The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 9 May 2012

Session 4

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FINANCE COMMITTEE
14th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)
*Mark McDonald (North East Scotland) (SNP)
*Michael McMahon (Uddingston and Bellshill) (Lab)
*Elaine Murray (Dumfriesshire) (Lab)
*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Craig Flunkert (Scottish Government)
Philip Grant (Lloyds Banking Group)
Jean Maclellan (Scottish Government)
Professor Jim McDonald (University of Strathclyde)
Iain Pearce (Scottish Government)
Jen Willoughby (Scottish Government)
Dr Lena Wilson (Scottish Enterprise)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Wednesday 9 May 2012

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

Decision on Taking Business in Private

The Convener (Kenneth Gibson): I welcome everyone to the 14th meeting in 2012 of the Finance Committee of the Scottish Parliament, and ask everyone to ensure that BlackBerrys, mobile phones and pagers are turned off.

Agenda item 1 is to decide whether to take item 4, under which the committee will consider the evidence that has been taken on the financial memorandum of the Social Care (Self-directed Support) (Scotland) Bill, in private. Do members agree to do so?

Members *indicated agreement.*

Sustainable Economic Growth

09:30

The Convener: Item 2 is to take further evidence on increasing sustainable economic growth. We agreed to focus on that issue in our scrutiny of the 2013-14 draft budget.

I welcome to the meeting Dr Lena Wilson, who is the chief executive of Scottish Enterprise; Professor Jim McDonald, who is principal and vice-chancellor of the University of Strathclyde; and Mr Philip Grant, who is chair of the Scottish executive committee of Lloyds Banking Group. Good morning.

The witnesses recently took part in a series of interviews on growing Scotland's economy with *The Scotsman*. Members have copies of the contributions that were made.

Before we proceed to questions from me and other committee members subsequently, I ask each witness to start with a two-minute speech. Ladies first, Dr Wilson.

Dr Lena Wilson (Scottish Enterprise): Thank you, convener. Good morning.

I am delighted to be here and to have the chance to give evidence. I thank you for factoring the time for that into your hearings. I will keep my opening remarks brief.

We are talking about fiscal sustainability: I want to make two key points. First, there must be a robust evidence base in order to prioritise all public sector investment, particularly in this very difficult time of tight resources. For us in Scottish Enterprise, a real-time understanding of the economy must lie at the heart of decision making, given the difficult choices that we have to make. Secondly, priority should be given to investment spending that is sustainable and will have the widest possible positive economic impacts. We in Scottish Enterprise are absolutely committed to that.

Members will be aware that last month we published our business plan, which sets out our priorities and focus for the next three years. We have sent all of you individually a copy of that plan and have been in touch with you about it. In developing the plan, we developed a wide range of evidence in which Scotland's entire company base was looked at. We wanted to understand what works in economic development and where our investment could have the biggest impact on the Scottish economy, which is the bottom line. From that evidence base, I can be as confident as we have ever been in Scottish Enterprise that we are focusing on the right priorities for the growth of Scotland's economy. It shows that it is absolutely right that we maintain an unrelenting focus on growth in the current economic conditions.

It is easy for us to get caught up in very gloomy economic data. We should not ignore those data entirely, but we need to look at opportunities—of which there are plenty—for turning round the economic figures. We have to remember that three quarters of workers in the Scottish economy are employed by less than 10 per cent of our company base. That group of companies has the biggest potential to grow, so we need to consider how we can help them, as intensively as possible, to outperform the norm by exploiting outstanding opportunities and bucking the trends for their sectors.

That is not to say that we cannot also take short-term measures—such as access to finance—to address the more immediate changes and challenges in our economy. I am sure that Philip Grant will talk about that. However, that needs to be done while we stimulate much greater investment by the Scottish companies that have the biggest growth potential. In doing so, we can increase our exports, improve our research and development performance, get the economy moving again, create much-needed jobs throughout Scotland, and address the current unemployment challenges, especially for our young people.

The evidence base not only helps us to shape our decision making; it helps us in our work with partners right across the public sector to ensure much greater alignment of priorities. By developing that evidence and making it accessible to everyone, we have been able to achieve much greater alignment with our partners in recent years, which is critical, given the challenges across the public sector. We have also been able to develop our role as an adviser on economic issues to ministers and the Scottish Government.

I hope that in sharing the evidence base as widely as possible we can achieve better alignment in Scotland at local level, as well as at national level. I hope that we can continue to work with local authorities and other local partners to address regional inequalities and to exploit Scotland's economic assets to their full potential.

If we are able to achieve three things—a focus on growth, stimulation of demand, and greater alignment with our partners—we can help to sustain the transformational growth that we are all looking for in the Scottish economy.

The Convener: Thank you.

Professor Jim McDonald (University of Strathclyde): Good morning. I will be brief. The committee will be aware that Scotland's performance during the past several decades has been relatively weak compared with that of our international competitors. We must go beyond comparisons inside the United Kingdom and look much further afield. Growth and—importantly—productivity have been weak, as have the underlying drivers of productivity. I commend the Scottish Government's recently published report on research and development in Scotland, which will give you an idea of where we are on business expenditure on R and D, as well as other expenditure.

Scotland aspires to be a faster growing and highly knowledge-intensive economy, which is absolutely the right strategy. It seems obvious to me that it follows that higher education and research expenditure are critical in driving higher levels of innovation and new product and systems development. That is what Scotland's economy badly needs. There are signs of improvement and greater alignment across higher education, agencies including Lena Wilson's, and industry.

Universities add £6.2 billion per annum gross value added. We have 149,000 full-time-equivalent jobs—we support about 7.6 per cent of Scottish jobs—so higher education contributes about 6 per cent of Scottish GVA. In 2010-11, Scottish universities attracted about 14 per cent of all the external grants and contracts that were awarded to UK universities—Scotland's population share is just under 9 per cent—and R and D spend in higher education was just under £1 billion.

Universities' export income—by which I mean international tuition fees and non-UK R and D funding—has doubled during the past six years to £400 million. That gives a sense of the dynamic that is building and our increasing focus on sustainable economic growth, which is good for universities as well as for the nation.

Research quality is fundamental. A good evidenced report from 2009, which was overseen by Anne Glover, who was chief scientific adviser for Scotland at the time, showed Scotland's citation indices at the top end of international performance. The research assessment exercise demonstrates that the Scottish research-intensive institutions in particular are among the best in the world.

On economic resonance, Scottish Development International noted that in 2008-09 half the 2,000 high-value jobs that were created due to foreign direct investment came as a result of R and D and the high-quality skills that we produce. A key international differentiator in Scotland, of which I hope members are aware, is research pooling, whereby universities work together to position themselves on an international stage in key sector-facing research in engineering, energy, life sciences, physics and chemistry. We are much stronger together, and universities are playing an important part in positioning ourselves in that regard.

An example is the energy technology partnership, which I have the privilege of chairing. The ETP works closely with industry; we currently work with about 40 companies. Two months ago, Mr Swinney announced a £10 million investment in knowledge exchange, whereby we bring together and feed in academic capability, research and skills, to the competitive advantage of our industrial partners. That was a fundamental driver for ETP in the Scottish alignment that led the UK Government to invest £50 million in the offshore renewable energy catapult centre in Glasgow.

I am sure that the academic base and its work with financial and public sector partners had a lot to do with the announcement not long ago that the green investment bank will be located in Edinburgh. There is a real sense of momentum.

What is key—I hope that we will have a chance to talk about this during the meeting—is building the platforms that connect our world-class research strength to the competitive advantage of our industries.

A number of initiatives are growing. In Glasgow, we have ITREZ—the international technology and renewable energy zone—part of which is the University of Strathclyde's technology and innovation centre, with £100 million of investment. We also have an advanced manufacturing centre near Glasgow airport. Here in Edinburgh, there is the informatics centre at the University of Edinburgh and there is the Edinburgh BioQuarter. We need to build platforms that make our industry competitive.

Employability is important. The post-16 education reforms, which members will be aware of, are giving us better pathways to take our young people from school through college and on to university. Importantly, the reforms are responding to the increasingly articulate demand statement from industry partners. The energy skills action plan, which was published a year ago, gives us pathways and solutions as well as partnership opportunities to create up to 100,000 jobs. With Scottish Enterprise, Highlands and Islands Enterprise and Skills Development Scotland, we are in the throes of doing the same in relation to engineering.

The thing that will make a difference in Scotland is a much more coherent partnership approach among academic, public and private sector partners. I am optimistic that people are following that approach effectively.

Philip Grant (Lloyds Banking Group): I thank the committee for the opportunity to participate. I will split my comments into two parts: the near-term economic situation and the longer-term situation, on which my colleagues' comments centred.

The Scottish economy is in a fragile position, as are the United Kingdom and global economies. Although we saw gross domestic product grow by 0.5 per cent last year, we all know that the sector breakdowns show that the picture for particular sectors is much more challenging. Our purchasing managers index, which we publish monthly, and our jobs barometer provide hope that underneath that there is positive momentum. We have now seen 15 months of relatively high confidence in our PMI and jobs barometer. Since the beginning of 2010, we have had evidence that there are increasing vacancies in the private sector. Despite a sharp drop in the figure for quarter 4 last year, it is reassuring that this year's quarter 1 numbers again showed take-up of employment in the private sector.

In the short-term, the situation is fragile and challenging. However, when we focus on activity in Scotland, we see that there is hope that the economy is resilient and is, in a modest way, creating jobs and opportunity. Looking to the longer term I—like many Scots who live and work in Scotland and have children who are developing through education—am concerned about whether there will be real opportunity for my children to live in a prosperous and thriving Scotland. In that context, I welcome the committee's work on reinforcing the imperative of sustainable economic growth for job creation and to fulfil the social aspirations of the people of Scotland.

As with any strategy, an economic strategy must be grounded on strong priorities and delivered with collective focus, measurement, confidence and a little patience. I welcome the priority that the Scottish Government and Scottish Enterprise have brought to focusing on a supportive business environment and on growth in the key sectors from which future jobs will come. As a representative of one of the largest private sector employers in Scotland, with 20,000 colleagues, I welcome the focus on education and skills and, in particular, the consultative approach to developing initiatives, in recent years.

Scotland has huge potential in particular areas, and real global opportunities. However, sitting alongside that are the data that bring the challenge into stark relief. The Organisation for Economic Co-operation and Development ranks us in the third or fourth quartile for innovation, entrepreneurial activity and investment as a percentage of GDP, as Jim McDonald mentioned. On density of business per 1,000 of population, we are 267th out of 349 European regions.

We could be pessimistic about those indicators, but the definition of an optimist is someone who sees opportunity in every difficulty and challenge.

This morning, I am an optimist and I am in like-minded company with my colleagues on the panel. Opportunity can be the scarcest of commodities, but capability can be developed, which is why I am confident about the future of the Scottish economy. We have the opportunity to enhance capability. If we do so, we have a real opportunity to change the realities that I know the committee has on its mind, including the 23 per cent of 18 to 24-year-olds who are unemployed in Scotland today.

Financial services is a significant and valuable part of the Scottish economy that has a critical role to play in realising the economy's potential. I acknowledge that, as banks in particular rebuild and refocus, we must be seen to take up that role firmly, and that must be experienced in a real way by our customers. That requires us to focus and refocus our activities and improve the capability to support opportunity and growth through working with customers and their enterprise partners in very different ways.

The global economy is an unforgiving place that rarely moves towards us. As it continues to rebalance and reshape, there is little to be gained from spectating, but much to be gained from engaging with confidence and ambition. This is a critical period for people who are in leadership positions across Scotland. Our children are likely to be relatively harsh judges of whether we succeed.

09:45

The Convener: Thank you for those interesting and stimulating remarks. What I find interesting about each of your interviews in *The Scotsman* and your comments this morning is your optimism—Mr Grant referred specifically to it in his comments—about the Scottish economy's tremendous potential.

I will ask each of you a question, but if other witnesses wish to chip in, please feel free to do so. I will then open questions out to my colleagues.

Dr Wilson, as you spoke first, I will ask the first question of you. You talked about the need to focus on market priorities, growth, demand and alignment and about the need to stimulate investment. How can the Scottish Government best work with businesses to stimulate investment at this time? Can you talk a wee bit more about your business plan, which you commented on in your remarks and referred to in your paper, and your proposals to help to create 19,000 new jobs and £7 billion to £9 billion of cash? How will you go about that process?

Dr Wilson: The first thing is focus. There are many requests for assistance from public agencies and there are finite financial resources, which make the choices that we make even more important. The focus is on understanding global patterns of growth and knowing which sectors in the world are likely to have disproportionate growth. We must remember that the US economy is starting to employ more people and is coming back. We had a very successful time last week at the offshore technology conference in Houston, which 80,000 people attended. We had 50 Scottish companies out there with us. That side of it is moving again. At the Boston seafood show a couple of weeks ago, salmon outperformed many of our food exports, which are topping £1 billion.

It is about our understanding the sectors and markets that are most likely to grow and about deeply understanding Scotland's strengths. There should not be a "me too" strategy with everybody wanting to be in the same five or six sectors; there should be deep understanding of our academic strengths and capabilities, the talent of our people, our natural resources in renewable energy, our scientific capability, our skills and our business infrastructure. We must ensure that every penny of investment across the public and private sectors is aligned to maximising that.

That means that we must focus deeply on a relatively small number of companies. I think that I have said to the committee before that there are 300,000 businesses in Scotland, of which two thirds are sole traders who do not employ anyone else. We therefore have 100,000 businesses that employ people, of which about 10,000 have growth capability. At any one point in time, about 2,000 to 3,000 of those businesses have the absolute ability to be international businesses or to grow. The whole approach is about focusing deeply on the things that we know are likely to make a difference.

