement law, which allows us to introduce social, environmental and employment concerns into the procurement process. We made some progress over the course of the previous Administration, but there is a lot more still to do.

**Jim Boyle:** I want to make one supplementary point on where we put the capital spend. When we look at areas such as Govanhill, we see people in the private rented sector who are paying high rents for substandard housing and people who are in fuel poverty and cannot afford to heat their houses because their houses are not insulated. We have to look at where we are putting our capital money and who should benefit from it. For us, the priority is those citizens living in poverty who need that work to make their lives a lot better than they are today. The whole capital idea is about choices and we are saying that our spend should move us towards the eradication of poverty, not that if we invest capital, it will trickle down automatically. There is no mechanism to shift any benefit; there is no tax regime in place to physically shift the profit that is created to the people in poverty, so it comes down to choices and priorities. Our choice is to prioritise the needs of the poorest.

**John Wilson:** Thank you very much.

**Rhoda Grant (Highlands and Islands) (Lab):** If capital were used, for instance, to retrofit and insulate the homes of those in poverty, lifting them out of—or trying to tackle—fuel poverty, would that create jobs and assist those who are least well off in society?

**Jim Boyle:** Norman Kerr from Energy Action Scotland gave evidence on that, I think, and he is more of an expert on it than I am, but it is clear that, given what needs to be done, particularly on fuel poverty, jobs would be created. The savings for people would put income into their pockets and people in the poorest areas would be the priority. I was talking to a woman in Govan a couple of weeks ago—a disconnect comes in here, as well, in relation to saving energy, being green and all the rest of it. She can heat only one room in her house, yet she is getting messages from the Scottish Government and elsewhere about having to cut back on energy. It is ludicrous: the house is not insulated, she cannot afford to heat it, and she has not even got the income to heat it. That is the priority and, if we met her needs, it would create employment locally, it would begin to upskill, it would tie into apprenticeships and it would start us thinking about what the so-called green economy will actually look like.

Other cases are similar to that of the woman in Govan. Because of fuel prices and other factors, a man in Clydebank uses a microwave to cook his meals. It is cheaper than using gas. He knows that the food he is eating is not the healthiest, but there is not enough money in the household to prepare the food he should be eating. People in that sort of situation are the ones who are paying the price—the price of overconsumption by people in other areas. That brings me back to consideration of where spend should be prioritised. I think that Norman Kerr said that £200 million should be invested in retrofits, for example. That is the challenge for Government. Should £200 million be invested in that kind of project, or should £200 million be invested in a capital project that will not benefit people in poverty in the areas concerned?

**Rhoda Grant:** What are your thoughts on the public sector pay freeze? Is it a good thing? Is it set at the right level? Are there any disbenefits?

**Stephen Boyd:** If you were a public sector worker, you would certainly think that there was a huge disbenefit if you had seen your wages fall by about 10 per cent in real terms over the past two years, and if you were about to lose another 3 per cent of your earnings because of the public sector pensions grab.

We have very much welcomed the First Minister's approach during the course of the recession—doing what he can do at Scottish level to improve the economic security of public sector workers. Appropriately, he has made the argument about the potential macroeconomic effects: if people feel more secure, their propensity to spend will be greater. However, half a million public sector workers in Scotland have seen their wages fall rapidly over the past couple of years and that, too, will have a significant macroeconomic impact.

Public sector workers are not the highly paid, lazy individuals that the press always describes them as.

The Scottish Government has introduced some measures, such as the £250 to workers earning under £20,000, all of which are welcome. However, if choices made in this budget or, perhaps more importantly, in the second and third years of this spending review, mean that the wage freeze is to be extended, the impact on workers will be severe and there will be significant second-round economic effects. The budget is all about choices.

The small business bonus scheme has been mentioned. We have been consistent in arguing that that money could be better spent in other areas where it could have a far greater economic impact. The economic impact of giving any sort of pay rise to public sector workers over the coming period would be greater than giving small grants to small businesses throughout Scotland. There are choices to be made, and paying public sector workers a decent wage has to be at the top of the list.

**Jim Boyle:** I agree with much of that. It would be within the Scottish Government's remit to introduce the living wage across the public sector. It could also put a social clause into all procurement contracts, in order that a living wage be paid. It could also use its influence, and that of its economic advisers, to put pressure on private sector companies to pay a living wage.

As Stephen Boyd suggested, some public sector workers are among the lowest-paid people in the country. It always seems ironic that the focus is on them and not on those at the other end of the spectrum who make rather large salaries. Why is the focus always on the poor having to do something, rather than on the wealthy having to contribute their fair share? Again, we come back to priorities and choice. Why should the most poorly paid people in the public sector pay for a problem that they did not create? Why are the wealthiest people in Scotland not making a fair contribution to the country's recovery? That relates to influence. It is not just about power, it is about influence over private sector companies.

That is said not just by organisations such as the Poverty Alliance. The Christie report, the Arbuthnott report and Crawford Beveridge's report all said the same thing, which brings us to the point about priorities and choice. What vision do we have for Scotland's society in the future? When we have that vision and the priorities, what resources will we need to put in place to make them happen? The priorities and the vision are not there, which is why we are debating freezing wages for the lowest-paid workers in Scotland and

not getting a fair contribution from those who have the money and can contribute.

**Stephen Boyd:** I agree with everything that Jim Boyle said. Rebalancing the distribution of the fruits of economic growth from those at the top to the other 99 per cent, which we talk about these days, requires action at the UK level. I will talk about what we can do in the Scottish budget and in Scotland as part of the economic development strategy.

In the past couple of years, some of the worst employers in the economy have made significant investments in Scotland. When the unemployment rate is high, it is difficult to argue that such investments should not be made—we want more jobs in Scotland, of course. However, as we provide grants to such companies to set up in Scotland, we must stipulate minimum returns in respect of employment standards. If we give grants to the Amazons and Ryanairs of this world, we want the jobs to be sustainable and decent. Simply shouting about 1,000 new jobs in the Scottish economy will not cut it in the longer term, to be frank. Amazon's behaviour at its plant in Greenock involved some of the worst employment standards in the UK economy. The Scottish Government should not be in the business of supporting such employment.

**Patrick Harvie (Glasgow) (Green):** I welcome enthusiastically most of what I have heard and particularly the idea of using procurement to put pressure on businesses to adopt better practices. Procurement and incentives in the business rates scheme could address measures such as the living wage, maximum wage ratios and an end to tax avoidance practices, which the likes of Amazon use.

You both referred to the difficult context in which the Scottish Government is setting its budget and to the austerity programme, which would have, if not zero support, very little support in this Parliament. In talking about the Government's approach to falling budgets, the First Minister placed a lot of emphasis on the concept of the social wage, which I understand concerns not only incomes but benefits in the broader sense of services as well as financial benefits that society provides to establish a basic living standard.

Is the idea of a social wage coherent in the Government's approach to the budget? I ask you to think about real-terms pay cuts in the public sector and cuts to housing and further education budgets but also about the flip-side—benefits that the Government emphasises in relation to people's living standards, such as the council tax freeze and free prescriptions. If we take into account what the Government does and does not control, is the idea of a social wage coherent overall? Is that expressed through the budget?



**Stephen Boyd:** The idea as presented by the First Minister has coherence. I give credit where it is due—in talking about the social wage and workers' economic security, the First Minister is bringing into the public realm ideas that prominent politicians have rarely discussed in the past 30 years. It is important to put that on the record.

As for whether that stacks up as a set of practical measures, for a public sector worker who earns £25,000 a year, who has had a 10 per cent real-terms wage cut in the past couple of years and who is just about to lose another 3 per cent of their wages because of the pensions grab, it is clear that the council tax freeze, free prescriptions and so on will not fill the gap. We are keen to develop with the Scottish Government how far it will take the concept of the social wage.

The refreshed economic strategy was published recently. To give credit where credit is due, it is good that the fifth chapter of the strategy, on equity, introduces ideas into the economic development argument that have not been addressed during the last period. However, if we contrast the first couple of chapters, in which there is a lot of talk about what the Scottish Government could do with levers that it does not currently possess, with the fifth chapter, on equity, in which there is almost no talk of what it would do with levers that it does not possess, such as benefits and taxation, we can see that there is a huge disconnect there.

10:00

We are keen to develop, with the Scottish Government, thinking on how we can genuinely make the social wage work for the people of Scotland, how we can improve the economic security of people throughout Scotland and how we can make inroads into the Scottish Government's economic strategy targets on solidarity, cohesion and sustainability. Again, it is good that those things are in the strategy, but we have seen very little practical policy developed on what we would do to achieve those targets at Scottish level or—moving beyond that—with powers that we do not currently have. To summarise all that, the social wage is a decent start, but it does not stack up practically and we need to reinvigorate the debate about what happens now.

**Patrick Harvie:** Is it not a bit hard to take the Government seriously on concepts such as equity and solidarity when it gets support for its economic policy from a tax exile such as Jim McColl? We cannot really see this Government as much of a threat to inequality.

**Stephen Boyd:** The whole debate about corporation tax is very revealing. We have written

an extensive submission to the Scottish Government on that debate. If we are serious about redistributing wealth across society, making society fairer and returning the fruits of economic growth to all our citizens, we cannot pursue a tax strategy such as the one that the Scottish Government is currently pursuing.

**Patrick Harvie:** Does this budget achieve the objective of starting to redistribute wealth, in your view?

**Stephen Boyd:** Insufficiently, although it is important to recognise that the levers that will really make a difference for redistribution currently reside at UK level. The debate at Scottish level often has unreal expectations about what we can do to redistribute wealth with the levers that are currently available to us.

**Patrick Harvie:** I put the same questions to Jim Boyle.

**Jim Boyle:** I am very much in line with the majority of what Stephen Boyd said. The context that we have to keep in mind is that we are still part of the UK, which is the sixth wealthiest economy in the world. We are not a poor country and it is the priorities for what we do with that wealth that have to be questioned. In Scotland, the social wage is a start along the road to social protection, but this is 2011 and we are looking at health and education as part of a social wage when we should be discussing them as rights. It is a right for people to have a decent health service; it is a right for people to have dignity; it is a right for people to have decent employment. Those are not matters for a Government policy about a social wage. I am pleased that the Government is recognising certain aspects of the rights that citizens have, but the context is that those are rights that need to be delivered.

The big test of social wage solidarity for the Government—it is not within the budget and I do not hear any Government statements about it as yet—will come from the devolved welfare powers that are coming to Scotland. We hear from Bill Scott of Inclusion Scotland that, over the course of the welfare reforms, the hit on the poorest people in Scotland will be some £2 billion. That is £2 billion being taken out of the Scottish economy. A social wage will not make up for that loss. The other factor in that is that that money that the poorest people get is spent within their communities. If we take £2 billion not just out of the poorest communities but out of the Scottish economy, what effect will that have? Bill Scott has all the details and is more of an expert on this kind of thing than I am, but that is where the real challenge for cohesion, equality, solidarity and the social wage will come. What will the Scottish Government do when the welfare reforms start to hit the poorest in society?

**Patrick Harvie:** Some extremely important points have been raised, but I have a final question on a separate matter. In speaking to the budget and spending review, the Cabinet Secretary for Finance, Employment and Sustainable Growth also mentioned perhaps placing a greater expectation on local government to use borrowing powers. If that happened, what ought those borrowing powers be used to fund? We could reverse some of the cuts to housing investment or the fuel poverty budget. We could invest in community or publicly owned renewables to generate revenue for the future. There are a host of other options. Do you have any views on what local government's priorities ought to be if borrowing powers are used more extensively?

**Stephen Boyd:** It is not something that I have particularly thought about and the STUC has not developed a position. You mentioned some of the areas that we would be keen to look at. We want to make renewables development start to work for the people of Scotland, so we are going to have to start developing more of the kind of community-owned projects that you described.

We also need to start filling in some of the small but important gaps in infrastructure such as at Scrabster harbour and the road at Berriedale braes. If we are going to develop in Caithness, we need to get the local infrastructure right, and those are the type of smallish project to which local government could contribute.

We have also mentioned the warm homes funding a number of times today. That type of investment improves the housing stock and provides the job opportunities that we need right now so that we can start reconnecting jobs with people, particularly with the jobless youth. Decent employment opportunities should be at the top of the list as well.

**Jim Boyle:** Again, the Poverty Alliance would like to look at people's priorities. The epic project and the consultations that the Poverty Alliance runs seem to show those priorities. I would go back to Campbell Christie, Arbuthnott and Crawford Beveridge and say that, even if it is a challenge to the Scottish Government, we have to ask people where their priorities are. Again, there is a disconnect between the Scottish Government and community engagement and participation. Where is community decision making? Who is prioritising what should be spent where?

If we take it down to the local level, we see community planning being pulled back into councils, leaving very little opportunity for people to have their voices heard and to set the priorities. There is a disconnect. On the one hand, the Scottish Government might be proposing that local government should use borrowing powers and spend, but who is going to set the priorities for that

spend? That needs to be decided. The organisations that form the Poverty Alliance could come up with a decent wish list, but the most important thing is about getting the communities that are experiencing poverty to decide what they want.

I have to tell you that people are very measured. There seems to be a narrative that communities do not know what they want or that they would ask for too much. The problem is not that they ask for too much but that they ask for too little. People are measured in their approach to what could be done in their communities with them to help them to work their way out of poverty. They can also identify the support that people require in their communities and how it could be provided.

There seems to be a disconnect. Local priorities are not being matched to the priorities of the people within the local authority boundaries. Something needs to be done about that.

**Stephen Boyd:** Jim Boyle raises a very important point. In our initial reaction to the Government's refreshed economic strategy, we raised the issue of the governance of economic development in Scotland. Our general secretary sits on Scottish Enterprise's board, but no other figure from the trade union movement or anywhere in civic Scotland currently has any input into the boards that have a locus for economic development in Scotland. Trade unions have limited representation in Scottish Enterprise, regional development boards or industry advisory groups, and there are no civic stakeholders in any of those groups. Whereas in the past communities used to be represented through a democratic process in decisions governing local, regional or sectoral economic development, that is no longer the case.

I realise that the word "disconnect" is being used a lot this morning, but we have never really bottomed out what happened to local regeneration after regeneration itself was removed from Scottish Enterprise in the early part of the previous Administration. Where does local regeneration sit at the moment? What does it mean when the economic development strategy is governed by a key sectors approach? How do we tie everything up? Local regeneration seems to have fallen down a bit of a hole. Problems have arisen with very significant projects in Glasgow, Inverclyde and elsewhere, and sorting out the situation should be one of the Scottish Government's priorities.

**The Convener:** Three members want to ask questions. We have 20 minutes or so left so, if you keep your questions as brief as possible, we will get through everyone.

**Mike MacKenzie (Highlands and Islands) (SNP):** I have to say that I am a bit puzzled. In

response to John Wilson's initial question, Stephen Boyd said that the problem with the economy is low aggregate demand. I agree with that, but how will increasing business tax, particularly for small businesses, by removing the small business bonus and allowing increases in council tax stimulate demand? I am also puzzled by your suggestion that we end the wage freeze. Such a move would be terrific, if it were possible, but coupling that with an increase in council tax seems almost self-defeating.

I am also slightly disappointed at the antipathy not only towards small businesses, many of which are struggling and working on very low wages, but between the private and public sectors in the notion that a private sector job is somehow worth less than a public sector job. Surely in these difficult times the solution is for the private and public sectors to work more closely together and I would be interested to hear your comments on that point.

My second, more general question, which is for both witnesses, is on the reprofiling of funding in the budget from revenue to capital. Do you accept that, in the past three years, 30,000 jobs, many of which have been semi-skilled or unskilled, have been lost in the construction industry and that increasing capital expenditure on infrastructure in whatever terms will soak up some of them? Surely that is a desirable outcome.

**Stephen Boyd:** You have raised an awful lot of issues. First off, there is no antipathy at all towards small businesses. I have very cordial relationships with the FSB, in particular; indeed, I have made presentations to its policy forum for the past couple of years. It is interesting that, when we sit down and have a mature discussion about these issues, we find ourselves agreeing with many issues; for example, we have common aims in relation to large company taxation.

However, when faced with this kind of budget, we have to be brutal in making it clear where the best returns in economic development are to be found. Incidentally, I understand the politics behind the small business bonus scheme and why it commands such widespread support in the Parliament. However, as an economic development measure, it is money wasted.

You talk about the small business bonus and the council tax freeze as ways of stimulating the economy and increasing aggregate demand. However, as far as demand management is concerned, both measures are hugely inefficient.

**Mike MacKenzie:** Can you provide a robust analysis to the committee to support that view?

**Stephen Boyd:** I am more than happy to provide more submissions, but I have to say that I find your request hugely ironic. For five or six

years now, we have been asking the Scottish Government to provide its analysis of the small business bonus's macroeconomic impact and impact on jobs, but it has resolutely refused to do so. It has published no serious analysis of this measure, beyond saying the number of businesses that have benefited from it. As I have said, I am more than happy to give you more information but, without the Government putting resources into a similar exercise, I am not quite sure that it is a good use of STUC resources.

**Mike MacKenzie:** Perhaps you could lead the way in showing good practice.

**Stephen Boyd:** I will certainly try, but I do not have the information that the Government should be able to access. I am happy to give you a more developed written summary of the arguments that I have put forward and to put in writing where I think the money would be better spent, but the serious analysis of the impact of this spend to date is a job for the Government. I hope that the committee will join with me in encouraging the Government to do that analysis.

10:15

**Mike MacKenzie:** I am happy to do that, but you have made the pretty strong statement that the small business bonus is a waste of money. You are perfectly entitled to make that point and you may, in fact, be right, but, given that you make such a strong statement, I would be interested to read the detailed analysis that leads you to form that belief.

**Stephen Boyd:** Absolutely. If the Scottish Government is saying that the small business bonus is having a positive effect on the economy, it is also incumbent on it to produce an analysis that proves that to be the case.

**Mike MacKenzie:** Sure. I ask you to lead by showing good practice and we can perhaps twist the arm of the Government to follow suit.

**Stephen Boyd:** On such a key economic development issue, it is important for the Government to show leadership in conducting serious economic analysis.

On the other issues that you raise, I emphasise the point that the council tax freeze, in particular, is a regressive measure that benefits higher band rate-paying home owners more than it does the lower paid. As an economic stimulus at this point, it is hugely inefficient.

One great benefit that came from the early part of the recession was that, across the globe, a lot of very good research was published about where stimulus works and what type of stimulus works when the economy, particularly the global economy, is struggling. The type of stimulus that

works is stimulus that benefits the poorest people in society, whose propensity to spend is greater, and that is time limited and focused on areas that will benefit the long-term productive potential of the economy. Neither the small business bonus scheme nor the council tax freeze even begins to measure up in those terms. They are hugely inefficient. If your case is that what really matters now is boosting aggregate demand, we should look at other measures, because those do not cut it.

On your last point, about the trade-off between jobs and wages, unions absolutely understand that to be the case, which is why we have had a very mature debate with the First Minister on the matter over the past two or three years—it is one that we will continue to have. Over the longer term, if you continue to freeze wages and reduce the spending power of half a million people in Scotland, you will begin to see not only public sector jobs going—remember that jobs are already going in the public sector; we have lost 25,000 over the past year—but an impact starting to hit the private sector.

You suggest that there is an antipathy between public and private—there certainly is not from the STUC. Our campaigning on the Government's austerity measures has been firm in talking about the situation of both public and private sector workers. It is others out there in the economy who seek to make a distinction, not us.

**Mike MacKenzie:** Thank you. My second point was about the reprofiling from revenue expenditure to capital expenditure on infrastructure. You both seem to feel that that is not going to do all that much for the economy or provide jobs. I made the point about the construction industry losing 30,000 jobs, many of them unskilled. I share your aspiration to protect those on lower earnings rather than those at the top of the tree, but do you agree that reprofiling some of the budget to capital expenditure on infrastructure is a pretty good way of providing employment, especially for the semi-skilled and unskilled?

**Jim Boyle:** It is about what the priority is and what the capital spend is on. That is where the decision lies. It is not either/or but, if the Scottish Government is going for that model, the criteria that we would look for are whether the capital spend will benefit the poorest in society, whether it will improve society and whether it will take us forward to the eradication of poverty. I have yet to see the evidence that some of the capital work meets those criteria.

For a more localised view, I recommend that you read the book that Clydebank Independent Resource Centre wrote with Chik Collins from the University of the West of Scotland, which is entitled "The Right to Exist: The Story of the

Clydebank Independent Resource Centre". They took 25 years of regeneration in the Clydebank area and put it through their own experience. The model that applied when the Singer Corporation and John Brown's shipyard shut was that you had to pump in the capital—build the field of dreams and they will come. The book points out what happened to that form of economic development and to the community.

After 25 years of trickle-down capital, the statistics on poverty have hardly moved. For 25 years, the independent resource centre has given advice on welfare and debt, but it wants to go out of business. It does not want to be there for another 25 years. It really hits home that the priority of capital investment and building in Clydebank did not work for the people in that area. We should ask the people in Clydebank what their priorities are, and what they think the money should be invested in to assist them in building a better and fairer community.

Public-private antipathy is not on the Poverty Alliance agenda. The criteria for us are whether companies pay a living wage, whether there are decent working conditions and employment rights, whether there is a chance for people to progress and whether women are getting equal pay. Those criteria should apply regardless of whether the company is private or public. There should not be zero-hour or limited contracts, and there should be childcare facilities and other added benefits. Those are the type of things to which we agree that people who are entering the job market should be entitled.

**Mike MacKenzie:** I have one final question.

**The Convener:** Please be brief, as two more members want to come in.

**Mike MacKenzie:** I am pleased that Jim Boyle notes—and I agree—that Clydebank definitely needs help. However, the problem that you mentioned goes back 25 years. Although I share all your aspirations, how realistic is it for the Scottish Government to solve all those problems—given that some of them are long term and deep rooted—and fulfil all your aspirations in this one budget at a time of economic crisis and falling public sector budgets?

**The Convener:** I ask the gentlemen to give a very brief answer to that question.

**Jim Boyle:** To focus on Clydebank specifically, this is not the first economic crisis that it has gone through nor the first budget that it has experienced. We can go back to the core issue of where the priorities lie. If the priorities are the people and the eradication of poverty, you would have taken a different decision.

**Stephen Boyd:** I have a fairly short answer to your question. This budget cannot solve those problems, but it can make a contribution now and in the longer term, which is what it should aim to do.

**Chic Brodie (South Scotland) (SNP):** I will move on with a question for Stephen Boyd. Have you ever run a small business at all?

**Stephen Boyd:** I have certainly worked in one. It was a very good small business that was growing.

**Chic Brodie:** My question was whether you have run one.

**Stephen Boyd:** I was in a managerial position.

**Chic Brodie:** Have you filled in an RSA—regional selective assistance—form?

**Stephen Boyd:** No, I have not filled in an RSA form.

**Chic Brodie:** Have you had any dealings recently with business gateway or Scottish Enterprise?

**Stephen Boyd:** No.

**Chic Brodie:** You have commented on the small business bonus scheme, which has now taken 85,000 small businesses out of paying rates. If even 10 per cent of those businesses had to pay rates—perhaps businesses with two or more employees, which is 17,000 people—and their staff were made redundant, what do you think the impact would be on council tax?

**Stephen Boyd:** I do not accept the premise of your question. I am struggling.

**Chic Brodie:** Okay. Let us go on to—

**Stephen Boyd:** The point that I was making earlier was that if the small business bonus scheme is benefiting small firms to the tune of £1,400 a year, it does not make the difference between whether that firm employs someone or not. If the scheme was removed tomorrow, it would not make the slightest difference to the number of people who are employed. It costs a lot more than £1,400 a year to employ a person.

**Chic Brodie:** Okay.

**Stephen Boyd:** The suggestion that it does so does not contribute to mature debate about the current challenges in the Scottish economy and where we go from here. We really need to move beyond that.

**Chic Brodie:** Let us try a piece of mature debate. We both agree that the council tax freeze is regressive—in fact, one of your major unions stated in its submission to the committee that

“The current council tax freeze limits the power of local government to act.”

Of course, that council tax freeze was agreed democratically with the Convention of Scottish Local Authorities. However, that particular submission goes on to suggest that there be a property-based tax. Do you agree or do you think that there is another means of taxation, such as a local income tax, that can generate more revenue while being more equitable?