Scottish Enterprise has, with partners, gone as far as any economic development agency in the world in evidence gathering and economic modelling. So far, no one has been able to come up with alternatives; it is an art and definitely not a science. As I think I have said before, there is no manual or "A to Z" for how we should do it. We must gather as much evidence as possible and understand what is happening in the world, then bring that back all the time to the Scottish Government through weekly and monthly intelligence reports. I think that we are the closest agency to businesses and that we deeply understand what is happening to them, which can help to inform our delivery and policy.

The Scottish Enterprise business plan focuses on five key areas that will be transformative for the economy. One aspect is that we must take advantage economically of our transition to a low-carbon economy and all the technology that that involves. Another is the focus on the renewables sector, which is not the most important sector in Scotland but which offers the most opportunity to transform the economy. The plan also focuses on growth businesses, internationalisation and innovation, which speaks to what Philip Grant and Jim McDonald said about R and D. Those five areas must help us in the longer term, and we must in the shorter term be alive to issues such as youth employment, the 100,000 unemployed women, the employability question and helping businesses through difficult financial circumstances.

The Convener: I know that you were out in Brazil, whose market Scotland has not traditionally tapped into—although quite a few trains that were made in Springburn were sold in Brazil and other places in South America decades ago.

Dr Wilson: That is right.

The Convener: How important does Scottish Enterprise feel that it is to tap into such large and growing markets, as opposed to markets in which Scotland has traditionally done well?

Dr Wilson: That is a good question. The strategy is not either/or. As I said, the US economy is showing signs of resurgence, and the US is still Scotland's biggest foreign direct investor, followed by France. We must have a strategy that still maximises opportunities in the developed markets but which taps as far as we can into developing markets. For example, through SDI, we have two offices in India, two in mainland China and another three in greater China.

We will open offices in Brazil—in Rio and, possibly, in São Paulo. There are massive opportunities in Brazil, which are not just in the oil and gas sector. Brazil has no shipyards and has to build three shipyards. There is a vast amount of transportation required; Brazil has deep oil reserves that need Scottish expertise.

Some Scottish companies, including the Wood Group and the Weir Group, are trading successfully in Brazil. Doing business in that market is challenging and difficult, and we are hand-holding companies in doing that. We will hold seminars on how to do business with Brazil. A globalscot from Brazil intensively helped Scottish companies out in Houston last week. The burgeoning middle class in Brazil offers huge opportunities for Scottish consumer goods; for example, one of the fastest-growing markets for whisky is Brazil.

The strategy is to maximise the mature markets, to tap into new markets and to get companies that have never exported to think about exporting, which we can hand-hold them through.

The Convener: Professor McDonald talked rightly about higher education research and development, on which Scotland has 13.6 per cent of the United Kingdom's expenditure, which is well ahead of Scotland's population share. Everyone in the committee acknowledges that Scotland is doing well on that. However, a large segment of our population is—shall we say?—undereducated and lacks skills. How should we square that circle? In my part of the world—North Ayrshire—companies want to grow but struggle to find the skills, and particularly the higher-end skills, that they need.

You talked about how problems in connections being made between the public sector, the private sector and the academic base are being overcome, but what bottlenecks still exist? What can the Scottish Government and other partners do to help you to overcome those bottlenecks?

Professor McDonald: You have asked two key questions. I, too, live in North Ayrshire these days, so I can resonate with some of the concerns about how we help people in our immediate communities, as well as with points about the national strategies.

I will take access to education and success in building skills first. You will be aware of the post-16 education reforms, which are important and will have a major impact on further and higher education and on schools. To be frank, I welcome that. As we move towards outcome agreements in our sector this year, a key area on which principals in universities and colleges will concentrate is widening access. That means ensuring that we create pathways for young people from any background who have the right capability and who have been given the right experience to follow education opportunities through school into college and on to higher education.

The term "articulation" is used, but it is rather two-dimensional. What is emerging—certainly in my university—is the building of new partnership frameworks. For example, Glasgow will have three clusters of three colleges and the Clyde will have another cluster of three, through reorganisation of colleges. That will allow us to review the way in which the strategies in our various sectors are aligned. An obvious example is energy, to which I referred earlier. The idea of creating 100,000 jobs in Scotland in the next decade does not simply involve a number, but layers of significant detail that are led by industry demand.

As Lena Wilson emphasised, industry plays an important and responsible part, not by standing outside college and university gates telling us that we are not producing what it requires, but by joining us and working in an integrated way to help to define and fund programmes, and to offer opportunities to young people who are sometimes displaced from higher education.

Post-16 education reform is an important step forward. Much greater co-operation and partnership between colleges and universities will emerge, and we need to ensure that we take seriously the need to reach out to those who are socioeconomically disadvantaged. To give you a local reference, I chaired the Glasgow economic commission last year, and I know that among the key focal points for chief-executive level industry leaders in Glasgow this year are employability and tackling the problem of worklessness. As an academic institution leader, I take from that that the quality exists, that the academic experience is first class, and that the engagement with social issues is happening. However, that must be driven by a growth agenda, and we must look at building the economy to ensure that such growth is sustainable.

With regard to your point about academic and industrial integration, there are signs of improvement. I have mentioned a few of those, such as ITREZ. We are now clustering: that word was used in connection with economic development a while ago, and I would like to bring it back to the fore. The whole idea is to create key sectoral ecosystems in which large companies de-risk the opportunity for small and medium-sized enterprises to engage in research and innovation by creating a customer base and connecting to the research base.

The Scottish Further and Higher Education Funding Council has done a lot to support that, and Scottish Enterprise has done a tremendous job in the past few years by incentivising and working alongside the universities to encourage indigenous company growth as well as attracting foreign direct investment.

I will mention one more initiative. The Scottish innovation centres are very soon to be launched by the Scottish funding council in partnership with SE. We will spend significant amounts of money on creating ecosystems that will be focused on growth, industry demand and channelling the strong academic base in Scotland. Those challenging and risk-taking investments will make a difference as we compete with the very best in Europe and beyond. There is much to do, but there are good exemplars emerging, which are catching international attention and which are based, thought through and delivered in Scotland.

The Convener: In your opening remarks, you spoke about how we should compare ourselves more internationally, and about the tendency to focus too much on other parts of the UK. I agree with that.

In terms of international comparisons, Scotland's productivity has historically not been the highest. Given that our people come out of school with better qualifications than is perhaps the case in other areas of the UK, and given that our universities are at least as good as those elsewhere in the UK, why do we have that productivity gap? Is it simply due to a lack of capital investment over a long period? How can we overcome it?

Professor McDonald: There is no magic bullet, but the need for business innovation is key. There is a need for work readiness in our school and college leavers, and for leadership in our businesses and public sector agencies. It must be recognised that being innovative, productive and competitive makes a difference.

At the micro level, we must give our schoolchildren and our college and university students access to work experience, so having innovative companies that welcome new thinking and that are open to challenges is key. That requires a certain breed of leadership, and a culture in organisations that welcomes challenge and seeks innovative solutions. That sort of innovation within organisations and the power of human capital can release potential, which often leads to an uplift in productivity.

However, that is heavily dependent on innovation and research, and we have to ensure that we weld those things together. We must not see too many parallel strands because, as members know, parallel lines never connect at the limit. We must get much greater convergence of innovation, the production of high-quality school and college leavers and university graduates, and the leadership that we need in our organisations to see what the opportunities are and take them.

10:00

The Convener: You hit the nail on the head in talking about getting ready for work. Yesterday, I spoke about work to children in primaries 4 to 7 at Dykesmains primary school in Saltcoats. The headteacher told me that there had been no employment in some families there for two or three generations, and the pupils needed to know about the diversity of the working world, which I spoke to them about. Education about that has often been left very late, and I am glad that things are now progressing much more quickly at an earlier stage.

Mr Grant gave us a very interesting statistic. Out of 349 European regions, Scotland—if we can call it a region; most members of the committee would not do so—came 267th in respect of the density of businesses. What can the banking sector do to help that? Mr Grant gave a very optimistic opening statement and the *Scotsman* article is excellent, but there are real concerns that the banks are not helping as much as they could in taking Scotland's businesses forward and allowing access to capital at a reasonable cost.

Philip Grant: I recognise that the past few years have been incredibly difficult for the banking sector, and that that has had an impact on the confidence in it to deliver its obligations to its customers.

On lending and the growth of lending, we in Lloyds Banking Group are clear that focusing on supporting SMEs in particular in a real way through supportive lending was one of our overarching priorities last year and going into this year, and that it is one of our overarching priorities going forward. Therefore, there was net lending growth last year in Scotland and nationally, with £12 billion of committed gross lending to SMEs nationally, and a commitment again this year to £12 billion gross, with net lending growth to SMEs. Those are clear, public, measurable commitments at that end.

On our relationship with SMEs—particularly small businesses—there has been a big focus in the past two years on the physical support that we and our relationship managers provide for the development of businesses, particularly through key milestones in the development of a business, as I said in the article in *The Scotsman*. As Lena Wilson pointed out, by volume of business the Scottish economy is largely focused on sole traders, who are a big part of our business. Therefore, supporting sole traders to employ, develop and give opportunities beyond their own sole trader model is a key part of what our relationship managers are equipped to do. In the past 18 months, we have worked closely with Scottish Enterprise in particular on aligning our relationship managers on the ground with the resources that are available to Scottish Enterprise and the business gateway to ensure that our relationship managers are best equipped to act as advisers as well as bankers to SMEs.

As members are aware, we have a national mentoring scheme for SMEs that is supported by the British Bankers Association. Lloyds Banking Group provides around a third of all the mentors for that scheme. This year, we are launching a new export mentor scheme, and we are working with Scottish Enterprise, which is being very helpful, to hold seminars and support sessions for our relationship managers to increase their knowledge bank on opportunities for exports and, more important, how to support our customers to understand the risks and guide them through the export process.

Last year, we held 60 events across the country for SME customers. We brought together public and private agencies to share best practice, particularly on supporting businesses through difficult times and helping them to manage their cash flow through such periods.

We are doing a huge amount. I recognise that my saying that is one thing and that our customers' experiencing it every day is another, and that that is what really matters. When we find situations in which customers are not receiving the degree of financial or advisory support that they should expect, I personally respond to that. We set our bar very high. We recognise our roles and responsibilities. Working very closely with our partners, particularly Scottish Enterprise, we recognise that we have an important role to play in the next few years, particularly in the SME segment of the economy.

The Convener: Your interview in *The Scotsman* says that you believe that

> "the forthcoming independence debate ... is helping to focus peoples' minds on the economic fundamentals in Scotland",

which is "positive" and

> "is doing no harm to the country's international profile",

and that

> "There are parts of the world where people are getting interested in Scotland again and there is maybe some advantage in that."

Can you tell me how we can capitalise on Scotland's higher international profile?

Philip Grant: As Lena Wilson said, Scotland has great strengths and natural opportunities, and, as you heard from Jim McDonald, it has great talent and strength in its university sector. For people to be more aware of Scotland's brand and our capabilities and opportunities, which I talked about earlier, is no bad thing in a global market where—as I think that you mentioned earlier—the definitions of country, region and economy are irrelevant for businesses and people who are looking for jobs. What is more important to them is whether there are investment opportunities in places and whether markets are opening up for them.

The political debate is something that is for the politicians and the people of Scotland. Leaving it to one side, part of my role in my organisation is to be an advocate and promoter of Scotland's capability. Some 20 per cent of our colleagues are based in Scotland, which beats the demographic across the UK. Like my colleagues at the table today, I take every opportunity to promote Scotland and its capability.

The Convener: I now open up the session to colleagues. The witnesses have been very polite so far, but they should feel free to add on comments to other witnesses' replies.

Gavin Brown (Lothian) (Con): My question is initially aimed at Lena Wilson. Internationalisation is critical to growing our economy. Where do you think that we are underperforming at the moment in terms of countries that we trade with? You said that there is enormous potential in Brazil. Where else is there such potential, where we are currently underperforming?

Dr Wilson: I would not necessarily say that we are underperforming, because some of the markets have only recently begun to emerge. It is more about taking advantage of the opportunities. For example, there are massive opportunities across the middle east. There is huge interest from sovereign wealth funds in terms of non-traditional forms of investment, such as airport acquisition or port infrastructure investment. That requires a different kind of conversation beyond foreign direct investment. We have opened an office in Dubai and are actively working across the middle east. Abu Dhabi has rich reserves, but, as part of the move towards a post-carbon society, as it were, it wants to invest in countries that have renewable technology at the top of their agenda. That kind of investment might go towards our marine sector, for example.

There are massive opportunities in China, India and Russia, where we have a presence now. Those countries have growing middle classes with an interest in consumer goods. Some developed countries offer opportunities, too. When I was in the United States last week, I noticed that, as a result of weight issues, there is a desire for health-enhancing foods. In successful economies, people are less healthy and are generally fatter than in other countries. There are opportunities in that regard for health-enhancing food of Scottish provenance, such as salmon.

The approach must feature a mix of tapping into Scotland's rich resources by the developed markets and consideration of countries such as Indonesia and those in Africa. I am going to be in Africa later this year—even beyond oil and gas, there are more opportunities in Africa, too.

We cannot open offices absolutely everywhere, because the country cannot afford that, so we have to ensure that our limited resources are targeted. Our 100 or so people are split roughly equally between three areas: a third in the Americas; a third in Asia; and a third in the Europe and middle east region.

I see Jim McDonald indicating that he wants to speak, but I just want to say one thing first. Universities often go overseas, and I have been talking to the Royal Scottish National Orchestra about its trip to China. We have to make sure that every single part of Scotland that plays an international role is aligned and not just turning up without telling others. Jim McDonald is very good at doing that when he travels. What is the Scottish proposition for any particular market? We have 800 global Scots all over the world as well as Scottish businesspeople, and I would like to see the message getting out much more to everyone.