**Stephen Boyd:** We have to consider the issue in the context of the wider taxation framework and we strongly believe that a property-based tax can play a role within that. Property-based taxes are hard to avoid, which is crucial at a time when the superwealthy and corporations have been prodigiously successful in avoiding paying their fair share. We want, as a very minimum, substantial council tax reform, but we are also in the early stages of considering other proposals for a fairer property-based local taxation system. In that respect, I welcome the land value tax proposal made by the Greens during the election campaign. It is exactly the type of thing that we should be—and are—looking at, but we have not yet reached an agreed position on it.

**Chic Brodie:** Mr Boyle, do you have any views on the Government's proposed expenditure to ensure that every 16 to 19-year-old has some form of training or education?

**Jim Boyle:** The proposal is most welcome but, again, our key concern is about what happens at the other end. Where are the jobs after that training and that education? I welcome the move to give all young ones education or training opportunities, but to what end? Are we simply going to start recycling young people through the system?

**Chic Brodie:** I have a final question, convener.

**The Convener:** Please make it the final one, Mr Brodie.

**Chic Brodie:** Surely, with regard to small businesses as well as public procurement, the objective is to ensure that some of these 16 to 19-year-olds are employed so that there can be growth. Do you not accept that, if every small business in Scotland took on one person, 40,000 people would be employed?

**Jim Boyle:** I have no idea about that.

**Stuart McMillan (West Scotland) (SNP):** We have already heard about free prescriptions, the council tax freeze and the small business bonus scheme. Do you have any views or opinions on the concessionary travel scheme?

**Stephen Boyd:** Although it has not been a huge issue for us either in this budget or in the recent

past, we support the scheme. As it is making a huge difference to the lives of a lot of people across Scotland, it must be a good thing, but it is tremendously difficult to measure, justify or analyse it in hard economic terms.

**Jim Boyle:** I agree.

**Stuart McMillan:** That is an interesting response. Because it keeps people moving and allows them to travel around the country, the scheme helps tourism. Indeed, I know people who use it for day trips and the like. Moreover, it keeps money in people's pockets, so they can spend it on what they want rather than on what they need. Surely, though, that ties in with the council tax freeze, particularly as it applies to senior citizens. They might have lived in their properties for many years; they might be widows or widowers; their family might have left; and they might well be struggling to pay the bills. However, they still want to live in their houses while they still have their personal independence.

**Stephen Boyd:** On the point that you are trying to make, the fact is that, as an economic stimulus, the council tax freeze is massively inefficient. It just does not work. Has it helped people over the past few years? Of course it has. Some people are paying less council tax, which has helped. However, the economic return from that measure is much less than we could get from spending the money on stimulating the economy directly. Moreover, it is not a justification for making a regressive tax cut and maintaining a taxation regime that needs to be reformed. I know that you agree with me on that.

10:30

**Jim Boyle:** In any taxation system, the criteria should include the ability to pay and the fairness of the contribution back to society.

**Stuart McMillan:** I have a few more quick questions. The STUC submission refers to underemployment. However, in its submission, the Alliance of Sector Skills Councils welcomes the Scottish Government's graduate apprenticeship initiative. As a graduate who, when he left university, did not in the end do what he had been going to do, I know many people who have been in the same situation not just for the past four years but for many years before that. Is the graduate apprenticeship scheme a worthwhile proposal?

**Stephen Boyd:** To be perfectly honest with you, I have not studied that area of the budget. It sounds worth while. However, given the need to make serious inroads into the current problem of underemployment in Scotland—after all, nearly 200,000 people in the country are

underemployed—I imagine that it will be a rather insubstantial measure.

As we say in our written submission, last month we calculated Scotland's full-time employment deficit by looking at the number of people who were unemployed and could be expected to want full-time work; the number of people who were economically inactive but wanted a job and could be expected to want full-time work; and the number of underemployed. The results were quite frightening. The fact is that 468,000 people in Scotland are in that position, and it reflects the failure of economic development policy over the past 30 years. Unfortunately, the problem is not going to be addressed in this Scottish budget—and particularly not at a time when the UK Government is extracting such demand from the UK economy.

**The Convener:** This has to be your final question, Stuart, because the cabinet secretary is waiting outside.

**Stuart McMillan:** It could be suggested, though, that some part-time workers could go full-time and are working part-time through choice.

**Stephen Boyd:** Those people are not included in those figures. These are from the Scottish Government's own robust figures for involuntary part-time employment, not just part-time employment.

**The Convener:** I thank Stephen Boyd and Jim Boyle for their evidence.

10:32

*Meeting suspended.*

10:34

*On resuming—*

**The Convener:** I welcome everyone back to the meeting. We will now hear from the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney. I invite Mr Swinney to introduce his officials and make some opening remarks.

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** Good morning, convener. I am joined by John Mason, director of the Scottish Government's business directorate, and Neal Rafferty, who is from the Government's energy division.

I thank the committee for the opportunity to contribute to this morning's proceedings. The September budget has been shaped by the Government's purpose of creating a more successful country with opportunities for all of

Scotland to flourish through increasing sustainable economic growth. Our focus on delivering that purpose is even more critical given the tough economic and financial times that we face and the reductions in public expenditure that we have to manage.

The Scottish Government has acted decisively to support Scotland's economic recovery and to protect our vital public services at the time when they are needed the most. The spending review confirmed the practical measures and actions that the Government is taking to accelerate growth and strengthen Scotland's economy. We are targeting our efforts at boosting public sector capital investment, improving access to finance, encouraging new private investment, enhancing economic security to support confidence across the Scottish economy, and tackling unemployment.

The Government's economic approach is set out in the spending review document. I point out, for the purposes of this session, that we rely heavily on the enterprise bodies and their role in supporting the Government's purpose of increasing sustainable economic growth. They continue to focus their efforts on supporting growth companies in growth sectors and growth markets with an emphasis on creating a competitive and supportive business environment.

The spending review also confirms the Government's policy to maintain the unparalleled support offered to small businesses through the small business bonus scheme. We are prioritising support for growth and working hard to create the jobs that people need. Our challenge is to ensure that in uncertain economic times the Government acts in every way possible to ensure that its resources have the maximum economic impact. That is the substance of the spending review's approach.

**The Convener:** You have attempted to introduce a new retail levy in this year's budget process. What will be its impact on jobs?

**John Swinney:** Given that it will raise the equivalent of 0.1 per cent of retail turnover in Scotland, my view is that the public health levy that I have proposed in the budget will have no adverse effect on employment in Scotland.

**The Convener:** Has there been any analysis of the retail levy's impact on jobs?

**John Swinney:** Analysis has been undertaken in the formulation of advice to me on how we should go about the levy and the level of revenue that is likely to be achieved as a consequence of the retail changes. Obviously I have considered that advice in concluding that the proposition is affordable and sustainable to those who will be affected by it.

**The Convener:** Is that advice available for scrutiny by the committee and, indeed, the public at large?

**John Swinney:** I guess that the best way of answering that question is simply to point out that I am here to answer your questions on the subject. We are in the process of consulting on what is a draft budget—indeed, that is what it says on the front cover of the document—and this is the opportunity to discuss the propositions in it. I am listening carefully to the representations and points that are being made by a range of different parties and will listen carefully to the points that are made by parliamentary committees.

**The Convener:** The Scottish Government uses several tools to analyse economic impact and the number of jobs that would be created or lost under measures. Yesterday, you announced that a £20 million investment for Oban's north pier in Argyll and Bute would create 1,000 full-time equivalent jobs. You appear to have at your disposal the tools to work out pretty accurately, or at least to make a good estimate of, the impact that various measures will have on jobs. Why can you not find out what impact the retail levy might have on jobs?

**John Swinney:** On the basis of the advice that I have received about the level of retail activity in Scotland, retailers' profitability and the sector's sustainability, I do not consider that the levy will damage employment. The retail sector makes a range of investments in a variety of areas. The possible implications can be considered and assessed, but I reiterate that the public health levy is an affordable and sustainable intervention that will have no negative effect on the Scottish economy.

**The Convener:** As the tools are at your disposal, I ask you to run your numbers through your models, so that you can find out what the impact might be on jobs and the economy, and to publish that information, so that everybody is privy to the advice that you have received.

**John Swinney:** I will certainly consider that. However, as you know, I have decided not to undertake a regulatory impact assessment because, as the effect will be on 0.1 per cent of retail turnover, such an assessment would be disproportionate. I will consider your request in the context of that judgment.

**The Convener:** You have said that the tax, which will collect £110 million over the spending review period, will have negligible or no economic impact.

**John Swinney:** I have said what I have said.

**The Convener:** The spending review document outlines how much you expect to collect in business rates in each of the three years. What

assumptions about business growth have you made in calculating those figures?

**John Swinney:** My assumptions have involved taking estimates that were driven by the Office for Budget Responsibility. The comparative data for business rates in Scotland and business rates in the rest of the United Kingdom show that the estimates that underpin the Scottish Government's approach to estimating non-domestic rates income are broadly comparable to the assumptions that the United Kingdom Government has used.

**The Convener:** For clarity, what are the growth figures for each of the three years?

**John Swinney:** I do not have the figures for the three years in front of me, but I am happy to supply them to the committee.

**Chic Brodie:** Good morning, cabinet secretary. It is a good morning for Dundonians, as we have just heard the news that the £300 million needed for the Victoria and Albert museum to build its iconic building in Dundee has been secured.

Associated with that, I will ask about a higher assessment of expenditure. I want to consider the input from VisitScotland, whose budget will increase from £41 million to £49.1 million next year. Concern has been expressed about VisitScotland's target of a projected 50 per cent growth in tourism, which is to be further explained, if not dropped. How much input did VisitScotland have into the budget? In the representations that we received, surprise was expressed that the increase was so large. Will you expand on the basis of the VisitScotland budget?

10:45

**John Swinney:** The increase in the VisitScotland budget is driven by the need to support events to which we are committed, not least of which are the Ryder cup and the various elements of the homecoming support that are designed to motivate and mobilise tourism activity. That explains what the money is intended to do.

The target of increasing tourism revenues by 50 per cent was formulated in 2006, and the Government remains committed to it. It has not changed. Work is being done with the tourism leadership group to assess the tourism strategy, and the Government will consider what comes from that process, which involves an interplay between VisitScotland and the industry, supported by Scottish Enterprise and Highlands and Islands Enterprise. We will consider the conclusions of the tourism leadership group when they appear.

You asked about the dialogue that takes place with VisitScotland on the budget. There is a lot of dialogue, and propositions are put to the Government by various organisations. Ultimately,

ministers have to decide the size of the budgets that are allocated and published in the spending review document.

**Chic Brodie:** Thank you.

**The Convener:** I will follow up on that question. If I heard you right, you said that the tourism target has not changed and that you continue to work towards it. Last week, the chief executive of VisitScotland told us that the target is unachievable and "will not be achieved." I recollect the word "naive" being used to describe those who thought that it would be achievable. To clarify, are you saying that the target has not changed at all?

**John Swinney:** The target has not changed. In one of your press releases, convener, you asked ministers to

"come clean now and tell us whether the Scottish Government has scrapped the 50% growth target."

I am happy to confirm to you that we have not scrapped it.

Mr Roughead is correct that there have been significant challenges in the tourism industry in the past few years. When the target was formulated, growth in tourism revenues was expected to be 4 per cent year on year across the globe, whereas in fact the performance has been running at an average of -0.7 per cent.

The most recent data show that, in the first half of 2011 compared with the first six months of 2010, there has been a 6 per cent increase in domestic tourism visits to Scotland and a 13 per cent increase in domestic tourism expenditure. The combined figures for domestic and international visitors for the first six months of this year are positive, with a 4 per cent growth in visitor numbers and a 3 per cent increase in spend compared with the same period last year.

My reason for citing the statistics is that, although the target might be a challenge and might not be achievable, Governments should not run around changing their targets at the first sign of trouble.

**The Convener:** I am grateful to you for clearing that up. You disagree with VisitScotland when it says that the target is unachievable.

**John Swinney:** Listen carefully to what I said: I said that Governments should not go around changing their targets at the first sign of trouble. We should continue to have a bold and high ambition for what the tourism industry can generate. If we achieve it, we achieve it; if we do not achieve it, we will have to consider how to strengthen our proposition on tourism.