Professor McDonald: Convener, may I respond briefly to Gavin Brown's point?

The Convener: Absolutely.

Professor McDonald: We mentioned Brazil earlier. A year ago, the Brazilian President announced the creation of the science without borders initiative, which involves 100,000 young Brazilians studying in Europe and other parts of the world. Scottish principals have often gone with their teams to Brazil; I had a team there about a month ago. We are educating business partners for the future and making opportunities for Scottish Enterprise and other business partners. Aligning internationalisation, credibility and longevity in universities with what we are trying to do to create sustainable economic growth is absolutely fundamental. Indeed, Iberdrola, with which we have a great relationship, and Scottish Power own a number of utilities in Brazil.

We now seek to leverage the research that we are doing in Scotland to create greater capacity in Scotland and to build operational knowledge and design new products. At my own university, we have 1,000 Chinese students. Many will go straight into industrial positions back in China, but many will stay here to conduct research.

As Lena Wilson said, a fantastic amount of activity is going on in Scotland and going out from Scotland. There is a big challenge but, if I may use a term that Philip Grant used several times, the opportunities are there and we need to seize them. There is a lot of capacity and capability, and it is now about identifying the opportunities and working together to realise them. The important thing for universities is to work increasingly closely with private and public sector partners to leverage the international opportunities.

Gavin Brown: The smart exporter initiative was set up to get more Scottish companies to trade outwith Scotland. How do you think that it is going? What other initiatives would you like to be set up to try to build on that?

Dr Wilson: The smart exporter initiative is going increasingly well. Such initiatives are about us lifting our sights. The convener talked earlier about work role models for young people, but it is vital to have role models for companies. It is all well and good for us to talk about markets, but it is really powerful when a company does that. We need to make increasing use of case studies and companies as role models so that others can say, "Look. That company is just about the size of our company and it is doing what we are doing, but it's out there in China."

We are hosting a series of events all over the country to raise market awareness, get sectors together and, in particular, use the private sector in our industry leadership groups to raise our sights and horizons. Only about 5 per cent of our company base exports so the challenge for us all is to increase that proportion significantly.

We have to help existing exporters to get into new markets, which will be easier to do, given that the bigger challenge is around new exporters. A lot of that involves setting ambitions, raising confidence and working with the leadership team. We must ensure that we are showing them practically how they can export. We are equipping our staff with export qualifications so that they can give companies technical support, and we are working with the Scottish Council for Development and Industry, and with chambers of commerce and the various industry associations.

I meant what I said in the article in *The Scotsman* about how it does not matter who gets the credit. We must all work together to get the job done. Our most important opportunity is internationalisation. It is a mindset that we need to get into children, schools, universities and companies.

Internationalisation will also raise productivity. Was it Gavin Brown who raised the question of productivity earlier?

Gavin Brown: I think that it was the convener.

Dr Wilson: Companies that operate globally and realise that they have global competition will have to become much more productive and be much more innovative. All those issues are linked.

The Convener: I think that Mr Grant wanted to comment.

10:15

Philip Grant: I just wanted to reinforce Lena Wilson's comments. We recognise that if 5 per cent of companies are exporting, that means that 5 per cent of our relationship managers are experienced in supporting companies that export. There has been a huge gap in our capability, and we have been investing heavily to ensure that our relationship managers are aware of and have a better understanding of the opportunities that exist in new and emerging sectors so that they can engage more effectively with their customers. More important, we want our relationship managers to understand the products, the techniques and the risks, and to know how to support customers through the export process and how to access all the support that is available from the public sector. Over the next three or four years, I think that customers will test and measure their banks' ability to offer support in that area. There has been a gap in the past.

Paul Wheelhouse (South Scotland) (SNP): Welcome to the committee.

In my maiden speech in the Parliament, I referred to the fact that there was a low skills equilibrium in the south of Scotland. Three of the regions in the south of Scotland are among the five worst-performing NUTS—nomenclature of territorial units for statistics—areas in Scotland. North and East Ayrshire perform worst; they are followed by the Borders and Dumfries and Galloway. As I am sure that you all know, the Scottish Government's economic strategy refers to the principle of cohesion among regions. It is not simply that growth is good in its own right; greater cohesion is a characteristic of the growth that we are seeing in Scotland.

What is your strategy for raising the economic performance of the weaker-performing regions of Scotland and allowing them to catch up with the rest of Scotland?

Dr Wilson: The worst-performing areas as far as employment levels are concerned are the urban areas, just because of the nature of the population, but that belies the fact that, in the more rural areas, we have issues with lower wage rates, multiple jobs—particularly in the Borders—and lower productivity. The nature of work in rural areas is such that it does not always offer people the chance to use the higher-level skills that they might get to use in urban areas, even though unemployment is higher in urban areas, because of the nature of the population. People often do not understand that.

Thinking back to the growth agenda, we often see growth as being exclusive, but equity across Scotland is really important. We cannot have a successful Scotland if big chunks of the country are, quite frankly, lagging behind the rest, but we will not address that situation with a needs-based agenda and with supply-type initiatives.

A few months ago, I was delighted to attend a meeting of the North Ayrshire community planning partnership, which involved all the public sector leaders across North Ayrshire. In the conversation that I had with them, I did not say that I could go down there with a bag of cash—I cannot do that. I said that rather than buying good will by spending money in regions and allocating it on a pro rata basis, we wanted to do a lot more to get a deeper understanding of what the economic assets of North Ayrshire are and to help everyone in North Ayrshire to understand what some of the economic opportunities might be. I have seconded staff to help with that—I have a full-time member of staff who is working with East Ayrshire Council post-Diageo. In relation to investment in North Ayrshire, we have been helping with seminars on renewables. I was delighted by the GlaxoSmithKline announcement. On top of that, we have had the announcement about Stevenston from Chemring Energetics. It is not that investment is not happening, but the opportunities for it will be much more limited.

For Scottish Enterprise, the issue is working intensively to properly understand what the economic assets and opportunities are. We would be more likely to work with companies that are just on the cusp of growth in rural areas, because we understand their importance to the economy. We lower the criteria, if you like, in Scotland's rural areas, because we realise the importance of such employers.

Some amazing things are happening in textiles and knitwear in the Borders. That goes back to what I said about high-level international consumer markets. Believe it or not, Brazilians are interested in high-quality knitwear and Harris tweed, even though it is probably far too hot in Brazil to wear such garments. That is to do with the middle class showing signs of wealth. There are tremendous opportunities for some of the artisan and craft-like capabilities of the rural areas of Scotland. A lot of our best food companies are in Scotland's rural areas, too. We have Braehead Foods down in Ayrshire and Mackays jams in Arbroath, 60 per cent of the turnover of which comes from exports. It is a case of understanding the assets that we have, but it cannot just be about having a needs-based agenda, because that is not sustainable, and the committee is interested in fiscal sustainability.

Paul Wheelhouse: I was intrigued by Professor McDonald's statistic earlier that about 50 per cent of foreign direct investment is attracted to Scotland based on our R and D profile. I should declare an interest—I did some consultancy work for Scottish Enterprise, including a study that looked at commercialisation and research assets across Scotland. The study uncovered the fact that 65 per cent—I think—of all three categories of R and D spend, namely government, business and higher education, was located in a region from Dundee southwards to the Lothians, in the area around the Forth and Tay estuaries.

By comparison, about 4.5 per cent of the workforce was in Dumfries and Galloway and the Borders, but less than 1 per cent of R and D spend across all the different categories was in that area. It is probably unrealistic to expect that R and D on a huge scale would be located in that region. However, what can we do as an economy to build linkages between the R and D that is happening in areas such as Glasgow, Edinburgh, Dundee and St Andrews and businesses in rural regions such as the south of Scotland, to ensure that the businesses innovate and, to pick up on the point that Mr Grant made, to take risks and to not leave it to someone else to develop their products and commercialise them?

Professor McDonald: I will answer Paul Wheelhouse's previous question briefly, and then I will take the next point. Lena Wilson may wish to build on my answer. An important development—particularly for Ayrshire—is the new University of the West of Scotland campus. It is important not only as a signal, but also in terms of infrastructure investment and the creation of links between schools, colleges and the UWS campus in Ayrshire. There is tremendous improvement there that will really make a difference in that part of Scotland.

I mentioned the Glasgow economic commission earlier. Glasgow does not have plans to go beyond its borders, but the industrial advisory groups that we have created in partnership with Scottish Enterprise resonate around the key sectors. We see that as a west of Scotland opportunity, alongside the Glasgow requirement to build jobs and deal with worklessness. In life sciences, for example, an emerging proposition, supported by Scottish Enterprise, is the growing notion of a bio corridor from the M8 to the bio city that is in—is it Newarthill?

Dr Wilson: Yes.

Professor McDonald: The bio corridor would go through Newarthill, through the Southern general—where there is £1 billion-worth of investment, with a possible new clinical research facility—down to GSK in Irvine. It would create jobs and connect research, taking it out of the big academic hubs. Research will be seated in academia, but we must get it out there, touching the SMEs. We must make sure that innovation is encouraged, with the SMEs sitting alongside their big tier 1 partners. That area is growing.

I give the example of the Glasgow situation and low-carbon technologies. About a year ago, *The Economist* published an article that recognised from an international perspective that Glasgow was a global hub for innovation in R and D in low-carbon technologies. For Scotland, it is a Scotland-wide opportunity. Glasgow may be where the greatest intensity of research is going on—with expenditure on business R and D as well as academic research—but the academic research spreads across Scotland through the energy technology partnership. The port development that is going on from Nigg to Dundee and Leith is creating jobs in manufacturing and fabrication. The supply chain partners will flow all the way through Ayrshire in terms of specialist engineering companies and companies that produce large, specialist, highly innovative products.

The key thing is that as we develop an industrialisation strategy, as it were, we have to take the whole of Scotland with us and see where the opportunity is—not least around how to bring up the human capital in terms of the skills base and the capability to engage with the opportunity.

Dr Wilson: I agree entirely with Jim McDonald. It is not surprising that there are high concentrations of R and D around universities, which are largely based in our cities. Around the world—for example in the US, around Palo Alto in Silicon Valley, and Route 128 and all the bio-tech around Boston—there are concentrations of high-level, R and D-type organisations that locate close to universities. The same will happen in Scotland—companies will want to be around ITREZ to take advantage of the advanced forming research centre.

However, in the areas outside the cities and in the more rural areas of Scotland we can take a company-by-company approach. We can align the companies that we intensively account manage—company by company and sector by sector—and match them to universities. We have been doing a lot more of that—I have called up Jim McDonald more than once about an interesting company to ask whether someone from Strathclyde can talk to it or get it more interested, or get it to employ graduates for the first time. It is a company-by-company strategy.

We should be proud of the fact that we have zones that have high concentrations of R and D. Scotland is small enough. I was in a city last week that has a bigger population than Scotland. It is just that our population is geographically spread out. Outside the cities, the company-by-company approach is the way forward.

Paul Wheelhouse: We had interesting evidence from Lord Smith, who talked about youth employment issues and rural Scotland. You will detect the theme of my questions. Some areas of rural Scotland have been good at producing graduates but poor at retaining them because they tend not to be good at producing employers that recruit and retain graduates. You touched on the issue, but I am intrigued to know what we can do about that. What initiatives do Scottish Enterprise, the Scottish funding council or others have in place to improve the situation? In England, there have been innovation vouchers, and the knowledge transfer partnerships operate there as well. What are we doing to encourage companies outside the urban core to engage in programmes and take on graduates?

Dr Wilson: I will let Jim McDonald comment on the universities side, but under the TalentScotland umbrella we have a programme to help SMEs, in particular, to take on graduates. They get some financial assistance to do that. The programme was the old graduate placement programme, but it is now much more intensively oriented to companies and their growth and has been working well.

I have been talking to ministers recently about talent. If we take an altruistic approach and ask businesses to take on more graduates or young people because they are unemployed, that will not help those businesses, because that approach is not very sustainable. Instead, we say to them, "You're missing a key talent pool, and one that's much more affordable than it has ever been in the past. We've got much higher levels of graduates and terrifically skilled young people who are unemployed." Forty per cent of the companies that we work with intensively say that they plan to take on more people. That takes me back to the focus on growth, and the need to work company by company.

My message to the Minister for Youth Employment is that we should focus on competitiveness and talent, and I would be happy for Scottish Enterprise to lead whatever campaigns are necessary to do that. Recently, we have looked for the first time at tying in regional selective assistance awards and making them as conditional as we can. We have to be careful about that, but we want to encourage businesses to take on young talented people who are unemployed. We need to incentivise that as much as possible, but the aim should be to make the company more competitive. We should not ask businesses to step up just because the country has a problem, as that will not work.

Professor McDonald: I can share an interesting bit of news with you. The early signs are that graduate-level vacancies are up by 6.4 per cent this year, which is encouraging. Universities cannot make jobs. We can respond to them by producing high-quality graduates, but we need economic growth.

In response to Paul Wheelhouse's question, I refer to what I said earlier about the UWS and its exciting reach into Ayrshire, and we should also think about the University of the Highlands and Islands. It has a distributed campus and the many high-quality colleges and other specialist organisations reach out to the Western Isles, the Hebrides and the north of Scotland.

The key thing that we can do—universities are now doing it—is ensure that the graduates that we produce have greater exposure to enterprise and more understanding of entrepreneurship, so that as well as working for organisations, they will have the skills and confidence to create their own businesses. Scottish Enterprise and Highlands and Islands Enterprise can play an important role in that regard. Another key dimension is the need to ensure that Scotland is more digital. We need greater connectivity and access to broadband. I am sure that the committee has discussed that.

Nonetheless, there will be high concentrations of R and D in certain areas. We should not be surprised or disappointed about that, as it is a feature of the industrial landscape and the way in which businesses work together and cluster. However, we should remember that we want to give all our graduates the necessary skills and ability to translate their education into business and other commercial opportunities.

Philip Grant: I would like to give an employer's perspective on the talent agenda. About 60 per cent of those who fill our 1,000 vacancies a year are new to the organisation and under 24 years of age, and our graduate intake is a big part of that.

When we do opinion surveys among our most talented colleagues, we find a huge desire for opportunity within our business in Scotland. That is an issue for us. There is a real opportunity for employers, if they can provide real opportunity for talented people so that they can build their families and maintain their careers over time in Scotland. We have developed a Scottish network in our business to ensure that individuals are introduced to opportunity and that we can retain them. The last thing that we want is to become an incubator for talent in Scotland that then evaporates. One aspect is about sustaining and supporting employment beyond intake. That is important for maintaining, over time, a robust base of quality talent through every level of the organisation.

10:30

The Convener: I fundamentally agree with that, but I will not go into it in any great detail, because other colleagues wish to ask questions.

John Mason (Glasgow Shettleston) (SNP): I have one or two questions on the interviews in *The Scotsman*. Dr Wilson, I was interested in your comment that

"for too many middle-class families, it is still all about 'accountancy, medicine or law'".

My family were a little bit like you, because my father was an engineer and he was disappointed when I became an accountant. Should we be doing something about the issue? For example, should we give grants to engineering students?

Dr Wilson: I am glad to have the opportunity to declare publicly that I have nothing against accountants, doctors and lawyers—I read some of the letters that were sent to the newspaper after the article was published. The question provides a great segue from the previous one, because my point was that, just as we have to encourage companies to be more ambitious, we have to do as much as we can as early as possible through schools and universities to educate parents, children and teachers about what is happening in the economy and where the opportunities are. I cannot tell you how many companies I meet that tell me that Scotland's engineers are terrific—even though one of the letter writers disagreed with me, I have it straight from the horse's mouth that our engineers are terrific. However, we do not always encourage the brightest and best to go into engineering and information technology, which are two areas in which lots of jobs are available.

I made that point in the interview because I do not want us to get into a situation in which we have difficulty filling vacancies in Scotland. The renewables sector is growing and the oil and gas sector is still growing on the engineering side. I am not sure about incentivising people financially, but we need a cultural change and a mindset that there are new opportunities out there in the economy. I cannot guarantee this but, if we increase the number of engineering and IT graduates, I am sure that almost 100 per cent of them will walk into jobs in the next 10 years. That must be incredibly attractive to young people, but they will have to study science, technology, engineering and mathematics.

We must build that in schools and we must do all that we can culturally. The universities need to respond by offering places. That relates to Jim McDonald's point about the universities' connections with industry. They need a deep understanding of how to customise degrees. They have done that well in relation to the financial services sector, with risk management degrees and all the rest of it.

I simply took the opportunity to state the point that, although we have graduate and youth unemployment, we have massive opportunity and potential vacancies in engineering, technology, the science base and IT.

John Mason: I ask the other witnesses whether we should somehow be incentivising, or whether it is just about education in schools and so on.

Professor McDonald: Of course we should be incentivising. I speak as a father of twin daughters who are both engineers—so no pressure there, then—and a 14-year-old son with whom I sit at night at dinner with the will out and the Tipp-Ex over it saying, "You will be doing engineering at university, son."

I can give an excellent example that is starting to be replicated across the country. Five years ago, the Institution of Engineering and Technology—for those of you who are in engineering, I say that it used to be called the

IEE—responded to the dearth of electrical systems talent. How did it respond? I mentioned that industry has started to play its full role and to take responsibility for building the cadre of talent that it needs. Rather than look at the output from universities and colleges, the IET started to work with universities on the input side to consider how to attract well-motivated and well-qualified young men and women into engineering programmes.

The answer was pretty straightforward—it was to provide a £2,000 per annum bursary, a guaranteed 10 weeks of training during the summer period and a high likelihood of employment, although not a guarantee, at the end of the course. That means that about 200 to 300 students in seven selected universities are coming through the pipeline annually to satisfy utility need.

At the University of Strathclyde and a number of other universities, such as Imperial College London, the University of Manchester and other Scottish universities, we are getting the same demand statement from the oil and gas industry. I know from an informal conversation with Dr Wilson that—as the committee will have seen in the press—the oil and gas industry is concerned about the requirement for higher volumes of even better quality engineers, and I could not agree more.

We must ensure that the quality of science and mathematics teaching in schools is first class and that the curriculum for excellence has that on its agenda. We must also make sure that industry plays a full role in incentivising and in communicating with parents about what a job and a career in engineering and technology mean.

The problem is perennial. I remember chairing a conference in 2000 about engineers for the 21st century that discussed the lack of engineers and of talent and the need for greater quality. That situation remains. There are signs of an improvement, although there may be a little negativity about that, because people are perhaps deselecting certain professions rather than choosing engineering. However, we need to take advantage of that, because that will be a core part of Scotland's growth.

To respond to John Mason's question, by all means, we need to incentivise, which may mean industry playing an even more direct role in getting young men and women into relevant degree programmes.

John Mason: Dr Wilson, I understand why Scottish Enterprise is focusing on high growth in a few industries. However, in doing that, is there a danger of putting all our eggs in one basket? If something bad happens to the whisky industry, will the whole country go down the tubes? Finland has been very attached to Nokia and perhaps has suffered from that. How do we get the balance between concentrating and spreading out growth?

Dr Wilson: We get the balance because we concentrate on sectors and companies. Many of Scotland's high-growth companies are not in our key sectors—a high proportion of the 2,000 to 3,000 companies that we work with intensively are not in the key sectors. If we had a strategy that focused only on narrow sectors, we would miss out those companies.

We work across about 13 sectors. The most resource goes into the energy, tourism, financial services, life sciences and food and drink sectors. I am sure that I have forgotten one, because there are six such sectors.

Professor McDonald: It is the creative industries.

Dr Wilson: I thank my board member for reminding me. We also work with universities and education. There are other important sectors to Scotland in which, although we might not lead the world, we are an important part of the supply chain, such as the aerospace, marine, defence, textiles and forest industries. The chemicals industry, which has a very strong industry association, is important too.

We work with a lot of high-growth and international companies that sit outwith the key sectors. I hope that I have made Scottish Enterprise much more opportunistic, so that we attempt to be completely open to any opportunity for growth that presents itself and which we have not thought of or researched.

The approach is to balance that as best we can, while being unapologetic about focusing on the opportunities that are most likely to transform the Scottish economy.

John Mason: Mr Grant, you talked about "glass ceilings" in your *Scotsman* interview. We seem to grow companies to a certain extent, which then get swallowed up by somebody else. Is that one of the glass ceilings? There are good examples such as Scottish Power, which has links with South America, but I find it disappointing that that is not a Scottish company. Can we do something in that area? Why do Scottish companies get only so big?

Philip Grant: There are probably a number of factors. Businesses that reach a certain point become very attractive. There is something about our approach to innovation and the incubation of ideas in businesses—particularly those that come out of the education sector.

Companies reach a point at which significant capital is required. One option that is available at that time is to seek capital by in effect moving the business into another model through being acquired. However, we need to recognise the need to make people much more aware and supportive of the ladder of support.

Last year, we had an access to finance event, at which we brought together all the finance elements. Through its seed funding all the way up to its venture fund, Scottish Enterprise provides the opportunity for equity support. By understanding and leveraging that support, banks help businesses to grow and develop. Part of the wider advisory role that banks should have is about how to manage risks in business, which is about not only financial risk but helping to support the overall management of the risks of growth.

The networks and frameworks are there, and there is private equity and support. Scotland also has a great professional advisory base that is available to companies to support them. The critical issue is working more closely together.

Particularly in the past year, we have been doing work—I know that other banks are doing the same—to ensure that, for an account-managed company under Scottish Enterprise, we as a bank are very aligned, so that the bank's relationship manager has a relationship with both the company and Scottish Enterprise and they work effectively as a team. That goes back to Lena Wilson's point about exhausting all opportunities for growth. The case that I described is about ensuring that every opportunity for tangible and intangible support is available to the individual business.

I am keen to see more progress. The banks watched, participated in and benefited from the oil and gas sector growth through the 1970s and 80s. We learned a lot through that. For example, we learned how to get much closer to our customers, to anticipate and support the changes that they would need to make over the 30 years of an industry that has morphed and created value.

We are now reflecting on the lessons that we learned from that for the network and support that we are building up. We are ensuring that, to leverage the opportunities that Jim McDonald is working on today for four or five years out and the opportunities that Lena Wilson's customers and clients represent today, we have the resources on the ground to provide real-time funding where and when it is required. I would love to see more businesses growing and developing, and it is good for our business as a bank to have a strong and growing indigenous economy and the creation of employment.

Dr Wilson: On John Mason's point about global businesses and foreign acquisitions of Scottish businesses, sometimes that is the only way in which a business can grow, as Philip Grant said. It finds a very large organisation with deep pockets that allows the Scottish base to grow, so it is not always a bad thing.

We have a number of Scottish businesses on the cusp of the magic £100 million turnover point, which is when we would regard a business as a global company of scale. It is vital that we grow as many of those companies as possible. However, we are in a global economy, so we must remember that, although Scottish companies will sometimes be acquired, we have Scottish giants such as the Wood Group and the Weir Group acquiring companies in other countries all over the world, which is how those Scottish companies are growing. It is therefore a two-way street, in that those Scottish companies will go all over the world acquiring foreign businesses and Scottish businesses will sometimes be acquired in the same way, which could be the best thing for them at the time, even though we would all like all the big businesses to have Scottish headquarters and Scottish owners.

John Mason: There sometimes seems to be slightly more traffic going down one side of the street than is coming the other way.

Dr Wilson: Do you know why?

John Mason: Is that purely an impression?

Dr Wilson: I think that it is because we are Scottish and we tell the bad stories and do not tell enough of the good stories. I am absolutely on a mission to bust those myths and tell as much good stuff as possible.

John Mason: Okay. Good for you on that one.

To go back to Mr Grant, I completely agree that we want people in jobs and we want companies to grow. I noted that one of your comments in *The Scotsman* was that we have a

"luxurious safety net which people in Britain expect",

and the question is whether that is "sustainable", meaning the social benefits model and so on. A lot of my constituents would not feel that there is a "luxurious safety net". Do you not think that we can have both aspects, in the sense of better benefits that are paid for by companies growing?

Philip Grant: I am not sure that I used the word "luxurious". Perhaps I did, but I will need to check my own words to see whether I chose the phrase "luxurious safety net". I think that I implied that everyone in the UK values the social model that we have here. I think that the committee recognises—certainly in the presentation of its agenda—that critical to that is a sustainable growing economy. It is also recognised that, as social needs develop and change over time—I know that the committee's business later involves consideration of that—there is an appreciation, which I know is on the minds of those around this table, of what will be required from the fiscal base to support arrangements and the reasonable aspirations of the people of Scotland for how social need will be provided for.

10:45

If I have created the impression that I think that there is a luxurious safety net, please let me, for the record, take away that impression. However, there is a recognition that we need a healthy, strong economy to provide the social support that many people in Scotland absolutely require. Given the events of the past few years, more people in Scotland now reflect on the demands on our social infrastructure and the need to have a healthy economy—the committee's business also reflects that. That is the link that I was welcoming, as it makes for a healthy debate not just for politicians but for everyone in Scotland.

The Convener: One would hope that a healthy, growing economy militates against the need for people to be on benefits.

Philip Grant: I was not talking just about benefits.

The Convener: You were talking about the national health service and so on as well.

Philip Grant: The whole social model.

The Convener: Including the education system—I appreciate that. John Mason did not take the words out of context, did you, John?

Michael McMahon (Uddingston and Bellshill) (Lab): It is difficult not to be infected by the positive attitude and the optimism of the witnesses this morning. I wish Dr Wilson good luck with her myth-busting campaign. I hope that I am not going to burst some bubbles with my questions. I like to be positive as well, and I try to be a glass-half-full person, but at some point the reality kicks in. Even if a glass is half full, there is still 50 per cent capacity in the glass.

On the same day in February, I visited both Gamesa and Tata Steel, in my constituency. I heard all the messages, which were talked about earlier, about Gamesa with its R and D tapping into the university sector—it is located in my constituency because my constituency is between Heriot-Watt University and the University of Strathclyde—and the enthusiasm about renewables. It is fantastic to see the work that is going on there, and it is difficult not to be enthused by that company. In the afternoon, I visited Tata Steel, which was concerned that it had lost out on a contract to make a contribution to the Forth road bridge. It was concerned that that sent out a bad signal, because it has invested a huge amount of money in gearing up to make steel for the renewables sector.

What really concerned me was the fact that neither of those two huge European and worldwide companies, sitting 2 miles apart, knew what the other was doing—they had never spoken to each other. Both of them are tapping into the renewables sector, but they are not connected in any way in taking that forward. Does that concern you? It certainly concerns me. How prevalent is that situation? Do you see us taking that forward so that we do not have such a disconnect in our indigenous industries?

Dr Wilson: That is an important point—I do not take it as negative or as seeing the glass as half empty. We have an opportunity. Gamesa is a fairly new investor in Scotland, so it is perhaps not unreasonable that it has not met everybody that it needs to meet in the region. However, we can think of the relationship that Burntisland Fabrications in Fife has with Steel Engineering in Renfrew. We are also now talking to 600 companies in Scotland that are not in the renewables industry at all about the opportunities in renewables, to help them to be part of the supply chain. Some of them are involved in aerospace and the development of composites; some of them are in different parts of the engineering industry; and some of them are in oil and gas. Another industry in which connectivity is important is the food industry. We are working with about 600 companies and connecting them all together.