**Rhoda Grant:** My questions are on capital spend, starting with the move from revenue to capital spending. When we took evidence from



Scottish Enterprise and Highlands and Islands Enterprise last week, they were clear that the targets that have been set for the move from revenue to capital spend are not unusual and that the bodies hope to exceed them, would normally exceed them and have done so in the past. Therefore, there is no actual change in the pattern of spending. Is that the case for all the revenue to capital spending in the budget?

**John Swinney:** The first thing to say is that, before any revenue is converted into capital, a decision-making process has to be undertaken. Resource is not automatically converted into capital. Clearly, converting capital into resource is expressly forbidden, and a decision-making process has to be gone through before we convert any resource into capital. That has to be done on an annual basis.

As part of the spending review, when we allocate the traditional capital—if I can call it that—that we are able to allocate, we determine whether there is sufficient capital investment in our proposals to justify our economic aspirations. As a consequence of that assessment, we might well take a set of decisions to shift revenue into capital. That is the process that is undertaken each year. Such shifts have happened in certain instances before, but they do not happen automatically. We have to have a decision-making process to enable that to take its course.

All the decisions to transfer resource into capital as part of this budget process have been taken given the circumstances that we face with reductions in capital spending.

**Rhoda Grant:** SE and HIE were clear that they would have made such a transfer last year and the year before and that they will not have to cut any of their revenue funding in any department as a result of it—there will be no cuts because the transfer is normal. Despite that, the transfer has been announced as something new and different. Is that the case for budgets other than the enterprise company budgets?

**John Swinney:** The point is that, at any stage, we have to take a decision to convert resource into capital—it does not happen automatically. If, for example, the enterprise budgets had been reduced by £100 million, there would have been no capacity to convert resource into capital. The Government did not take that decision, but it could have. Every year, a set of decisions has to be taken about what we are converting from resource into capital, and that is exactly what has happened this year.

**Rhoda Grant:** When we spoke to the enterprise companies last week, it became apparent that Highlands and Islands Enterprise's budget had fallen quite dramatically in comparison with

Scottish Enterprise's budget over the same period. Off the top of my head, I think there was about a 6 per cent fall for Scottish Enterprise and around a 23 per cent fall for Highlands and Islands Enterprise. They were not able to give us any information as to why there was such a dramatic difference between the two enterprise companies. Scottish Enterprise had not started doing anything that Highlands and Islands Enterprise was not doing. Could you shed some light on that?

**John Swinney:** If I recall correctly, I think that the question that was asked of the enterprise bodies related to 2008. If my memory serves me right—I am pretty certain that I rehearsed this argument with your predecessor committee in the previous session of Parliament—the budget for Highlands and Islands Enterprise had been boosted by a variety of one-off interventions in the period around 2006-07.

**Rhoda Grant:** It was actually for the years after 2008. It was on a running programme—

**John Swinney:** Yes, but that is my point. For the period after 2008, the comparison would be between the figures for 2008-09 and those for 2007-08 and 2006-07. That is where I think you would see the reduction in the budget, because we were taking account of the fact that the HIE budget had previously been inflated by a number of one-off interventions. If we look at the trend budget on core activities for the respective enterprise companies, notwithstanding the structural changes that have been undertaken in the period since this Government was elected, we see that the pattern of change is broadly comparable.

**Rhoda Grant:** Can we have a written note on those one-off interventions?

**John Swinney:** Yes. I am happy to provide that.

**Rhoda Grant:** What work has been done to look at the economic impact of the capital spending that will take place? As a rule of thumb, spending on transport does not have the same knock-on economic benefit as, say, spending on retrofitting houses with insulation. How much work has been done to determine where we will get the best value for the capital spending?

**John Swinney:** Economic analysis will have been undertaken on the relative impact of particular projects. On the basis of what I have seen, I am not sure that I take the same view as Rhoda Grant on transport expenditure, as her comment does not reflect my understanding of the economic analysis.

The judgments that the Government makes about capital investment are driven by a range of factors. In renewables, for example, one factor will be how we can use public sector investment to

leverage significant private sector investment. Essentially, we make the judgment that, if we use public investment effectively, we can open up opportunities for significant private sector investment. A variety of judgments will be made in establishing our choices on which projects and proposals to take forward in either the Government's programmes or those of our enterprise agencies.

**Rhoda Grant:** How much private sector investment do you hope to leverage in during the spending review period?

**John Swinney:** That is a difficult question for me to answer. In the non-profit-distributing model of capital investment, which is part of the Government's capital programme, the figure for the three years of the spending review will probably be about £1.8 billion—the figure for the whole programme is £2.5 billion, but I do not have the exact number in front of me for the spending review.

Beyond that, I hope to encourage significant volumes of private sector investment. I cite the research that Scottish Renewables set out this morning, which makes the point that about £750 million of new renewable energy projects began generating in Scotland in the past 12 months. It is private sector investment that has enabled that. There are some strong examples of investment as a consequence of the Government's policy approaches and the interventions that we make to leverage in further capital investment.

**Patrick Harvie:** Still on the shift from revenue to capital, one of the principal beneficiaries seems to be the additional Forth road bridge. Without reopening our earlier, long-running debates about the need for that project, I wonder whether you have seen the written evidence that we received from the Scottish Building Federation, which states:

"Our preference would be to see the budget for affordable housing safeguarded ... and the schedule for construction of the Forth Replacement Crossing revised".

Do you accept that it has a point about the lower priority that is attached to housing, which has seen substantial cuts for two years in a row? It has a point, does it not?

**John Swinney:** I am afraid that, despite the passage of time, Mr Harvie and I are not finding common ground on the Forth replacement crossing.

**Patrick Harvie:** I do not expect us to—

**John Swinney:** It might be a forlorn hope of mine, but I always live in hope of reaching agreement with Mr Harvie.

**Patrick Harvie:** I wish only to explore whether we can reach common ground on housing and the priority that it deserves.

11:00

**John Swinney:** Before I go on to the housing point, may I make a point about the capital funding for the Forth replacement crossing? It is being afforded in its entirety by the traditional departmental expenditure limit capital that is available to us. No budget transfer is required.

The Government made the decision to establish a number of priorities in our capital programme. One of those would be the Forth replacement crossing; a second would be the south Glasgow hospital development; a third would be the investment in Scottish Water; a fourth would be the schools programme; and a fifth would be the local government capital. Once we had determined those priorities, realising the strategic significance of all those proposals for the Scottish economy, we would then make other capital decisions. The Forth replacement crossing is being supported by traditional capital, although I should say, for completeness, that an element of the financial support is being provided in what is called a pre-payment—an agreement with the Treasury that enables us to pre-pay a sum of money towards that project, which will be deducted in later years.

On the substantive point that the Scottish Building Federation raises about housing, the Government is committed to the completion of 30,000 affordable homes over the course of this parliamentary term and we have a budget to support that. Some of the financial interventions are different. We have ventures such as the national housing trust, which is designed to use a small amount of public sector investment to leverage private investment to construct affordable housing. In the past few years, Mr Neil has been pursuing assiduously the identification of new and different ways in which we can leverage investment into the housing market. The national housing trust is just one example of where that has been successful.

**Patrick Harvie:** Much of that would be defined as affordable housing, however, not social housing.

**John Swinney:** I have said what I have said about affordable housing. I am not quite sure where we would be going with that point.

**Patrick Harvie:** In that case, I wonder whether you could clear up a wee bit of confusion that arose in the chamber last week about the figures in the fuel poverty budget. Am I right in saying that, in 2010-11, the fuel poverty budget was £73 million but that it was cut to £48 million in 2011-

12—the current year—and that, even though it will increase from the current figure, by the end of the spending review it will not have returned to the 2010-11 level but will be some £61.3 million? Will it still be down on last year's budget?

**John Swinney:** Mr Harvie will forgive me if I do not have all the detail that he is looking for in front of me. The fuel poverty line, which is in Mr Neil's budget, sits at £65 million in 2012-13, £65 million in 2013-14 and £66.25 million in 2014-15. That is supplemented by resources in my budget, in the domestic energy efficiency programmes line, which in 2011-12 was £12 million and will rise to £18.75 million, £16.75 million and then £13.75 million. That will support a range of interventions to increase energy efficiency and tackle fuel poverty. Those two lines must be looked at together to give a proper reflection of the issue that Mr Harvie raises.

**Patrick Harvie:** How do you respond to the oral evidence that we heard from Norman Kerr of Energy Action Scotland, who said that, at current spending levels—not just in the current year, but throughout the spending review—we will miss the 2016 deadline for eradicating fuel poverty?

**John Swinney:** Mr Kerr makes his remarks as a well-respected commentator on those questions. In addition to the work that the Government funds, the energy companies fund other activity with which the Government engages significantly to ensure that public and private investment combine to tackle the fuel poverty and energy efficiency issues that Mr Harvie raises.

**Patrick Harvie:** The energy companies' contribution was considered during that evidence-taking session. Norman Kerr was talking about the total amount of spending that goes into fuel poverty and demand reduction. He said that we are certain to miss the 2016 target. Are you certain that we will hit it, given current spending commitments?

**John Swinney:** The Government's aspiration is to achieve that target. It is not entirely within the spending review period to which we are looking forward. I point out to Mr Harvie that we are making a range of interventions to tackle the issue.

**Patrick Harvie:** It does not look likely that we will hit it, though, does it?

**John Swinney:** We are getting back to targets. The Government will focus its efforts and work to leverage greater commitment from the energy companies to ensure that we maximise our efforts to tackle the issue.

**Patrick Harvie:** You explored with the convener some of the issues around the public health levy and business rates. What other forms of revenue

raising were considered when you drew up the budget and the spending review? Do you still expect local government to make greater use of borrowing powers, about which you talked when the spending review was published? Will you set any priorities about what they should be used for? For example, will you prioritise community-owned and publicly owned renewables as an area for investment to generate future revenue?

**John Swinney:** On other forms of revenue raising, I have considered and announced changes to empty property relief. Those are scheduled to take effect in April 2013, subject to the Parliament agreeing to primary legislation on the matter.

On borrowing, I have reshaped the Government's allocation of capital resources to local government to reflect the fact that capital expenditure is under enormous pressure at this stage. After the United Kingdom Government reduced our capital budget by, in essence, £1 billion, I felt that it was appropriate to encourage the parts of the public sector that have the powers and capacity to borrow to do so and that traditional capital expenditure should be allocated to projects in areas in which the Scottish Government does not have the capability to borrow.

Therefore, I have encouraged local government to undertake what prudential borrowing it considers to be prudential. It is a matter for individual local authorities to consider what they are able to do within their financial circumstances. I cannot and will not specify that to them or oblige them to borrow, but I will encourage them to do so.

**Patrick Harvie:** There could be greater public benefit from participation in a project that had the Scottish Government's additional support. A national investment programme in publicly owned renewables, using public land and public buildings to generate energy as well as revenue, could be transformational. It would be more likely to take place with pace if it had the Scottish Government's backing.

**John Swinney:** We would certainly encourage that. We engage with local authorities regularly on a host of different questions. However, when it comes to the sharp point of judging whether a local authority should borrow to invest in such a proposition, that can be a decision only for the local authority, based on its existing levels of borrowing, its financial strength and whether it is able to support that borrowing appropriately.

**Stuart McMillan:** We have heard about the retail levy and we have touched on empty property relief. We have received evidence from a host of organisations, one of which was the Federation of Small Businesses, which said,

"We also cautiously welcome moves to amend empty property relief",

and asked for

"Some form of impact assessment for this proposal".

Would you agree to that, or have you considered and rejected that proposal?

**John Swinney:** The changes that we are making are at such a level that I do not consider that a regulatory impact assessment is required. We are in a period of consultation on the question of empty property relief and the changes that the Government is proposing to make, so I will listen to the representations that are made to me. I will shortly be seeing the Scottish Property Federation, which has made representations to me on the issue.

**Stuart McMillan:** My second question follows one that Patrick Harvie asked earlier. He quoted the Scottish Building Federation on housing and investment in housing, saying what we would expect the Scottish Building Federation to say about that.

Conversely, although the Scottish Chambers of Commerce's submission recognises that investment should be made in housing projects, its priority is for investment in transport projects. How do you decide which area or initiative to put money into? What is the rationale behind choosing transport over housing, for example?

**John Swinney:** At the beginning of my evidence I set out what we are working to do. We base our judgments on the relationship between priorities and the Government's purpose of increasing sustainable economic growth with opportunities for all to flourish. That requires us to go through a process of assessment and evaluation of a range of different capital projects and we make judgments accordingly.

Our decisions are informed by the careful planning that is undertaken in the formulation of, for example, documents such as the infrastructure investment plan, which was last published in 2008 and which, if my memory serves me right, has a 10-year perspective. That document will be refreshed later this year by the cabinet secretary for Infrastructure and Capital Investment and it will inform our decision making.

Ultimately we will base operational investment decisions on the readiness of particular projects to take their course. We would have liked to have been able to take earlier decisions on the Aberdeen western peripheral route but it is taking some time to leave the courts—that is how I would characterise the current debate on that. Clearly the Government cannot start a project that is still in the courts, however much we would like to do so.

We are looking for projects that will make a significant economic impact and I think that we have arrived at a balanced programme that takes into account the need to ensure that Scotland is equipped with 21st century infrastructure, and which ensures that our decisions effectively boost the capital contribution that can be made to the development of the Scottish economy.

**Stuart McMillan:** The Scottish Chambers of Commerce's submission highlights a point about business rates:

"the Scottish Government are predicting that they will be receiving £482 million more in business rates than they receive today".

However, according to the Scottish Chambers of Commerce,

"only £335 million of this can be accounted for by inflation and the revenues generated by the reduction in Empty Property Relief and the introduction of the Public Health Levy."

The SCC suggests that

"£147 million ... can be accounted for by economic growth or variations on appeals expectations."

The growth figures that have been published are not what they would have been some three, four or five years ago. Is the predicted additional £482 million a fair target? Is the SCC's suggestion that £147 million will be a tough target to meet a fair assumption?

11:15

**John Swinney:** The difference between the non-domestic rates collected in 2011-12 and the amount that is projected to be collected in the spending review document is essentially accounted for by four things. First, there is the impact of matching the English poundage rate for business rates, which is tied to the September assessment of retail price index inflation. Secondly, there are the changes that come from the empty property relief that I have announced and commented on. Thirdly, there is the public health levy and, fourthly, the impact of changes in levels of economic activity and changes to the outcomes of appeals.

At some stages during the evaluation cycle we will suffer appeal losses, which must be taken into account—that all goes into the assessment. As I said to the convener in an earlier answer, the figures are founded on the assessment of likely growth in economic activity in Scotland, and I consider them to be robust estimates of the likely revenue that will be raised.

**Angus MacDonald (Falkirk East) (SNP):** At the start of the evidence session the cabinet secretary mentioned the successful tax increment financing bid for the pier development in Oban. It

would be remiss of me this morning not to thank him and his colleague the Cabinet Secretary for Infrastructure and Capital Investment for the announcement yesterday that approved the Falkirk TIF bid, which has the potential to attract £528 million of investment and 6,000 full-time equivalent jobs locally and nationally. I have discussed the bid's success with senior officers at Falkirk Council, and they are immensely grateful, so I thought that I would put that on the record—and I clearly got away with it.

**The Convener:** I would like a question from Mr MacDonald, please.

**Angus MacDonald:** Is it the Government's intention to use TIF as a lever in future to increase capital spend on infrastructure?

A pipeline of projects will be brought forward under the NPD model—which is mentioned in the budget document, and which the cabinet secretary has mentioned today—to the tune of £2.5 billion. Is it possible for the cabinet secretary to provide details of the pipeline to show how much is firmly committed with funding in place?

**John Swinney:** First, I welcome Mr MacDonald's point about the TIF bid in Falkirk. I understand that Alex Neil is appearing before the committee after me, so round 2 of that particular tribute may be yet to come. I am sure that Mr Neil will feel mightily aggrieved if he does not get the compliment while I did. I will leave it to the convener's discretion as to whether that happens or not.

There can be only a limited number of TIF schemes—we cannot have them everywhere, because that would begin to undermine the non-domestic rates estimates that must be arrived at fairly. However, such schemes offer an opportunity to use revenues to encourage capital investment and a number of substantial decisions have been taken.

The spending review document contains a fair amount of information on the projects in the NPD pipeline. It is a five-year programme, so obviously all the projects are at a different stage of development. I am happy that we are making good progress with the NPD projects—notwithstanding the difficulties that I have mentioned in relation to the Aberdeen western peripheral route, which is one of the NPD projects. However, we cannot make much progress with that until we have clearance from the courts.

If committee members want information on specific points relating to the NPD programme, I will be happy to discuss them. However, the budget document sets out a range of interventions, such as improvement of the M8; the Aberdeen western peripheral route; the Royal hospital for sick children in Edinburgh; the

Dumfries and Galloway royal infirmary; acute mental health services in Ayrshire and Arran, and the North Ayrshire community hospital. There are also college developments in Kilmarnock, Glasgow and Inverness; as well as a variety of school propositions around the country. All those projects are at a different stage of development, but I can confirm to Mr MacDonald that the Government is actively taking them forward—in consultation with our local authority partners in certain circumstances, and with the Scottish Futures Trust in all circumstances.

**Angus MacDonald:** It would be helpful to have details on how much private sector investment has been procured by the SFT. What is the projected figure to take us up to 2015?

**John Swinney:** The information that I have already given perhaps answers any questions about our expectations relating to resources to be generated from the private sector—given that we have a £2.5 billion capital programme. If the member wants further information that could be made available, either I or Mr Neil would be happy to consider that.

**Anne McTaggart (Glasgow) (Lab):** Good morning, cabinet secretary.

**John Swinney:** Good morning.

**Anne McTaggart:** The Scottish Government is reducing support to the third sector—after a 25 per cent cut in the previous year. Do you accept that third sector intervention is especially relevant in deprived communities, and that it is a good example of preventative spending? The challenge funding for reoffending is a positive example, but what more could be done to support preventative spending in this sector?

**John Swinney:** I am at a bit of a loss to understand the point about a 25 per cent cut in the third sector budget. That is most definitely not the case. I will read figures from the third sector budget line to committee members. It has gone from £15.1 million in 2007-08, to £19.2 million, to £22.6 million, to £20.8 million, and then back up to £24 million. It is projected to be £23.5 million in the budget. Nothing there shows a 25 per cent reduction last year, so I do not follow the point at all. The budget for 2012-13 is £23.5 million, compared with a £24 million budget for 2011-12—but it is still significantly higher than the budget in 2008-09, before we started to face financial constraints in public expenditure. I do not accept that the Government has shown a lack of support for third sector opportunities.

I accept Ms McTaggart's point about the importance of the third sector in tackling issues in areas of deprivation. I frequently visit third sector projects around the country. During the October recess I visited an excellent project in Aberdeen,

run by the Aberdeen Foyer, which deals with individuals whose lives have been undermined by drug and alcohol addiction. The steps being taken to support those individuals back into the labour market were absolutely magnificent and a product of the operational style of the third sector, if I can put it that way. It is an excellent example.

The reducing reoffending fund that Ms McTaggart referred to is entirely a product of a case being presented to the justice secretary and me by the third sector. The justice secretary and I, following propositions put to us by the third sector, considered that there was an opportunity to intervene to tackle reoffending and we identified resources which, although modest, I concede, will give us an opportunity to deploy interventions in order to try to tackle those issues. I think that there is a good opportunity there to do that.

**John Wilson:** The STUC and the Poverty Alliance gave evidence earlier. The STUC was particularly critical of the use of the small business bonus scheme and freezing the council tax. They asked whether the money allocated to providing these initiatives could be used better. STUC indicated that it may have been better use of resources if the money had been put into the Scottish Investment Bank, or into broadband infrastructure. Has the cabinet secretary or his team done any economic impact assessment into the value of the small business bonus scheme or the council tax freeze?

**John Swinney:** Clearly, the impact of the small business bonus scheme has registered with the communities of Scotland. I have been struck, in my dialogue with individual small businesses and with the Federation of Small Businesses, by just how valuable the small business bonus scheme has been at a time of acute economic difficulty. The statistics published last week demonstrate that 85,200 properties in Scotland in 2011-12 either had their business rate burden reduced or removed, which represents two in every five commercial properties in Scotland.

The small business bonus scheme was envisaged as providing a competitive advantage in 2008, when it was introduced. I suspect that it has given a lifeline in the period since 2008 and the ability of small businesses to withstand some of the economic challenges has been assisted by the effectiveness of the small business bonus scheme.

The freeze in the council tax has been put in place firstly, to tackle the spiralling increase in council tax under our predecessors, and also to recognise that household income is currently, as a consequence of the challenges that we face, under significant pressure, particularly for those in public sector employment experiencing a freeze in their salaries. In both respects, these two

interventions have been essential in supporting families and businesses at a time of acute economic pressure.

**John Wilson:** I thank the cabinet secretary for his response, which leads nicely into my second question. He made reference to the pay freeze for public sector workers in relation to decisions made by the Government and local authorities. Will he indicate what impact his budget will have on those on the lowest incomes and those living in poverty? We see many of the changes being proposed from Westminster, in particular the welfare reforms, having a major impact. Also in the previous evidence session we heard that a cut of about £2 billion in the incomes of households in Scotland is expected from those proposed welfare reforms. Will the cabinet secretary's budget usefully offset some of those cuts? There are serious challenges ahead for household incomes.

11:30

**John Swinney:** Our approach to public sector pay has involved protecting those on lower incomes whom we employ. In the life of the Government, we have consistently done what we could to tackle low pay in the areas of public sector employment that we control. The council tax freeze has a proportionately greater impact on those who have low incomes than it does on those who have higher incomes. Those are substantial elements of the assistance that we can put in place. Many of the Government's other interventions—such as third sector support, our encouragement for social enterprise and the resources that we make available to sustain and encourage the development of local authority or health services around Scotland—assist our citizens' welfare.

I have deep concerns about the direction of travel on welfare reform, particularly in relation to housing benefit and council tax benefit. That could have a damaging impact on many vulnerable individuals. Council tax benefit is supposed to be abolished on 1 April 2013. I cannot sit in front of the committee today and say that I feel confident about the arrangements that will follow, because we still search for some of the essential detail to enable us to deal with that. The questions that Mr Wilson asked contain significant issues.

**The Convener:** I will ask the final questions, as another cabinet secretary is waiting in the wings.

Your view is that the retail levy and the empty property relief changes—on which Mr McMillan made a point—are insignificant measures, so no business and regulatory impact assessments are required. Do you acknowledge that the Government has produced business and regulatory impact assessments for a number of

regulations that had less economic impact than either of those measures would have?

**John Swinney:** The point of judgment is on whether the issues in the proposition are of the significance that merits a regulatory impact assessment. The regulatory review group's response to the Scottish Retail Consortium's request for an assessment makes it clear—as does the guidance—that the decision on whether to undertake a business and regulatory impact assessment rests with the relevant cabinet secretary or minister. That strikes me as the appropriate statement of our ability and right to take decisions when we consider that the impact does not merit undertaking an assessment.

**The Convener:** You are comfortable that regulations with less economic impact have had such assessments.

**John Swinney:** I am comfortable that I have made a judgment on the question about the public health levy and I am confident that I have reached the correct judgment.

**The Convener:** Is consistency important?

**John Swinney:** Consistency is always paramount.

**The Convener:** I thank the cabinet secretary for his evidence.

11:34

*Meeting suspended.*

11:37

*On resuming—*

**The Convener:** I welcome everyone back. We have our third and final panel, which includes Alex Neil, the Cabinet Secretary for Infrastructure and Capital Investment. Would you like to make an opening statement?

**The Cabinet Secretary for Infrastructure and Capital Investment (Alex Neil):** I will make a short statement, convener.

First, I thank the committee for the invitation. As you know, I also report to the Infrastructure and Capital Investment Committee, which is chaired by Maureen Watt. I will cover the whole of my budget in that committee next week, but I am delighted to come and cover the relevant parts of it with this committee, the predecessor of which I convened on two occasions at least.