We recognised that we were perhaps not doing enough to bring companies together. I am sorry to use jargon, but we have colleagues who are account managers and who work intensively with companies. We have now aligned them along the same sectors so that it is much more likely that an account manager at Scottish Enterprise will work with 20 or so companies that are predominantly in the same sector, precisely in order that—to address the point that you are making—we can connect them up.

I am sure that there are some areas in which we are not connecting companies as we should be and I take your example on board. Nevertheless, we have moved much further, and 70 per cent of all the companies that we work with are in Scotland's key sectors and are much more aligned than they were.

Your point about connecting companies—particularly in the same sector—because they can probably work together and give business to one another is vital. That is how we will achieve a multiplier effect in the economy from sectors such as renewables. It is also a way for smaller companies to scale up and get contracts that, to be frank, they might not have been able to access on their own because they are too small.

Thank you for the information. I accept the point.

Professor McDonald: Michael McMahon makes an important point. Gamesa's entry into Scotland is tremendous. It has plans for 180 R and D jobs in its research centre at Strathclyde business park. It is a great partner.

To emphasise the point that Lena Wilson made earlier, the lack of mutual awareness in certain industry sector partners can be a drain on realising opportunities—I assume that the committee has talked about that before. We should celebrate how SE works with our industry partners. I would go so far as to say that it is envied south of the border.

I commend the committee to learn more about the industry leadership groups, which bring together key leaders in the industry sectors. I co-chair the Scottish Energy Advisory Board with the First Minister. In that board, we have Sir Ian Wood, Jim McColl, leaders from Scottish Power and SSE—such as Ian Marchant—and leaders from oil and gas right through to the demand side. Those people connect with a cluster of other sectorally relevant areas, such as renewables, the grid, oil and gas and carbon capture and storage.

We also have the Financial Services Advisory Board—FiSAB.

Dr Wilson: Of which I am a member.

Professor McDonald: We also have the Life Sciences Advisory Board. Each is co-chaired by a senior member of the Government. That is highly unusual and an important plank in Scotland's opportunity to connect.

Michael McMahon's point is important. We often find ourselves brokering conversations and relationships that did not previously exist.

I hark back again to the Glasgow economic commission. There are now eight commissioners, but the original ones were Keith Cochrane, who is the chief executive officer of the Weir Group, Benny Higgins, who is the CEO of Tesco bank, and Ian Curle, who is the CEO of the Edrington Group. One of the key pieces of feedback that they gave us as we built the proposition was that they were connecting better with other parts of the business and commercial scene in and around the west of Scotland with which they would not naturally have engaged.

There is an important point in Michael McMahon's question. Perhaps we need to do more to create the fabric that creates the basis for much stronger industry interaction.

Dr Wilson: I would be happy to send the committee much more information on the industry leadership groups if that would be useful.

The Convener: That would be appreciated, thank you.

Philip Grant: I am a member of FiSAB as well. In our experience throughout the UK, there is no closer engagement than the engagement that we as a national business have through such bodies in Scotland. My experience is that FiSAB gives an opportunity for interconnectivity and direct engagement with, and challenge back from, the Government. I agree that that should be encouraged and developed in Scotland.

Michael McMahon: We spoke earlier about the capacity of small businesses to grow. We have repeatedly seen statistics that predict the level of unemployment that we face over the next three to four years. This week, some difficult statistics predicted that unemployment might go back to levels that we have not seen for about 20 years. I think that Dr Wilson said that around one in 10 of our small businesses have capacity to grow—if I picked her up incorrectly, I apologise. It does not appear to me that the small business sector will be the one in which we will get the growth that will take up the slack in the number of unemployed people. If putting money into small businesses will not create the necessary capacity, where should we invest public money to ensure that that capacity is built?

Dr Wilson: Small businesses are important for the economy. I have become alarmed at suggestions that we should just get every small business to take on one other person. That would cause massive displacement, and many of those small businesses would go out of business because they all compete with one another.

Small businesses grow. We work with a lot of pre-revenue businesses and businesses that have ideas and intellectual property. Within five years, they can be turning over £7 million and employing 100 people. We must look out all the time for the small businesses that have the likelihood of the fastest growth. We are looking for volume of growth.

I think that I said in my opening remarks that 7 per cent of our businesses in the UK employ over half the workforce, and Scotland reflects that figure. A very small part of the business population employs most people. It tends to include the businesses that will grow faster, employ more graduates, invest in innovation and be more likely to internationalise and to invest in R and D. We do not ignore small businesses, which are important and are often very important to local communities—that relates to Paul Wheelhouse's earlier points—but our fastest and biggest growth opportunities are in the businesses that are in the 7 per cent that invest in innovation and R and D, which are most likely to grow.

The issue is not the size of a business, but the value that it could provide. Some companies with growth potential could be very small or pre-revenue. I want to bust another myth: it is untrue that we are interested only in big businesses. We are interested in businesses of any size that have the propensity and the opportunity for growth, because such businesses will employ more people.

Philip Grant: I return to points that Paul Wheelhouse made about regional and rural matters. Our organisation alone supported 6,000 start-up businesses across Scotland last year. As part of a balanced portfolio of initiatives, it is important—particularly in rural economies—to have that capability to support businesses.

We are talking about high growth, but business needs to be sustained as well. Some businesses do not have the opportunity to grow, but support through a small amount of investment to improve productivity and so on can sustain a business and employment over the next five or 10 years. Although that does not produce the large numbers that have a macro impact, that is still an incredibly important part of the economy that is worth supporting.

A huge amount of support is being given through all the start-up initiatives and the new initiatives that are being introduced. A lot of good work is going on through Scottish Business in the Community and so on in relation to community businesses. Such activity must be valued in the broader sense.

Mark McDonald (North East Scotland) (SNP): I was struck by the discussion about the need to attract talented international students to Scotland. I agree with that and with the point that, even if such people are not retained in the economy in Scotland, they become valuable partners when they return to their countries of origin or go elsewhere, because they have a link that can be developed.

I have discussed with two universities in my region—the Robert Gordon University and the University of Aberdeen—the difficulties that they face with the UK Border Agency in trying to attract international students. Recently, what is in effect accreditation from the UKBA has been removed from colleges. How do we counter those issues? What can we do to make those who are responsible for such decisions see the difficulties that could be created further down the line for attracting talented international students and fostering greater growth for Scotland?

Professor McDonald: I recognise that security is a reserved issue. We must keep on showing those who make the decisions the opportunity that we might be losing and the consequences of particular policies.

The overseas student recruitment situation has been a little exacerbated by the greater relaxation of rules in North America and Australia, which has allowed many international students who might have come to the UK to choose a more direct and less problematic route to a university education in another part of the world. It is understandable that the UKBA has put in place much stricter requirements, but we must ultimately understand that being an international nation means that we must not create any disincentives to an appropriate flow of people—particularly highly talented individuals.

How do we deal with that? We must keep on communicating. Michael Moore has had conversations with a group of university principals and has been to my university a couple of times in the past few months. We have politely but assertively raised the issue with him. Universities Scotland has done a good job of ensuring that the consequences of the UKBA's position are well understood.

All such things involve a balance between what is perceived as a national security issue and taking an open and progressive approach to internationalising the nation. In all things, the balance is important.

Of course, it is not only universities that face challenges as a result of the UKBA's position. Businesses that are international in nature are facing greater challenges—even within organisations—with the flow of talent. We need to keep on letting the consequences play out and I hope that that will ensure that the argument moves forward.

11:00

Dr Wilson: Jim McDonald is being incredibly diplomatic. We have to provide as much hard evidence as possible, because this could be a really big issue for the Scottish economy. We have an ageing and declining population and we will hit some real problems not so far into the future. We have been talking about employability; we certainly do not want to get to a stage at which we are struggling in terms of employment. My particular concern is about inward investment companies that might have to bring expatriates over for the first few years—there might be issues about visas. Another concern is hard-to-fill vacancies in our life sciences companies.

I have been trying to provide as much evidence as possible to show that, for the sake of the UK's competitiveness, it is in the UK's interests that Scotland gets to attract the talent that it needs. We need international talent to come into Scotland to help our economy grow. It is a serious issue, which deserves serious attention. I have raised the issue at Cabinet level.

Mark McDonald: It is interesting that you talk about future demographics. That, and the need to attract talented working-age immigrants to Scotland, came up during our fiscal sustainability round-table sessions.

I will address the issue about export markets and, in particular, the expansion in the food and drink sector. I regularly go to agricultural shows in the north-east and I see a range of innovative small companies produce high-quality food and drink products. I note that Dr Wilson cited Brewdog as a strong example of a company that now has an international focus. I am obviously familiar with Brewdog, given that it is from the north-east, although I am not necessarily familiar with its product. [*Laughter*.] Brewdog also has a very good domestic foothold, but some of those other companies are finding it difficult to get a domestic foothold, because it is often easier for some of the larger supermarkets, for example, to buy in conveyer-belt produced bulk product rather than niche products. How can we help those companies gain the domestic foothold that they need so that we can then put their quality produce out there internationally?

Dr Wilson: I pay testament to the work done by Scotland Food and Drink. It is a fantastic industry association—heavily seed funded by Scottish Enterprise—and we work hand in hand with it. I think that that has been part of the reason for the turnaround in the industry.

I might have to correct my figures when I see the *Official Report*, but turnover from food and drink is certainly somewhere between £11.5 billion and £12 billion—I think that about half of that is exports and is international. Although domestic markets are important, there are limits to growth in a market of 5 million people in a relatively small country. The big opportunities for growth, even for small companies, lie in international markets. Frankly, such companies will also get a higher premium, because their produce is perceived to be a speciality high-provenance product. We have done a lot of work with speciality producers through meet-the-buyer events with the multiples and supermarkets.

Whole Foods Market in Giffnock, in the south side of Glasgow, is a US high-end retailer. It has committed to large quantities of its meat, fish and speciality products coming from Scotland. The fact that some international high-end retailers have come to Scotland has opened up the domestic market for some of the Scottish producers that are not so suited to the larger multiples. We can do some things to help. If the economy grows, we want to buy better produce, so it all comes back to growing the economy. If the economy grows, we want to buy premium goods. The big opportunity, however, is often in international markets. We should be proud that, for some Scottish companies, 80 per cent of their turnover is from international markets and that that percentage is growing, because 5 million consumers versus billions of consumers is a no-brainer.

Mark McDonald: I take your point entirely. It is more about enabling such companies to get an initial foothold that would allow them to launch from there. I take on board that it does not necessarily need to happen that way if they can cultivate an international reputation.

I will vindicate Mr Grant. Although the term “luxurious safety net” was used in the article, it was used by Eddie Barnes, the journalist, and not by Mr Grant. I wanted to get that on the record.

Philip Grant: Thank you, Mark.

Mark McDonald: I will ask about support for small to medium-sized enterprises. Professor McDonald’s university is producing talented young graduates, many of whom will start up companies. Dr Wilson, at some stage, will be looking to help those companies grow globally. I see Dr Wilson’s role as helping those companies develop and giving them the foot up that they need to get going.

I appreciate what has been said about the recent difficulty in the banking sector. There has been necessary caution, but also perhaps some unnecessary caution, where there has been reluctance to take a calculated risk on companies. Does the panel think that that is starting to be shed, with some small to medium-sized or one-person companies, which often start up in the teeth of the recession? Will the banking sector now start to take more calculated risks on those companies, to give them the support that they need?

Philip Grant: There are two brief points to make on that. Risk is often best understood and managed when we invest in knowledge and awareness. The interesting thing about key growth sectors is that many of them, and many of their business ideas, are new and innovative, and therefore new and innovative to bankers and people who carry out assessments. I was with Lena Wilson’s senior team yesterday, and we talked about some of the challenges that that brings. In my opening comments I reflected on the fact that we as a bank—and banks generally—probably have resources, knowledge and expertise on sectors that are not growing, but that we are sustaining and supporting. We need to invest in awareness and knowledge so that people better understand the risks. We have to invest, with our partners, in developing our understanding and knowledge. That will put us in a much better place to assess risk. I agree with you—the banks have more to do, and knowledge will be the best thing to help us to assess risk.

I return to an earlier point. My optimism and reassurance comes from times when I have watched the oil and gas sector, and other sectors. Banks, working closely in partnership with private and public equity providers, changed the way that we operate. With the oil and gas sector, for instance, we brought a lot of engineers into the bank, because to understand that industry we needed engineers, not bankers.

We are reflecting, and we are working on how we reshape. For instance, our commercial and corporate businesses have been reshaped into sector teams. I said to Lena Wilson yesterday that she could take some credit for the fact that, ironically, banks are adopting more of a public sector approach to future opportunities, rather than the private sector approach that we have taken in the past. That will have a marked effect. We need expertise, knowledge, specialism and focus, so that the right customer with the right idea gets the right person, who can support them and understand the risk.

The test of that, as Lena Wilson and Jim McDonald said, will be the case studies. First, I will be proud to go along to the opening of a facility that is probably supported by Scottish Enterprise funding, probably with some input from an intellectual property source, and then, in two, three or four years' time there will be maybe 30 or 40 jobs in that company. That partnership approach is why I spoke about sharing optimism. Optimism can be a lonely place if you are the only one that is optimistic. I am reassured, across each of the stages and through the glass ceilings, that if there is real focus and enlightened self-interest from all parties we will see genuine growth from the opportunities that we have talked about today.

Elaine Murray (Dumfriesshire) (Lab): First, I apologise to the committee and to witnesses for my inability to read the agenda and for coming in half an hour late. I will read everyone's contributions with interest.