The Scottish Government remains committed to tackling fuel poverty as well as to achieving our ambitious target of cutting carbon emissions by 42 per cent by 2020. For that reason, we have increased funding for fuel poverty and energy

efficiency programmes to £65 million in 2012-13, rising to £66.25 million by the end of the spending review period. In addition, we will provide £50 million during the parliamentary session to support energy efficiency and renewables measures to help the communities that are worst affected by fuel poverty. The dramatic increases in fuel prices that were announced this summer could push—up from the current level of 770,000—another 170,000 households in Scotland into fuel poverty.

Those rises and the planned changes to the obligations that are placed upon energy companies that are being implemented under the UK Energy Act 2011 mean that we are instigating a review of our fuel poverty strategy to ensure that we are best able to assist fuel-poor households in Scotland. The review will be undertaken with the Scottish fuel poverty forum, and there will be three strands to it: a review of the nature of fuel poverty and its drivers; future options for our fuel poverty programmes; and how to lever in the maximum external funds as well as an examination of engagement on reserved matters. We will report to Parliament early next year with a statement of policy and action resulting from the review.

I am happy to take questions, convener.

**The Convener:** Thank you cabinet secretary. Patrick Harvie is looking extremely enthusiastic about asking you questions.

**Patrick Harvie:** Thank you convener. I am always enthusiastic about this topic. We all accept that factors outwith the Scottish Government's control impact profoundly on the extent and depth of the fuel poverty that many people are experiencing, and that that will continue. Regardless of the balance between factors within and outwith the Scottish Government's control, does the cabinet secretary agree with the oral evidence that we heard from Norman Kerr of Energy Action Scotland that, if we keep going as we are, we will certainly miss the 2016 target for eradicating fuel poverty?

**Alex Neil:** Patrick Harvie is referring to the three key influences on fuel poverty: income, prices and the condition of housing. The only one over which we have direct control is the condition of housing and, where we can, we assist those who are most vulnerable because of their income. We do not set the level of income because that is primarily done through the tax and benefits system and energy prices are set by the energy companies. However, it would be useful for the committee to note that, for every 5 per cent increase in energy prices, there is a 2 per cent increase in the number of households in Scotland in fuel poverty. So, for every 5 per cent increase in energy prices, an additional 46,000 houses in Scotland fall into fuel poverty.

In their evidence to the committee and on other platforms, Norman Kerr and Energy Action Scotland have said that in order effectively to tackle fuel poverty, we need to spend something of the order of £170 million. I know that, in the light of the recent energy price increases, Norrie has said that they might need to review that figure upwards to nearer £200 million.

The total direct spend on fuel poverty programmes in Scotland is actually not that far short of £170 million. About £100 million is being spent under the carbon emissions reduction target programme by the energy companies on various measures—primarily insulation. This year, although the budget was £48 million, we added £6.5 million to the expenditure plan, so we will spend £54.5 million on the programmes that come under my jurisdiction. Also, as he has already said to you this morning, Mr Swinney will spend an additional £18 million on energy efficiency and advisory measures in his budget. When you add all that up, we are not all that far short of the £170 million. The issue is really about the outcome from the money that is spent. There is also an issue around transparency about how much CERT money is spent, when it is spent and on what it is spent.

**Patrick Harvie:** I do not want to misrepresent Norrie Kerr, so I will certainly check the *Official Report*, but I am relatively sure that when he was talking about those aspirations for the required level of spend, he was talking about public money and not the CERT money from the power companies.

**Alex Neil:** I think that I have his quotations here, but our impression was that he was talking about the total budget. We would have to clarify that.

**Patrick Harvie:** We will clarify that with him.

**Alex Neil:** To be fair, I do not think that he made it clear one way or the other.

**Patrick Harvie:** We will clarify that.

I turn to some of the figures that you mentioned in last week's debate in the chamber. At one point during an intervention, you were asked how the budget for fuel poverty at the end of the spending review would compare with the budget for last year. I wondered whether you misheard the question or made a slip of the tongue because you said that it would be a 35 per cent increase on last year's budget. Last year's budget was a high point, and it has been cut for this year. In the budget that we are debating for next year there is an increase, but it does not get back to the high point. At no point in the spending review period does the figure return to the high point. Could you clarify the facts? The increase that is being proposed for next year in the budget that we are debating at the moment and the spending review

does not return us to the high point of the fuel poverty budget.

11:45

**Alex Neil:** What I said to Lewis Macdonald was that if we take this year as a baseline and compare it with where we intend to be at the end of the spending review, there will be a 35 per cent increase. I also pointed out that if we compare the spend on the central heating programme at the end of the spending review with the spend that we inherited, there will be a difference of 40 per cent. If we take all the fuel poverty programmes that the previous Administration spent money on in its final year and compare that with all the fuel poverty programmes that we will deliver by the end of the spending review, there is a 26 per cent difference.

Compared with this year, last year was a peak year. Two things have happened since then. The first is the more obvious: our capital spending budget from Westminster has been slashed enormously, which obviously has a knock-on effect, although, unlike south of the border, we have not slashed the fuel poverty budget to ribbons. We are maintaining our fuel poverty programmes.

The second point is that we had three major programmes last year—the energy assistance programme, the insulation programme, which Mr Patrick was instrumental in negotiating with Mr Swinney in the budget negotiations two years ago, and the universal home insulation scheme. I think that Mr Harvie expressed dissatisfaction with the way in which the insulation programme was working. In our view, the UHIS has been much more effective than the insulation programme. I know that the terms are confusing, but I am sure that Mr Harvie is well aware of the two programmes that I am talking about.

The reduction in the budget is driven by a combination of the cuts in capital spending and the emphasis on putting money into the programmes that work; the primary driver is the cuts.

**Patrick Harvie:** I appreciate that the value of the universal approach has finally been understood. It took us a few years to get there, but it is appreciated that that has happened.

Thank you for clarifying the figures. It appears from the *Official Report* from last week that you were talking about a 35 per cent increase from the 2010-11 budget, but it is clear that that is not, in fact, the case.

I have questions on the review of fuel poverty. First, what—in conducting the review—is the relationship between the Government, in terms of making policy, and the fuel poverty forum, in which the external organisations are in the driving seat?



Do they have a degree of independence from Government? For example, are they provided with an independent secretariat and other resources, or do they depend on the Government and the civil service to facilitate the review? If the review comes up with a proposal to redefine people out of fuel poverty, will that not simply be seen as an attempt to massage the figures?

**Alex Neil:** The way in which the energy assistance programme is configured—it is by far our largest fuel poverty programme—was a result of recommendations in the previous review of policy by the fuel poverty forum. When it reported on its review three or four years ago, we endorsed all the recommendations. The Government's role is to make policy decisions. The role of the independent fuel poverty forum is to advise us on what it believes should be done.

I had a meeting with the reconvened fuel poverty forum last week, including its new chairman, David Sigsworth, and its vice-chair, Norrie Kerr. I am delighted that those two people have accepted those appointments. I made it clear that, first, we want the forum to be an independent body that does not take its steer from the Government. We want quite the opposite—we would like the steer to Government to come from the forum. Secondly, I want to ensure that communications between the forum and me, as the responsible minister, are open, honest and regular. We have taken steps to ensure that that is the case.

Thirdly, we see the forum as being in the driving seat of the review; but there is a division of opinion within the forum over whether it should do the entire review itself and then report to us, or whether it should work with us on the review. We are trying to ensure that there is a proper *modus operandi* that does not undermine the independence of the forum and its ability to make recommendations that are not necessarily in line with the current policy of the Scottish Government. There would be no point in having a forum if we were to gag it—that is the last thing we want to do.

One person from the forum raised the issue of an independent secretariat that would be separate from the present civil service secretariat. I said that I would listen to any recommendations from the forum. However, the forum did not reach a conclusion on the issue. There were two opinions: some people favour an independent secretariat; others prefer the status quo. The forum will have to reach a position on whether it wants us to provide a secretariat from the civil service, or whether it wants us to fund an independent secretariat. Obviously, we will consider whichever view it comes back to us with.

**Patrick Harvie:** I also asked about the proposal to redefine people out of fuel poverty.

**Alex Neil:** That was a very good point. As you know, the Hills committee is reviewing the definition in England, and has issued an interim report that suggests a redefinition south of the border. Its final report will not come out until January.

As part of the review, I have asked the forum to give us its view on whether there is a need to change the definition in Scotland. However, I would be very cautious about changing any definition, because I would not want the Scottish Government to be perceived as moving the goalposts. At the end of the day, fuel poverty is fuel poverty. Although we need to be clear about the definitions, and perhaps wealth as well as income could be incorporated—there is certainly an argument for doing so—I do not want us to get into a position where the main debate on fuel poverty in Scotland is about an accusation that the Government has moved the goalposts, because that is certainly not our intention.

**Patrick Harvie:** That was remarkably helpful. Thank you.

**The Convener:** Thank you, Mr Patrick.

**Stuart McMillan:** Good morning, cabinet secretary. I have a couple of questions on regeneration. Since 2008, the Scottish Government has provided more than £90 million of funds to the urban regeneration companies. In the budget document, the URC line seems to have been removed; I think that the money has gone into the housing line.

**Alex Neil:** I am happy to answer such questions, but I had thought that this was a session on fuel poverty. That was our understanding.

**The Convener:** The session is broadly on fuel poverty, but if you are happy to take the occasional question on something else, we will be happy to hear the answer.

**Alex Neil:** I will take such questions, but our understanding was that this was a session on fuel poverty.

**The Convener:** If you prefer not to deal with other questions, that is okay.

**Alex Neil:** As long as the committee understands what our understanding was. On other issues, I might not be able to give totally up-to-date figures.

**The Convener:** Are you content to answer some questions?

**Alex Neil:** I am content to field the questions.

**The Convener:** Thank you.

**Stuart McMillan:** On page 17 of the budget document, one of the bullet points says that a key priority is to develop

“a Regeneration Strategy that will support our most disadvantaged communities to become socially, economically and physically sustainable”.

What will the Scottish Government do over the next couple of years, for the URCs and for the overall regeneration strategy, to help the most disadvantaged communities?

**Alex Neil:** We have six URCs; I can run through them. Obviously, each has a different strategy that is tailored to its community. We can consider Raploch Urban Regeneration Company. Sadly, with the passing of Campbell Christie, we have lost the serving chair of Raploch URC, which will be a huge loss—not only to Raploch but to the entire URC agenda. Campbell made a huge contribution in influencing policy right across the board.

Raploch Urban Regeneration Company is very much housing driven—not exclusively so, but more than the other five URCs. PARC Craigmillar has moved on and, in effect, it is now within the aegis of the City of Edinburgh Council. A community development trust has been established in Craigmillar and it is beginning to take over the URC's long-term role in conjunction with the council. Community development trusts can raise money that councils cannot get, most notably lottery money.

Of the other four URCs, Clyde Gateway is by far the biggest in terms of budgets, first because of the challenge that it faces and secondly because of its important role in preparing for the Commonwealth games and ensuring that the east end of Glasgow has a regeneration legacy from the money that is being spent on the games.

Riverside Inverclyde has a much more sectorally driven strategy and Clydebank Re-built is completing its contractual arrangements with Scottish Enterprise, which I have inherited as the responsible minister. We have confirmed to Clydebank Re-built that the final phase of its building programme for new industrial units will be funded to the tune of about £0.5 million. Thereafter, it is not requesting any core funding for next year. I understand that West Dunbartonshire Council, within whose area Clydebank falls, is to carry out a review of regeneration activity in its area, including delivery mechanisms. Strathleven Regeneration CIC, which is not a URC, is within the remit and responsibilities of the local council. Irvine Bay Urban Regeneration Company also tends to do more non-housing, place-type development rather than sectorally driven development.

We are in discussions with the URCs and will soon announce their budgets for the forthcoming period. It has to be said that some have been happier than others with the discussions so far. We intend to publish our overall regeneration strategy before Christmas.

**Stuart McMillan:** I would be happy to meet you privately to discuss the overall strategy. You will be aware of the issues that I have raised in the Parliament over the past four years or so, particularly on Riverside Inverclyde.

**Alex Neil:** Absolutely. I am more than happy to meet any member who represents a URC area to explain what we are trying to do.

**Stuart McMillan:** My second area of questioning is fuel poverty. The fuel poverty advisory group in England has suggested that for every £1 that is spent on tackling fuel poverty, the NHS saves 42p. I am keen to know to what extent the thinking on preventative spend is influencing the fuel poverty budget.