My first question is for Jim McDonald, and perhaps Lena Wilson. We were talking about the need to attract able people into science and engineering. I agree completely—I would like science to be the first choice for many people, and not just something that they do if they cannot get into another course.

My question is about the qualifications that people need to get into university. At the moment, they are based on academic intelligence—in other words, the ability to absorb information and solve problems—and although other forms of intelligence such as entrepreneurial ability and ability to sell in the market are very important, they are not really captured in the current examination regime in schools. Is curriculum for excellence solving such issues? Are you involved in discussions on the content of the curriculum to ensure that such abilities, which will make Scottish business and, indeed, Scotland itself very successful, are being recognised and nurtured? After all, a certain individual who is not the most academically able could be a heck of a good businessperson if they got the opportunity.

Professor McDonald: I will try to tackle that on a couple of fronts.

The intention behind curriculum for excellence is to ensure not only a broadening but an appropriate deepening of education, not least in mathematics and science. Let us be frank: those who seek to pursue a science or engineering degree at university should have a very deep grounding in mathematics. I do not buy the dumbing down cliché that is too often used about schools, but we must ensure that teaching quality, the curriculum's relevance and the connectivity between schools and universities, which at the moment is not what it should be, are enhanced. The higher-quality experience that curriculum for excellence produces for students must be met by universities, and we must ensure that we are much more effective at articulating what we need. If we are producing a chemist, they must have a very good grounding in the basics of chemistry with higher or advanced higher qualifications.

Tomorrow, I will be visited by Colin Stewart, who is the chairman of Scottish Enterprise's east regional advisory board, and a colleague, Angela Mathis, who is on the Scottish science advisory committee. We will discuss the quality of mathematics teaching and the exposure of the students we are producing, not just at Strathclyde but in the sector itself, to mathematics, with a particular bent towards accountancy, finance and risk modelling. As part of our understanding of the skills required to pursue a university career, we must be absolutely determined to establish an appropriate quality threshold. Over the past three or four years, the grade point average for entry to my institution has increased from around 395 to about 435. I make no apology for that because, alongside that, we are addressing the widening access agenda and ensuring that we put in appropriate finances, provide support, set up summer schools and carry out other work with students to give them pathways to success.

The broadening of studies in curriculum for excellence to include the kind of problem solving and communicating abilities that business needs is also important. I do not know whether you can teach confidence, but we need to get that somehow. I am not saying that Scotland suffers from a pervasive lack of confidence, but we need to ensure that our young people are confident. Of course, given the current circumstances, that will be difficult but if our young people start with their heads down, how are they going to realise their potential? We need to engage with them and give them enough of an opportunity to express themselves and build themselves up. In any case, I make no apologies for insisting on a very solid and deep understanding of maths and science before they pursue such courses at university.

Dr Wilson: I agree entirely; indeed, I entirely agree with the direction that Elaine Murray took in her remarks and her subsequent question. As the first graduate in my family and the first person to get the chance to go to university, I think that such opportunities are vital. I should also declare an interest: I did my masters at Jim McDonald's institution and, more important, had a very good experience there.

However, despite my earlier remarks about science, engineering and jobs, we have to remember that some of Scotland's greatest entrepreneurs and those who run very large businesses did not take the traditional route and go to university. Moreover, when I look across the breadth of businesses, I believe that we can do a lot more to develop what might be called emotional intelligence—by which I mean the ability to relate to people, to communicate and to work in a team—and from what I have seen of curriculum for excellence I think that it offers opportunities in that respect. Of course, I do not profess to be an education specialist.

11:15

Although higher and further education offers a whole range of technical and advanced skills and although I believe in the power of learning and the experience of going to university, we need to remember that it is not the only route to competitiveness. We need to focus not only on wider skills with regard to relationships between human beings in the workplace, but leadership skills; after all, almost everything that I have said comes back to leadership, ambition and the notion of confidence that Jim McDonald highlighted. We want young people to be ambitious, to want to run leading companies and to want to be good leaders either in the public sector, where I am, or in the private sector. I certainly agree that this is important.

Elaine Murray: I was a physical chemist at one time and, 40 years later, my mother is still disappointed that I did not pursue a career in medicine.

My next question goes back to Mark McDonald's earlier question about food. I am slightly uneasy about all this good, healthy, Scottish produce being sold to middle-class people in other countries while Scotland's poorer communities are eating rubbish that might well have been produced elsewhere. Is this not an issue for our health agenda? Should we not be encouraging Scottish people to eat healthy local produce and, in turn, to boost our local industries? I am not saying that that should happen at the expense of exports, but I would not like us to go too far down the road of saying that our quality produce should be only for export simply because the market is out there. We also need to encourage people in Scotland to eat local produce that has not travelled hundreds of carbon miles.

Dr Wilson: I agree. Thankfully, I am not responsible for education or health policy but I understand the relationship between a healthy economy and a healthy people. I confess that I do not eat meat.

We certainly want Scottish people to eat the healthiest possible produce. Just yesterday, I was talking to someone about the Fife diet, which is all about locally sourced, high-quality produce and I believe that there has been a big movement in that direction in Scotland. We have had a lot of setting the record straight this morning and I want to set the record straight that I am not suggesting that we send all our healthy produce elsewhere in the world.

Elaine Murray: Do we not also have a huge economic opportunity to tie in the promotion of local produce with the scenery and everything else that Scotland has to offer as a tourist destination?

Dr Wilson: There is a huge link between rural areas, the food and drink industry and tourism. Food tourism is massively important and covers everything from quality ice cream—I do not know how healthy that is, but it is delicious—to fantastic seafood and the lochs and other such destinations that produce it. I agree that there is an economic opportunity in that respect, but I should point out that not only Scottish people but tourists will be eating that produce.

The Convener: I am now feeling guilty about that McDonald's I had for lunch yesterday, but I suppose that I am keeping Jim's family firm in business. I should say, though, that I am going to David Bann tonight for a vegetarian meal.

Dr Wilson: It is a great restaurant. I had the vegetarian shepherd's pie recently.

The Convener: The committee has exhausted its questions. Usually, I would ask a couple of final questions, but the evidence session has already gone on for almost two hours—and indeed could go on and on. We have had a very interesting, stimulating and thought-provoking discussion and I thank the witnesses for their excellent contributions and my colleagues for their excellent questions.

I point out that this afternoon in the Parliament there will be a debate on fiscal sustainability and, tomorrow, there will be a debate on economic growth. It is a busy time for Finance Committee members, because we will also be having two round tables on employability and will take evidence from Skills Development Scotland and the Minister for Youth Employment. We are very much focused on the issues that we have discussed this morning.

I suspend the meeting to give members a brief natural break and allow them to collect their thoughts for the next evidence session and to allow the witnesses to leave.

11:19

Meeting suspended.

11:28

On resuming—

Social Care (Self-directed Support) (Scotland) Bill: Financial Memorandum

The Convener: For item 3, I welcome to the meeting Jean Maclellan, head of the adult care and support division; Jen Willoughby, the bill team policy officer; Iain Pearce from the analytical services division; and Craig Flunkert from the bill team. They are all from the Scottish Government. Good morning. Would you like to make a short opening statement?

Jean Maclellan (Scottish Government): Thank you, convener, I am happy to do so. I really enjoyed the earlier witness session.

The Convener: I am sorry for keeping you waiting, but it was a stimulating session and I did not want to interrupt.

Jean Maclellan: I couldn't stop smiling. I could not get over the fact that I have brought my children up so badly. They are both creatives; one is a designer and one is a jeweller. I thought that I had failed them in every possible respect. I hope that I am better at this. [*Laughter*.]

Convener, you have introduced the team, but I will clarify our roles so that you know to whom particular questions should be directed. I head up the division. To put that in context, in addition to dealing with self-directed support policy, the division was set up a few years ago to look at social care policy, although we stray into health policy as well. Mostly we work with the experience of the individual in relation to the support and services that they receive. Other parts of the division are responsible for the policy for people who have a learning disability, people who have autism, and adults who survived being abused when they were children in care but who have problems with life at times and have found it difficult to recover, participate in society and get employment. We aspire to help them in that regard. We are also responsible for carers policy and young carers.

The division does quite a lot of diverse work but, at its heart, it looks at the experience of the individual and their aspirations. Self-directed support is a key component of that. We endeavour to look at how each part of policy impacts on others, and are always looking to improve the quality of life for individuals who use support and services.

11:30

Craig Flunkert is our bill team leader, so questions for him would be about the rationale for the bill and the bill's content. We also have a wider strategy, which is a 10-year programme, and the bill is only part of what we are trying to achieve, as the committee will have seen from the papers that it has already scrutinised.

Jen Willoughby is Craig's supporter, but she specialises particularly in the financial aspects of drawing the bill together. She is being ably supported in that by Iain Pearce, who is an economist. He gives us technical and professional detail.

I will give the committee a bit of background about where we think we are. We have general stakeholder support for the bill from users, carers and professionals. The one notable exception to that is the Convention of Scottish Local Authorities, which is of the view that statute is not necessary. Some local authorities also hold that view to a greater or lesser extent.

It would also be fair to say that the difficult fiscal situation that conventional or general service delivery is facing is, to a degree, constraining the pace of our aspirations. Members should make no mistake about the fact that self-directed support is a radical systems change. It is about giving choice and control to the individual. Counterbalancing all that, there is a general willingness across Scotland—a hearts and minds commitment, if you like—to make the policy work. There is also a view that the users of support might well be able to get better value from the resource that they are allocated and better outcomes for themselves if they are truly involved in shaping that support.

A considerable body of qualitative evidence emphasises the positive benefits to individuals. However—and it is a considerable however—the lack of robust quantitative evidence means that estimating costs has been challenging. We have small, microlevel bits of evidence, some of which has come from England, but when we began, we did not have a macrolevel Scottish context.

Our methodology was to consider costs, benefits and impacts as widely as possible. Because of the lack of substantive quantitative evidence, we commissioned a study from David Bell and his team at the University of Stirling on macrolevel costs and the benefits of SDS. That study essentially confirmed for us that it is genuinely difficult to make accurate estimates. It also concluded that self-directed support costs are similar to those of existing conventional social care support. There was no sense that greater expenditure would be required as a result of changing the model.

We used other evidence, such as the Reid report, which dates back to 2003. It looked at a number of local authorities and best estimates of cost for introducing direct payments rather than a whole SDS framework. We looked at our experience in implementing other acts that had local authority costs—the bulk of the burden from this proposed statute will fall on local authorities. We took some of the calculations that we did around adult support and protection legislation because there are some parallels there. We also did some internal modelling of potential shifts such as expected take-up and what that might look like.

Underpinning all that, we have done a considerable amount of consultation with stakeholders. The business regulatory impact assessment shows that we have consulted in two phases. We also consulted with COSLA and local authorities throughout the process. In addition to a bill steering group, for example, we have a wider strategy group of which COSLA has always been a member and to which it has always contributed.

I move briefly to the contents of the financial memorandum. We identified potential costs in various areas around the framework provisions, including what we need to transfer from one method of assessment and delivery of social care services to another; what that means for workforce development; what it means if we are truly putting citizens at the heart of the changes; and what information and advice must be readily available to them and explained to them so that they become, to a degree, advocates of their own destiny. We also recognised potential cost implications in the power to provide support to carers, in relation to the duties to provide direct payments and, a little bit, in joint working with the NHS. The financial memorandum considers whether the costs within each area are directly or indirectly associated with the implementation of the bill.

I will stop there and sum up the issues. There is a difficulty in arriving at figures due to a lack of evidence, which is acknowledged by all parties—it is not as though someone takes a different view from ours about how the costings could be put together. The figures that we have are our best estimates, and we have applied a logic to the process.

The lack of agreement with COSLA is significant, but many local authorities do not hold COSLA's view. Yesterday, we gave evidence at the Health and Sport Committee and several local authorities were there, three of which—Glasgow City Council, Dumfries and Galloway Council and Highland Council—had participated in test-site pilots and were very supportive of all that has been done to date. It is clear that all local authorities are in different positions and therefore require different levels of support and funding.

We are constrained by the current fiscal situation, but that does not alter our assessment. The accounts provided are estimates. We also think that there are other significant pots that local authorities can go to—the reshaping care for older people change fund, in particular, although there are other change funds. That change fund totals £220 million. Within the guidance for local authorities on applying for money from that pot, specific reference is made to self-directed support being one use of that money. There is another substantial pot for autism, one for learning disability and one for sensory impairment. It is not all about a cumulative self-directed support pot.

There is also the issue of long-term, recurring and short-term costs. Our view is that the proposals would be cost neutral in the long term, and that is supported by the Stirling study.

We face the difficulty of separating out what is required for the bill directly and what is required for the wider strategy. If we are looking at it critically, to implement the bill really requires only specific bill training. The wider funding is to effect what was described at the Health and Sport Committee as the "seismic" culture change that the strategy requires.

I will stop there—it is over to you.

The Convener: No bother. Thank you very much. I will focus a wee bit on COSLA, as its response is the issue of greatest concern. The explanatory notes state:

"The specific impacts of the Bill provisions themselves are relatively narrow. However, there are a range of costs associated with transforming culture,"—

which you have just touched on—

"systems and approaches to social care provision in response to the Bill and the wider Strategy."

In its response, COSLA says that

"commissioning arrangements, administrative costs, and dual running costs are partly dependent on the choices individuals make under SDS. That said, the £23m identified falls far short of even councils' most conservative estimates."

It says that councils have suggested that the lowest estimate—it has put "lowest" in italics, just in case we have not picked that up—would be just over £50 million. However, COSLA suggests that the cost, over three years, would be £90 million.