**Alex Neil:** On that calculation, we have been trying for some time to establish the methodology that was employed and how the group reached that conclusion, but so far we have not been able to bottom out that particular figure. Nevertheless, we accept the general point that spending money on tackling fuel poverty, and particularly on helping the more vulnerable sections of our society, which the definition is intended to allow, has a positive impact as a preventative spending measure.

A child who is growing up in a cold or damp house will not perform nearly as well at school as he or she would do if they lived in a warm home. Similarly, if a disabled person or an elderly person is living in a house that is not fit for purpose in terms of heating and insulation, that will have an adverse impact on their health and their general wellbeing. We absolutely accept that investment in fuel poverty measures of the kind that we are taking is essential if we are to improve the nation's health, employment levels, environment and educational attainment. Measures to tackle fuel poverty have a positive impact across a broad range of policies.

12:00

**Stuart McMillan:** When you manage to understand the statistic fully, or to clarify the situation, will you provide information to the committee and the Parliament?

**Alex Neil:** I would be more than happy to do that. Because we have not been able to substantiate the relationship, I have talked to my officials about whether we could do our own exercise as part of the impact assessment on our fuel poverty programmes, and consider the impact

not only on health spend but on health outcomes, which is the more important measure. We could also consider educational outcomes, employment outcomes and environmental outcomes. On that last point, it will be important to ensure—we have taken steps to do so—that our fuel poverty programmes are aligned with our climate change programme, so that they work in unison and do not in any way undermine or contradict each other.

**Rhoda Grant:** You talked about the CERT programme and gave the figure of £107 million. Do you know how much of that is directed at people who are in fuel poverty?

**Alex Neil:** By definition, all of it should be directed towards people who are in fuel poverty, because we are tailoring our programmes. Let me give you an example. The boiler scrappage scheme—

**Rhoda Grant:** I was asking about the CERT programme.

**Alex Neil:** I am sorry. The CERT programme is primarily aimed at houses that have low levels of insulation and are therefore not as warm as they should be. It is not as exclusive or as focused in its targeting as our programmes are.

In appearances before your predecessor committee, I made this point repeatedly: there is a real lack of transparency in CERT spend in Scotland and the rest of the UK. We do not receive figures on how much has been spent, where it has been spent, on what and by whom. It is therefore difficult for us to be precise about the CERT spend. I have discussed with Chris Huhne, the UK Secretary of State for Energy and Climate Change, the introduction—now that the Energy Bill has become an act, as of last week—of the replacement for CERT, which is the energy company obligation. We need to ensure full transparency so that we can be sure that the energy companies are spending the money they say they are spending, that they are spending the right level of money, that they are spending it in the right areas, and that they are spending it on the right measures. At the moment, I cannot with any confidence guarantee that that has been happening under CERT, because I do not have the information.

**Rhoda Grant:** If you get any information on that, the committee would be really interested to hear it.

**Alex Neil:** I would be happy to share any information with the committee.

**Rhoda Grant:** I want now to consider the fuel poverty moneys in the energy budget about which John Swinney talked to us earlier—the £18.7 million. Having read the level 4 documentation, I am clear that it refers to energy

efficiency advice for all householders, and not only for those in fuel poverty. Would it be possible to receive a breakdown of how much of that £18.7 million is directed towards fuel poverty? Obviously, some of it will go towards assisting in carbon reduction and energy efficiency.

**Alex Neil:** I can give you the five services it provides; and then, in writing, we can give you the exact amounts that are being spent on each service this year.

**Rhoda Grant:** That would be helpful.

**Alex Neil:** John Swinney's £18.7 million supports five services. First, there is funding for the Energy Saving Trust for the advice network. Secondly, there is the delivery of loan schemes to assist the roll out of the green deal. Thirdly, there is support for the energy performance certificate registers. Fourthly, there is support for accreditation to allow the green deal to be delivered in Scotland and fifthly, there is support for domestic energy efficiency programmes, to contribute to the energy efficiency targets. Those are the main programmes to be delivered, although there will also be two lower levels of activity. I am sure that John Swinney will be more than happy for us to supply you with the spend on those subheadings.

**Rhoda Grant:** Okay. Say half of that money goes to people in fuel poverty. Would that be a reasonable estimate?

**Alex Neil:** That would certainly help, but I would not like to put a precise figure on it. I do not think that I could justify doing so because of the division of responsibility between John Swinney's department and mine. He is the cabinet secretary who covers energy, and Mr Ewing is the minister who covers energy. Their emphasis is on developing energy as an industry and on being part of the cross-Government team to support measures to reduce carbon emissions. Fuel poverty is very much focused in my activities. Their measures will have a beneficial impact on fuel poverty, but they are not primarily motivated by the fuel poverty measures because they come under my bailiwick.

**Rhoda Grant:** I suppose that you know what we are driving at. We are trying to find out how far short we are of what we are told we require to spend on fuel poverty in order to meet the target. My reading of the budget for the coming year is that less than £60 million of Government spend will be targeted directly at tackling fuel poverty.

**Alex Neil:** The figure will be £54.5 million this year, and next year it will rise to £65 million. By the end of the spending review period it will be £66.4 million. That is against a background of the huge cuts in our capital budget that have been imposed by Alistair Darling and George Osborne and a

background in which the programmes south of the border are, in effect, being eliminated.

**Rhoda Grant:** But you understand that John Swinney said that part of his budget is used to tackle fuel poverty as well. We are just trying to drill down to get the figures on how much is being spent on tackling fuel poverty.

**Alex Neil:** Over the next three years—the period of the spending review—a total of £196 million will be spent. That is my budget and, as I outlined to you, spending will reach £66.4 million by the end of the third year. On top of that, we have the £50 million warm homes fund, which is being funded as part of the £250 million savings from the Forth crossing project, and on top of that we will have whatever contribution comes from John Swinney's £12 million this year, £18.75 million next year, £16.75 million the following year and £13.75 million the year after that. I am sure that that spending will contribute to tackling fuel poverty, but it is not targeted at that per se.

The warm homes fund—the £50 million during the current parliamentary session, £30 million of which will be spent in the spending review period—and the £190-odd million budget that I outlined for the programmes are the budgets that are very targeted at tackling fuel poverty.

**Rhoda Grant:** So £30 million of your warm homes money will be targeted at tackling fuel poverty.

**Alex Neil:** The budget is of the order of £30 million over the spending review period.

**Rhoda Grant:** It is slightly less than £10 million a year.

**Alex Neil:** On average.

**Rachel Gwyon (Scottish Government):** The chair of the fuel poverty forum has been in discussions with us about the information that he would like to receive from the public sector as part of the review. He has asked us to help him to support the forum's work on the issue by providing information on where the various sources of money are from the NHS, councils and other parts of the public sector that contribute to tackling fuel poverty. That is broadly the question that you are helping us to explore today. Part of the work that we will try to do with the forum is to find information on the money that is outside the immediate budget that is under our microscope.

**Alex Neil:** Returning to the warm homes fund, to be precise, the level 4 splits in the budget paper show that the warm homes fund will be £3.25 million next year, £7.75 million in the second year and £18.75 million in the third year. That comes to just under £30 million cumulatively over the three years.

**Rhoda Grant:** And that fund is directed at those in fuel poverty.

**Alex Neil:** Yes. It is a fuel poverty measure. That is why we are doing it. It is specifically directed at reducing fuel poverty in Scotland.

**Rhoda Grant:** Thank you.

**The Convener:** Cabinet secretary, you talked about being precise about the warm homes fund. Can you explain to the committee what the warm homes fund will do that your current fuel poverty measures do not do?

**Alex Neil:** We cannot be absolutely precise, because we are in the process of designing the warm homes fund. When we publicly announced the fund, our mission statement was that we would deliver energy efficiency, district heating and other measures for the fuel poor.

**The Convener:** If the fund is not doing anything that is hugely different from the current schemes, would you not be better simply to put more money into the current schemes, as opposed to setting up a new pot?

**Alex Neil:** We are ensuring that we earmark funds to carry out the necessary additional projects. All the fuel poverty programmes are now much more integrated in their budgets and in how they are delivered. For example, we have only one national helpline—0800 512012—for home energy advice. There used to be three or four helplines, and probably more. Now, wherever someone is in Scotland, they can phone that number for advice on benefits, on tariffs, on central heating, on insulation, and so on. I would not be too fussed about where the money comes from; the important point is the co-ordinated delivery of the programmes.

Yesterday, I met a delegation from the Shetland isles, where the delivery of not only our programmes but the power company programmes and the local authority's work is probably the most integrated in Scotland. In Shetland, a one-stop shop approach is taken to the delivery of all those programmes—whoever funds them, from whatever budget.

One thing that I would like to come out of the review would be a recommendation that we take much more of a one-stop shop approach at local level, so that people know exactly where to go. Folk are not fussed which programme it is; they just want to know that their house will be insulated, that they have maximum energy efficiency, that the tariffs that they pay are as low as possible, and that they maximise their access to benefits. The more that we can assure that the delivery mechanism is integrated and co-ordinated throughout the country, the better.

**The Convener:** Do you accept that it is difficult for the committee to assess the effectiveness of the warm homes fund if you cannot tell us what it will do?

**Alex Neil:** I do not think that it will be difficult for the committee. When we have designed the programme, I will come to the committee with the details—included in which will be our anticipated and planned outcomes.

**The Convener:** You know that we have to report to the Finance Committee by the middle of November.

**Alex Neil:** Yes.

**The Convener:** Will you get stuff to us before that?

**Alex Neil:** I doubt it. We have to consider the implications of the consultation that has still to be published on the green deal and ECO. We do not want to duplicate what is being done elsewhere. I received the latest letter from Chris Huhne only yesterday, and a number of questions on what his department is prepared to fund—for example, under ECO—are still unanswered. Once we know where the gaps are, we will be in a better position to identify the priorities for the warm homes fund.

**Chic Brodie:** Good afternoon, cabinet secretary, and good afternoon, Ms Gwyon.

I have one general question about engagement. As you pointed out, cabinet secretary, the three main elements that impact on fuel poverty are incomes, prices and energy efficiency. How engaged do you feel that the fuel companies are? Are they, or are they not, paying lip service to assisting with fuel poverty? I would welcome your opinion on the actions that we have taken, or might take, to engage the fuel companies in the fuel poverty programme.

You have just mentioned Shetland Islands Council. Across Scotland, how engaged are local authorities? I will use a circumstance in Prestwick to explain why I ask. There was a potential development for zero-energy-cost terraced housing, using photovoltaic systems, heat pumps, micro wind power, and so on. However, the planning cycle was very long. What consideration have local authorities given to accelerating the process of reaching either a pro decision or an agin decision? Such developments might have a considerable impact on energy efficiency.

12:15

**Alex Neil:** On the latter point, Mr Swinney has changed a number of planning regulations at national level to try to make it easier for people to install energy saving measures without having to go for planning permission at all. However, the

culture in some of our planning departments has not caught up with the 21st century. My experience not only of that matter but as an MSP in North Lanarkshire tells me that planning departments have to waken up and smell the coffee. The other day, a senior planner told a company that the number of jobs that would be created by a new project would not influence the planning decision. It is incredible that anybody should make such a stupid statement. Many planning departments need to realise what their job in life is in that respect and in relation to a wide range of other matters. However, the advances in the reforms that Mr Swinney has introduced nationally are having a very beneficial impact on people's ability to install energy saving measures in their homes without having to go through a bureaucratic process.

**Chic Brodie:** I understand. However, given the point that you have just made—we all have similar examples—are people embracing the guidelines? Where does that important issue lie on the spectrum of importance?

**Alex Neil:** The truth is that that varies not only among planning departments, but within them. Sometimes it depends on which planning officer gets the application. Mr Swinney and his team are working constantly through systematic means and on a case-by-case basis where necessary to try to get planning departments throughout the country to take a more responsive and positive approach than perhaps they sometimes do.

On the wider issue of consultation, we are keen to ensure that we take as many people with us as possible to ensure the best forms of delivery. Before we take any final decisions on the recommendations in the fuel poverty review, we will discuss them and we will be keen to hear the committee's views on them. The more that we can build consensus, the better.

What was your first question again?

**Chic Brodie:** How engaged are the energy companies? Do they simply pay lip service, as some might suspect? I know that there is the CERT programme, but are they involved in engagement on end objectives?