Having looked through a number of financial memorandums I am well aware—I am sure that colleagues are too—that Scottish Government officials always seem to err on the side of the lowest possible costs and that many organisations, such as COSLA, always seem to suggest that the costs will be higher. Occasionally, there has been a meeting of minds, but that has not happened as often as we would have liked. Given what you said about local authorities being so supportive—I am well aware that stakeholders other than COSLA are overwhelmingly supportive—and the test work that has been carried out so far, why is there a mismatch between what the bill team is saying and what COSLA is saying?

Jean Maclellan: I will let Jen Willoughby explain how we came to our costings so that the committee can reach a view on whether they are realistic.

COSLA's estimates are based on a survey that it conducted. At yesterday's Health and Sport Committee meeting, it committed to providing a collation of that survey rather than the individual authorities' returns. Our sense is that the survey used a range of methodologies rather than a consistent methodology, so COSLA was provided with very disparate returns, and that the figure that you quoted as the "lowest" is the median or middle of the range that it received.

Jen Willoughby can talk about our calculation of the £20-odd million for transformation.

Jen Willoughby (Scottish Government): I reiterate what Jean Maclellan said. We think that the COSLA estimates are overestimates, but I guess that members are used to Government officials saying that to them. We think that its estimates do not include the possibility of any savings that might occur over the three-year period, and we think that there will be savings. In the financial memorandum, I pointed to the example of the Alzheimer Scotland pilot in Ayrshire in which considerable savings were made with only a few people. That is an example of what can be done when money is used more flexibly in an SDS package.

I produced a little table, which is included on page 24 of the financial memorandum and which shows how we came to the £23 million estimate. Jean Maclellan referred to the Direct Payments Scotland "Direct Payments Finance Project Report", which is one of the sources that we used for that. I think that further information about that was provided to you. That report is from 2003, which is a considerable time ago, but it looked specifically at bridging finance needs in local authorities. The issue of bridging finance is not new; it has been on-going for many years, as members can tell—as I said, the report is from 2003. That project tried to break things down specifically and look at several areas objectively.

We recognise that things have moved on since then. Obviously, it is not 2003 any more and things will be different. Local authorities have received substantial amounts of money from the Government since then to effect transformation, and there has already been substantial transformation in many local authorities. They have moved away from block contracting and building-based services, which will help with bridging finance and the need for dual running costs—or the lack of need for them. We thought that that published report was useful public information on which to base an estimate.

Obviously, we uprated from 2003 prices and scaled up the estimate for the whole of Scotland, and we compared that with a Glasgow estimate. Glasgow City Council is currently rolling out SDS with money that it asked for from its local council committee. As members will see from the table, the figure is £0.5 million per year for three years. That compares quite favourably with the estimates that we upscaled from the Reid report of 2003.

That is the reasoning behind our £23 million estimate. As Jean Maclellan said, the COSLA estimates have not been published—they are not in the public domain. We have worked with COSLA quite extensively and tried to work through the estimates with it, but we think that its estimates are overestimates and that it has not taken into account other factors, including the savings that could be made.

The Convener: There is concern that the

"potential saving has perhaps been over-emphasised."

I think that that is really about the long-term savings. How robust are the data on the potential for long-term savings?

11:45

Jen Willoughby: The case for long-term savings and cost neutrality in the long term is quite robust. The Stirling report found that, in the long term, the costs were not different to those of what might be called a traditional package. That backs up findings from the individual budgets evaluation network—IBSEN—survey of personal budget pilots in England. It came to a similar conclusion about cost neutrality, so that is the academic view.

Obviously, we need to keep an eye on the issue, which we will do in the long term as part of the monitoring process around the bill and the strategy.

The Convener: Jean Maclellan mentioned the change fund. What will be the long-term impact of the legislation with regard to the change fund? Is that a pot that local authorities should be able to dip into in the short term, or will they have to rely on it, if the figures are not as robust as is hoped?

Jean Maclellan: The change fund is specifically for the term of this Administration. At the moment, it is not clear whether it will continue thereafter. It is particularly focused on older people's issues and carers' issues. It is not SDS-specific.

The Convener: I think that all committee members are aware of that. If the change fund was not continued beyond this session, would there be a need to consider additional sources of funding, or would the SDS budget be completely neutral by that time, so there would be no need to access additional funds?

Jen Willoughby: The Stirling report talks about cost neutrality in the long term. What is meant by the long term differs between local authorities, because they are all in very different places. As I said, some of them have moved away from block contracts entirely and now use spot contracting, which is far easier to align with what we are doing under SDS. It is difficult to say where we will be after the end of the current spending review and whether any further transformational money will be needed.

We expect transformation to be a fairly rapid process and to be able to get things in place quickly. The idea of the transformation funding is to push the strategy forward quickly, in line with the bill, and to make the two things happen at the same time. We expect that, in some local authorities at least, there will be no further need for funding after the end of the spending review period.

Jean Maclellan: I can give two small illustrations of what we are talking about. John Alexander, the director of social work in Dumfries and Galloway, said yesterday that he has only spot purchasing now and that, on that basis, he can get much better value for the £20 that a client spends than he can get by spending it for them. You can set that against the Glasgow experience. There, traditional care packages had not been reviewed for a number of years. Some of those packages, concerning people who were placed in the community when long-stay learning disability hospitals were closed, amounted to five or six figures. Those are the complexities of the system that we are working with.

The Convener: I am playing devil's advocate, to an extent, as I have seen some of the significant savings that have been suggested.

I take it that you want full roll-out and full implementation by the end of this session.

Jen Willoughby: Obviously, if the bill is passed by the Parliament, we would expect enactment to take place around the end of next year. At that point, any new clients presenting to social work will be assessed along the lines of SDS and will be given the options that they would be entitled to under the act. When existing clients enter their review process—that should take place every year, but, for various reasons, it can take longer in various local authorities—they will be offered the options and choices that will exist under the act.

We are in negotiations with the Association of Directors of Social Work and the Convention of Scottish Local Authorities about how long we might require that process to take, to ensure that everyone is offered the choices. We are looking at three to five years after the enactment of the bill before the system is in place for everyone.

Jean Maclellan: The wider strategy is 10 years.

The Convener: Yes. I will open up the discussion to colleagues.

Elaine Murray: Jean Maclellan mentioned that Dumfries and Galloway was one of the pilot sites, and that John Alexander, the director of social work, gave evidence to the Health and Sport Committee yesterday.

With regard to the bridging costs, the public reaction to what was happening in Dumfries and Galloway was, unfortunately, that the changes were perceived as a smokescreen for the closure of day centres and adult resource centres. There was a significant backlash against the concept of personalisation, which is most unfortunate and very sad.

The backlash occurred to such an extent that the two parties most likely to form the administration in Dumfries and Galloway both said in their manifestos that they would keep the day centres open. Where there has been such a degree of public reaction, and where many people in receipt of services would choose to buy into the building-space services—as they are called—there will not, in the immediate future, be any savings from the cost of the buildings.

If that experience is replicated throughout Scotland, the transitional costs for local authorities could be significantly higher than estimated.

Jen Willoughby: A lot of the bridging finance estimates involve double-running costs. We are having to run the building-based services for those people who want to remain with them while other people move away, and having to liquefy resources so that people can take a direct payment to go and purchase a service elsewhere.

We are not imposing any choices on people, or saying that building-based services or day centres are wrong. If there is a demand for those services, they will remain and flourish because people want to use them, and people will direct their resources to those places.

If a local authority has day centres for which there is a demand, there is no reason why those day centres would have to be closed at all.

Elaine Murray: My point is that if a slightly smaller number of people are using the centres and perhaps using the personalisation moneys to buy into services in such centres, but other people are choosing to go elsewhere, local authorities will not be able to make savings from the day centres that one might assume would be made over a transitional period.

Jen Willoughby: Yes—there is a case for some rationalisation within those services if there is some spare capacity. One example is South Lanarkshire, which has invested quite heavily in its building-based services to create flexible resource centres. Day centres within buildings have been expanded to include other services.

If a local authority finds that it has spare capacity and spaces, it might use those in more creative and flexible ways to provide other services that people want.

Elaine Murray: At present, many local authorities have excess property that they are not able to use and are trying to dispose of. However, in the current economic climate it can be quite difficult for them to sell the buildings and put the services in with a day centre or whatever. The transitional costs may therefore be a bit higher than you were anticipating.

Jean Maclellan: A lot of things that are laid at the door of the self-directed support policy are about much wider social care issues. The closure of day centres is part of another policy that is largely related to the needs and wishes of people with learning disabilities. It dates back to the same as you initiative from 10 years ago, which involved a consultation in which the vast majority of people with learning disabilities who contributed said that they did not want building-based activities.

That flies in the face of what other client groups might say. People on the autistic spectrum—please forgive my gross generalisation—prefer being in a building where they know the environment, the lighting, the seating and the routine.

The SDS framework allows people to choose whether they want a direct payment, an individual service fund, conventional services or a combination of all those elements. It is not about being dogmatic, but about trying to enable choice and a degree of control.

Craig Flunkert (Scottish Government): To expand on what Jen Willoughby and Jean Maclellan have said, committee members may have seen the recent Audit Scotland report on "Commissioning social care", which relates to the way in which good-quality strategic commissioning of services and procuring of particular services on the back of that come into play.

One of the report's main findings is that councils need to put longer-term strategies in place to improve how they do that. As Jean Maclellan said, SDS is a driver for getting commissioning to shape up a bit more, but it is one of many drivers.

Iain Pearce (Scottish Government): Another thing that it is important to stress is that the concern around double-running costs that the personalisation agenda has given rise to tends to relate to the fact that local authorities are concerned that people who are offered self-directed support will move away from building-based services, but the buildings will have to be kept open for the smaller number of people who still wish to use those services.

It is important to stress that the fact that someone goes on to self-directed support does not mean that they will stop using building-based services. We know from the experience in England that people tend not to make very radical changes to the services that they use, even if they are moved on to a more personalised regime. The most recent statistics from England show that although there has been a higher than expected take-up of individual budgets—35 per cent of users have been transferred across to individual budgets—the vast majority of people in that subsection are still not choosing to take direct payment-style options and move away from building-based services. Overall, only 9 per cent of the total number of clients have taken such options. Even when they are offered the choice, the vast majority of service users will continue to consume the more traditional council-organised services, so although there will be a large cultural shift in how services are designed and delivered, there will not necessarily be a move away from the traditional locations and buildings that they have been delivered in to the degree that is feared.

Jean Maclellan: Just to give some ballpark statistics, only 2 per cent of those who get services at the moment are using an SDS equivalent, so we are far from reaching a tipping point of any sort.

Michael McMahon: From my experience locally of people who engage with the local authority in determining their support needs, managing their expectations appears to be crucial when it comes to the amount of money that the local authority ends up spending on the services that are delivered.

To go back to the convener’s culinary experiences of burgers and Egon Ronay food, people will expect the best that they can get, but what is put to them by the local authority is often way short of their expectations. Is that the type of dialogue that we get into in trying to meet the demands set out in the financial memorandum? Is it the case that, at the lower end, people will be dining on burgers rather than on steaks?

Jean Maclellan: There are many ways to answer that question. Some of the interventions that people are looking for in their lives are very small. For example, they might want to be a member of a leisure centre; such a membership could make a major impact on their health and wellbeing.

I can think of an illustration of an intervention that was fairly controversial in its day—it dates back a couple of years. A local authority had provided traditional respite for an adult with learning disability and his mother, which meant that she had a rest when he was away. He would go into a traditional residential unit, which he did not particularly enjoy. Through SDS, the local authority bought a caravan and a motorbike, which meant that the mother and the adult child could get respite in the caravan whenever they chose. There was not much social work involvement and the cost was less over a relatively short period of time than the cost of continuing to provide an arrangement that neither party benefited from.

Craig Flunkert: As Jen Willoughby mentioned, using Scottish Government funding, Alzheimer Scotland undertook a pilot in the Ayrshire council areas that produced some stark figures.

There were six people with dementia in the pilot, and the total combined cost of direct payments with self-directed support packages for them was £880 per week. Alzheimer Scotland estimates that the total equivalent cost of residential accommodation, which was seen as the primary alternative for those individuals, was £2,845. In that instance—

12:00

The Convener: —the potential annual saving is £102,180, as you state in paragraph 82. You are obviously keen on that example.

Jean Maclellan: We like it. It demonstrates something.

Craig Flunkert: That is a positive example. Jean Maclellan mentioned that Glasgow City Council is undertaking a large review programme and in many cases it is reviewing the support of individuals who have not had a review for a long time—much longer than the yearly reviews that the guidance recommends. Some individuals’ needs reduce in time and the level of support to which they are entitled also reduces. That can be a difficult discussion for the social work practitioner and the individual to have. The review is not necessarily prompted by self-directed support; it happens in order to offer the individual greater choice, but it can still be difficult. Discussions are often easier with newly presenting clients. That is the other side of the issue.

Iain Pearce: To come back to the point about whether people are eating McDonald's or steaks, it is worth looking at the experiences of people on self-directed support. We have seen from the test sites where self-directed support is being piloted in Scotland, and also from the evidence from where individual budgets have been introduced in England, that people who choose to go on to individual budgets or self-directed support report that they are happier with the services that they receive and that they feel that they have a better quality of life and better outcomes. The outcomes are positive when such support is introduced.

Jean Maclellan: We want the best value for the public pound. There is an issue of equity across Scotland, because provision varies between local authorities and people with similar needs are not necessarily getting the same care packages, whether they are traditional or innovative. Part of what self-directed support does, through reviews and so on, is to release some funds that can be given to other people who might not have had their outcomes met if it were not for the initiative pushing or driving forward the agenda. Equity is an important aspect of the work.

Michael McMahon: That is helpful.