**Alex Neil:** Mr Swinney, the First Minister, Mr Ewing and I have regular meetings with the energy companies. As a result of Mr Swinney's previous meeting with Scottish Power a couple of months ago, it made a specific commitment to increase its support for insulation measures in Scotland by £10 million, which is welcome. As with the local authorities, individual companies' approaches vary.

In two weeks' time, Mr Swinney and I will host the summit that the First Minister called for with the six major energy suppliers in Scotland, and we

will put to them a number of practical suggestions about how they can make a greater contribution to reducing the level of fuel poverty in Scotland. We will not engage in the kind of grandstanding that we saw at Downing Street, which resulted in nothing. We want results from the meeting.

We are waiting for the results of the Office of the Gas and Electricity Markets review of energy market reform, which it is currently undertaking and which includes consideration of the relationship between retail prices and wholesale prices. Once we get those results, we will be in a better position to debate prices with the energy companies. Prices have to include a big element to help as much as possible to target resources on insulation and social tariffs in particular in order to help the fuel poor.

One example of how the energy companies could do more concerns the social tariff. As Ofgem has confirmed, it is sometimes quite difficult to switch to a social tariff. If we simplify the process of switching to a social tariff and make it easier, far more people who should be on such a tariff will switch. We will focus on areas like that, because the energy companies could do a lot more.

**John Wilson:** Good afternoon, cabinet secretary. It is not always only planning departments that put barriers in the way of the installation of new boilers; some of the energy companies do that as well. I picked that up this week from constituents who complained that some of the energy companies that are supposed to replace boilers are citing planning regulations to avoid going ahead with installation.

I hope that the cabinet secretary will take up that issue with the energy companies when he discusses how the CERT programme is being rolled out. There are concerns about that. The cabinet secretary mentioned that he is not clear how the energy companies are delivering some of the CERT programme. How will we go about getting clearer information from the companies about whether they are delivering what we—not only the Parliament, but the people who require the energy efficiency measures in their homes—expect them to deliver as part of their CERT commitments?

**Alex Neil:** I have discussed that at length with Chris Huhne, because the CERT programme comes to an end at the end of next year and will be replaced by ECO. It is important that, with ECO, we have the transparency in the future that we did not have in the past with CERT. I understand that the energy companies are always nervous about disclosing too much information in case it gives their commercial rivals and competitors intelligence about the nature of their business. However, in this case, there is a social obligation that overrides those considerations.

At the moment, Ofgem does not have the power to force the energy companies to disclose even to Governments the information that we require. I believe that the Energy Act 2010 strengthens powers on that and I hope that the Secretary of State for Energy and Climate Change and Ofgem will use those powers to the maximum in future to ensure that we get the information that, to be frank, we are entitled to have. There is a social contract between the energy companies and the Scottish Government—and indeed the UK Government and Welsh Assembly Government—for the delivery of their fair share of the spend and the outcomes on fuel poverty.

**John Wilson:** You mentioned that every percentage increase in energy costs draws more people into fuel poverty. You will also be aware that every increase in energy costs gives a return to the Exchequer through VAT. Have you or your officials had any discussions with the Treasury about recovering some of the VAT that is being raised by energy price increases in Scotland?

**Alex Neil:** VAT is always difficult to address as part of the general discussions about the fiscal relationship between the Scottish Government and the UK Government because of what can and cannot be done under European directives.

This year, the revenue from North Sea oil will be something in the order of £13.5 billion. It is ridiculous that Scotland, an energy-rich country—we are rich in onshore wind; we are potentially rich in offshore wind; we are rich in coal, gas and oil; and we are rich in wave and tidal power—has one of the highest levels of fuel poverty in Europe. That is a completely absurd situation and one of the reasons why I and my colleagues are in favour of the devolution of all aspects of energy policy to this Parliament.

**John Wilson:** With your indulgence, cabinet secretary, I will move on to the TIF scheme that was announced yesterday. As Angus MacDonald did earlier, I welcome the announcement about the investment that will take place in North Lanarkshire.

As I understand the decision, some £70 million of TIF will be spent in the Ravenscraig area with an estimated private investment stream of £400 million coming in alongside that initial investment. What monitoring measures will be put in place to ensure that the expectations for the scheme are delivered so that we do not end up awarding TIF schemes to three areas in the expectation that private sector investment will follow? What happens if that private sector investment does not follow? Will we end up with white elephants, which is what Ravenscraig has been for a number of years? There has been a lot of public investment in that area with very little private sector return.

**Alex Neil:** First, let me make it clear that the public sector input is not a grant as such. It earmarks anticipated additional revenues from business rates resulting from the investment. If the investment does not take place, by definition the additional revenue from the business rates is unlikely to come in. That money would therefore not be available for the entire project. This is one series of projects—we have six pilots now—that will be visible and it will be relatively easy to measure that element of the private sector input, which will have a knock-on impact on the potential input from the public sector. We will monitor that very closely and we will also monitor the other outcomes, particularly the jobs and overall investment that are attracted. If the six pilots work, we will obviously want to consider whether it is possible to roll them out into other projects in other parts of the country. As pilots, they will be subject to full monitoring and evaluation.

**Mike MacKenzie:** Good afternoon, cabinet secretary. Following on from the last question, I want to thank you for approving the Oban TIF bid.

**Angus MacDonald:** Any more?

**Alex Neil:** It is meant to be the convener thanking me for Leith.

**Mike MacKenzie:** It is well known and beyond dispute that fuel poverty is much worse in Scotland than in England, but it is also known that there is a disparity in Scotland, too. I am thinking, for instance, of the Western Isles, where fuel poverty is said to affect at least 40 per cent of households, perhaps more. Is there any profiling for the allocated spending in the budget to take account of that and to attempt to level the playing field, at least within Scotland?

**Alex Neil:** At the end of the day, the spending is targeted at families and households in fuel poverty, wherever they are. I accept that there are higher levels of fuel poverty in certain parts of Scotland, particularly in the island communities and remoter rural communities. Part of that is the fact that people there do not have access to the same range of relatively cheaper energy as people in parts of the mainland.

I have been very keen to do two things. First, I want to extend the range of measures that qualify for stage 4 of the energy assistance package in particular, as well as the types of central heating that can go in. The previous programme was quite restrictive, particularly when considered from the point of view of the remote rural areas that rely on non-mainstream technologies, if I can put it that way. One point that I have made to Chris Huhne, and on which he has agreed, is that we need to ensure that both ECO and the green deal have the flexibility to cater for the particular needs of our

island communities and our remoter rural areas, as well as the rest of Scotland and the UK.

Secondly, we are keen to ensure that we extend the eligibility for the energy assistance package and we have done that three or four times. The old central heating programme under the previous Administration was, in essence, a pensioners' programme. Obviously, pensioners with passport benefits, or those who are over 75, still qualify for the central heating element of the energy assistance package, but on top of that we have extended eligibility to the most vulnerable, poorest families with passport benefits, with children under five. We have extended it to families with disabled children under 16; we extended it earlier this year to people who are terminally ill; and, as of 30 November, it will be extended to carers, too. We have extended eligibility gradually to the more vulnerable sections of our society, despite the cut in budget.

12:30

With regard to geographic targeting, we cannot look at the fuel poverty budget alone. The permanent solution to the problem of fuel poverty—the only final solution, and the reason behind fuel poverty being an alien concept in Scandinavia, for example—is the quality and standard of housing stock. At the end of the day, no matter the price level or the income level, if we have proper housing standards—particularly on U-values—we will be able to eliminate fuel poverty. I shall give an example. One of the first visits that I made when I became Minister for Housing and Communities was to the Lochside estate in Dumfries, where I came across a lady who had just moved from an old two-bedroom flat to a new four-bedroom house. She was a single mum with three teenaged kids. Her gas bill in the old flat with two bedrooms was £40 a week. Her gas bill in the new house with four bedrooms was £36 a month. That is the scale of difference that the new standards for house building can make.

In the housing budget, I am looking for every new house built to be built to that very high standard. The standards will be enhanced further in the next few years, through building control requirements and building regulations, but the issue is what we do with the existing housing stock—particularly, but not exclusively, the older housing stock.

I am keen to see, and we are looking into, how we can get more investment into retrofit of existing houses to bring them up to the same standards of insulation and heating as new houses. If we were able to do that over a period of years, that would be the best possible solution to fuel poverty. The University of Cambridge did an exercise two years ago on how much it would cost to bring Scotland's

existing housing stock up to that standard. To give you an idea of the scale of investment required, the total bill—Rachel Gwyon will correct me if I get the figure wrong—was of the order of £16 billion. That is the scale of the challenge in getting our housing up to Scandinavian levels, which should be our ambition.

**Mike MacKenzie:** My back-of-a-cigarette-packet calculation, as a builder in a previous life, is that the cost could even be beyond £16 billion. Given that, does the cabinet secretary agree that it makes sense to recruit as many allies as we can in this war against fuel poverty? You mentioned the lady whose fuel costs have reduced enormously. Might there be scope to look at public sector rents? Someone who lives in a brand-new, very well-insulated house may be paying exactly the same rent as someone who lives in a very poorly insulated house. In the private sector, despite the introduction of home reports, the market does not adequately reflect running costs in terms of the energy efficiency of homes, so that an inefficient home may sell for the same price as an otherwise identical, very well-insulated home.

Thirdly, there is scope with regard to the banks. Even in these difficult times, they are lending a wee bit and, when people are buying a house and go for a mortgage, the banks do not differentiate between an energy efficient home or a very inefficient home. There is scope, beyond what the Government can do in its budget, to recruit wider allies in the fight against fuel poverty.

**Alex Neil:** Absolutely. By the way, I should have pointed out that, in the UHIS and the HIS programme, we prioritised the islands, particularly the Western Isles. In fact, in terms of the insulation programme, we will have the Western Isles pretty well covered within two years—is that right?

**Rachel Gwyon:** Over two years.

**Alex Neil:** I should have mentioned that earlier.

I am having discussions with the banks and others because I want them to make available a green mortgage product. The green deal, essentially, is a loan from Tesco or another participant in the green deal that is given to people on the back of the energy savings that result from the green deal measures that they undertake in their home. The security, as it were, behind the green deal loan is the savings that result from the investment in making the house much warmer through, for example, the use of new technologies in insulating and building work.

My view is that we should have green mortgages. Banks should be prepared to give loans that do not require 20 or 25 per cent deposits to people with passive housing or with houses such as the Aurora house in South Lanarkshire College, which I recommend that the

committee visit. It produces energy and has the potential to receive a feed-in tariff totalling £1,000 a year, which means that it earns money from the national grid rather than an average of £400 or so a year being forked out to heat the house. There is a £1,400 or £1,500 difference a year, which should be more than enough to service a mortgage on a two or three-bedroom house.

The financial institutions are missing a trick. They should follow the green deal model and offer green mortgages of the type that I have described. Green rent is another good idea.

**The Convener:** We are getting away from budget scrutiny. Do you have any questions on the budget, Mike?

**Mike MacKenzie:** No. I feel my question was relevant, though, because it concerns a hugely significant problem. The point is that, with the goal posts moving with regard to what it is reasonable for the Scottish Government to spend, under the current circumstances, we need to consider other interventions that can be helpful. I apologise if the question does not seem relevant, but I think that the issue is important.

**The Convener:** It is hugely important, but I feel that it does not relate to budget scrutiny, which is what we are concerned with today. The committee will consider a range of fuel poverty issues, and I agree that the concept is important, but it is not budget scrutiny.

**Mike MacKenzie:** Sure. Apologies, then.

**Alex Neil:** I was just getting into my stride on that subject.

**The Convener:** I have a final point for clarification. Where does the money come from for the warm home fund and future transport fund budget line?

**Alex Neil:** We saved £250 million on the contract for the Forth replacement crossing and divided that into five £50 million funds, which include the two funds that you mention. We combined them into one line because they are both in my portfolio. For the purpose of level 4 information, we have done an even split, which is roughly what the situation will end up being anyway.

**The Convener:** Thank you, minister. That ends the public part of the meeting. We move into private session to discuss our budget report.

12:39

*Meeting continued in private until 13:33.*



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e-format first available  
ISBN 978-0-85758-906-4

Revised e-format available  
ISBN 978-0-85758-921-7