Paul Wheelhouse: I want to give the witnesses an opportunity to address a couple of points on page 34 of the Scottish Parliament information centre briefing, on the main issues for local authorities, service providers, SDS users and family carers. I would have asked about building-based solutions, but that has largely been dealt with. However, I ask the witnesses to comment and give their views on a couple of points.

The paragraph on the main issues for service providers mentions

"the risk of investing in staff training and infrastructure if services are destabilised (e.g. by SDS users changing contracts at short notice)."

I appreciate that there is only a limited evidence base so far, but is there any validity in that statement or are you happy that such things can be addressed?

Jean Maclellan: Craig Flunkert is the best person to answer that. Perhaps Iain Pearce can help, too.

Craig Flunkert: Some of this comes back to the way in which the bill frames the four options that are available to individuals. Sometimes there is an assumption, which feeds through to some of the findings from the Stirling study as well, that 100 per cent of people will move on to direct payments and take their business elsewhere.

Although the bill will make a big difference by enshrining people's right to choose, and if they want to get the direct payment and take their business elsewhere they will be able to do that, it sets out four options, including the option to choose arranged services, where there is already investment in professional care managers. It is sometimes easy to overstate the impact that the bill will have. As policy officials, we obviously want to emphasise the difference that it will make, but the idea that there will be an overnight destabilising of the situation is probably a red herring.

Iain Pearce: Currently, only 3 per cent of service users access services through direct payments. Even with a large increase in that number, such as a 100 per cent increase, we will still end up with somewhere in the region of only 5 or 6 per cent of services being delivered in that way. There are challenges for service providers, but they need to be viewed in the context of the changes that are occurring in local authorities. There is already a shift in local authorities away from the traditional block contract towards the use of spot contracts. As local authorities move towards spot contracts, the differences between having a spot contract with a local authority and a spot contract with a self-directed support individual will be smaller than the differences between having a block contract with a local authority and a spot contract with an individual who has self-directed support. Some of the differences will disappear over time anyway, as councils change the way in which they procure services.

Jen Willoughby: We are investing in providers in the next three years. We allocated £1 million last year, and there is £6 million in the next three years, to invest in transformation among providers and to help them to come to terms with and prepare for the changes. Some of the money has gone to Community Care Providers Scotland, which represents providers. Its role is to troubleshoot for providers, to consider where the issues are and to come up with solutions, and then to feed back to the Government to tell us what is going on in the sector. Lots of innovative projects are going on to grow capacity and to help service providers to move on and to become more streamlined and efficient.

Paul Wheelhouse: That is helpful.

My second point, which is in a similar vein, is that there is a risk that the cost of the increased flexibility in SDS will fall on SDS users and family carers. Will you respond to that and say whether the costs are included in the financial memorandum and whether you are happy that you have dealt with that risk?

Jen Willoughby: We recognise that, as people take more control, they take on certain costs because of the time and effort that are involved in organising their own package. There will be monitoring costs. If someone decides to take a direct payment, the council will require returns at various intervals, so that will involve the costs of the personal time and effort that the person puts into that. The evidence from users who are already on direct payments and self-directed support packages is that, despite those costs, they still see the value of the packages that they receive and they do not consider those costs to be a barrier to uptake of the packages.

Paul Wheelhouse: I should put it on record that I support the policy, so do not take my questions the wrong way.

There is also a suggestion that independent advocacy might need to be beefed up a bit for those individuals. Has that issue been taken into account?

Jen Willoughby: Support, advice and information are key aspects of the agenda. It is important to ensure that people make an informed choice rather than just any old choice. That has been flagged up in every piece of research that has been done on self-directed support. We are investing in advice and support services in the next three years to try to grow capacity. There are many advice and support services out there, but we need to ensure that they are networked, that they are in the right areas and that they can move into other areas if necessary to provide the support that people need.

The approach applies not only to the self-directed support agenda. We have a carer information strategy. Carers can go to places to receive advice and support, which can include stuff about SDS. We also have one-stop shops that can provide advice and support for people with sensory impairment. There is a large network out there. We need to bring the services together and ensure that the coverage is sufficient and that services have the right information to give to people to help them understand their choices.

Gavin Brown: I will focus on the financial memorandum. There is a degree of support for the bill, but the flashpoint is around the estimates of the transformational costs to local authorities and the time that it might take for transformation to happen.

You referred to table 2, which is the main basis for your estimates. Am I correct in thinking that the table is based on data from only three local authorities?

Jen Willoughby: Yes.

Gavin Brown: Why did you not seek data from the other 29 local authorities?

Jen Willoughby: We consulted twice on the bill, which included consulting on a business and regulatory impact assessment and asking local authorities for their views on the finances. At every stage of consultation, local authorities have told us that there will be costs but that they do not know what the costs will be. The costs are uncertain because of the nature of the proposed changes. The costs will depend on what individuals choose to do, so it is difficult for local authorities to estimate the costs and think about them quantitatively. Local authorities found it difficult to tell us what the costs will be.

COSLA wrote to local authorities to survey them, and even it found it difficult to reach any firm conclusions. Local authorities could quantify some costs but not others, and different methodologies were used to find costs in different areas. We decided that the most sensible way forward was to use sources that were in the public domain.

Iain Pearce: As Jen Willoughby said, we tried to develop a set of costs by taking a bottom-up approach and putting costs against individual items, because finding evidence on what the costs will be has been difficult. When we began to produce the financial memorandum, one of the first things that we did was a literature review to try to find sources of evidence that could inform the financial memorandum. Most of the studies on self-directed support, individual budgets or other such forms of support tend to look at the outcomes that people experience rather than the costs to local authorities of providing services.

The University of Kent conducted a study of the pilots on and the introduction of individual budgets in England and looked at the set-up costs and transformation costs to 12 local authorities, which was a relatively small sample size. The study found that local authorities experienced a range of set-up costs and that the average came to about £270,000 per year per local authority.

That study was anonymised, so we do not know the sizes of the local authorities involved. That makes it difficult to translate the costs accurately to Scottish local authorities, particularly because local authorities in Scotland tend to be smaller than those in England. However, if we scaled the average across the 32 local authorities in Scotland, the cost would come to a little over £8 million a year. Such figures are very much in line with the estimates that we have calculated for the financial memorandum.

The study in England looked at how long local authorities believed that set-up costs or transformation costs would be incurred for. The answer from most local authorities was at least two years; some local authorities said that the period would be three years. That closely matches the allowances for costs that we have included in the financial memorandum.

What we have included in the financial memorandum is similar to what was experienced when individual budgets were introduced in England.

Gavin Brown: Does your approach have a risk? You are scaling up on the basis of three local authorities' figures. Jen Willoughby said that all the councils are in slightly different places. What is the degree of risk? Would it be safer to have a range of estimates as opposed to one specific figure?

Jen Willoughby: There is a degree of risk, and all the figures are estimates. Even producing estimates has been quite difficult in the first place. We thought carefully about how to divide the £23 million among local authorities, because we know that they are at different stages—some will need more, some will need less and some will do different things from others with their transformation funding.

We talked through that approach with COSLA and it asked us to divide the money in the way that we have. Members have the breakdown of that division. We recognise that local authorities are all at different stages so we will keep an eye on things. If, by the end of three years, some local authorities have not achieved what they need to achieve and there is more to do, we will need to reconsider what funding can be applied.

12:15

Gavin Brown: The Finance Committee put out a call for evidence on the bill and we have reviewed the responses. Have you had the opportunity to review those responses?

Jean Maclellan: Yes.

Jen Willoughby: Yes.

Gavin Brown: We had one response from COSLA and, by my reckoning, eight responses from local authorities. Although the local authorities did not give many specific figures, there seemed to be a broad consensus about the level of funding.

Angus Council stated that the funding

"falls short of even our most conservative estimates".

Dundee Council stated that costs beyond 2014-15 "should be acknowledged". East Ayrshire Council stated:

"The savings ... are concerning as there is"

no

"evidence to support this."

Glasgow City Council—one of the local authorities that you based your figures on—stated that

"costs and timescale are under estimated".

Perth and Kinross Council stated that costs will be "significantly higher" than estimates. Scottish Borders Council stated that

"training costs will be double"

and

"the bridging ... costs will be higher".

West Lothian Council stated that

"the memorandum ... very significantly underestimates the costs".

Those are the views of only eight local authorities, but they were the only ones that submitted evidence, so theirs are the only written submissions that we have. However, there seems to be a consensus among those local authorities that the costs that you put forward are not high enough. How do you respond to eight local authorities all saying that?

Jen Willoughby: In its response, East Ayrshire Council lists estimated costs and compares them to the amounts that it will be getting from the Government, which are more than the council's estimates. However, it says that there are other costs that it does not know about yet and which it has not been able to estimate. That is the problem. There are a lot of costs that people are not sure about yet. They suspect that there might be further costs, but they cannot quantify them. Despite the absence of that quantifiable information, we have tried to make the best estimates that we can.

Gavin Brown: I will take Angus Council—just because it is first alphabetically—as an example. It states that the funding

"falls short of even our most conservative estimates".

After reading that, does the Government then liaise with Angus Council to ask what its estimates are and what they are based on, to try to work out why there is a difference? If the Government says £24 million and COSLA says £90 million—the figures at the two extremes—does the Government follow up with individual authorities to find out what their figures are based on and try to flush out where the differences lie in order to work out what the real picture might be?

Craig Flunkert: We have had a limited amount of time to look at the detailed responses from councils to the committee. There was more detail in the responses to the committee—although, as you said, there is not 100 per cent detail on the estimates and the explanations of how councils arrived at them—than there was in the responses to the two phases of Scottish Government consultation. We certainly wish to follow up with the ADSW, COSLA and, as necessary, individual councils, to ask them to share a bit more information about their estimates, particularly with respect to the point beyond this current spending review period.

At the Health and Sport Committee meeting yesterday, the director of social work at Dumfries and Galloway Council mentioned the need to constantly monitor and review the costs. Some of the councils' concerns might well be tied to a concern that ministers will impose a deadline by which councils should have reviewed all existing clients. We wonder whether the length of time allowed for reviews of existing clients might make a big difference to the level of costs and the time period during which costs would be incurred for transforming how councils do things. The difficulty for ministers and the Finance Committee is that that time period has not been decided yet—it could be three, five or eight years. We suspect that if a longer time is taken to review existing clients, that should lead to a spreading of costs, with costs perhaps being at the lower end of the estimates.

Jean Maclellan: While we are on the subject, perhaps it would be helpful for Craig Flunkert to talk about the wider work that he has been involved in to consider regulations, guidance and commencement dates, which are all part of our collaborative work.

Craig Flunkert: The bill steering group has involved stakeholders including COSLA, the ADSW and Glasgow City Council officials, and it has been very useful to have their input. That group recently agreed to continue to meet as a programme board throughout the parliamentary process and beyond to enactment, to discuss the issues again.

In its response, COSLA was relatively measured in owning up—as we have done—to the uncertainties around costs. At yesterday's meeting, a COSLA official used the word "generous" to describe the amount of money that is being provided for transformation compared with the minimal compliance approach that is taken in respect of some bills. Councils are often supported to provide some training for practitioners on their duties and powers, but a constant criticism is that investment is needed to deliver practical change on the ground. The £23 million is being provided to enable local authorities to make that investment. Nevertheless, we plan to follow the matter up with the ADSW, COSLA and councils now that—perhaps because of the point that we have reached in the legislative process—they are starting to be a bit more specific about where the costs lie.

Gavin Brown: The committee is asked to take a view on the financial memorandum. The bill team says that £24 million is about right—it may be generous or slightly above what is required. COSLA says that the cost will be £90 million. All the local authorities that have contributed evidence—although not all have given specific figures—say that that is an undervaluation or a significant undervaluation. Whose estimate is correct? I simply do not know from the evidence before me, and the disparity is very big. There will always be slight differences of opinion, but the disparity between a £24 million cost and a £90 million cost is pretty substantial. I do not think that it is satisfactory that the committee has to take a view on the financial memorandum on the basis of the figures that we have.

Jean Maclellan: What would your normal practice be in relation to local authorities that have not responded? Would you note the position of COSLA and eight local authorities out of a larger number of councils?

Gavin Brown: My understanding—the clerks or the convener may correct me—is that we write to all local authorities and COSLA and make judgments on the basis of the evidence that is put before us. However, I think that, because we review a number of financial memorandums every week, we do not approach every local authority. I stand to be corrected by the convener on that.

The Convener: Sorry—the clerk was speaking to me and I did not catch what you just said. We wrote to all 32 local authorities—was that the point that you were making?

Gavin Brown: The question was about what we do when councils do not respond.

John Mason: We do not get back to all local authorities.

The Convener: No, of course we do not. It is a matter for them. If they want to raise concerns, they are fully able to do so. We will often raise concerns, as Gavin Brown is doing at present.

Jean Maclellan: The position is the same for us.

The Convener: We assume that you do not have any concerns.

Jean Maclellan: Through extensive consultation, we have tried to give people the opportunity to contribute to the position that we find ourselves in.

Craig Flunkert: We can only guess because we have not seen the detail of the responses, which are coming in quite late, but I suspect that some of the disparity may be to do with the fact that, as I mentioned, there is an assumption in some local authorities that the change that will be imposed by the bill will have a much more radical and quicker effect than the effect that we understand the provisions will have. Perhaps councils assume that a very high percentage of individuals will be required to take a direct payment and have made modelling assumptions about the choices that those individuals will make.

It is impossible for us to know the basis on which councils' assumptions are made, because we have not seen the detail that shows where they are coming from. Although we have asked for the information a number of times, we have not been provided with it. We acknowledge that any forecasting on the matter is imperfect, but the table on page 24 is based on a published report—we can provide more detail about how the Reid report came up with the estimates in the table—that looked in quite a lot of detail at what the cost might be if 3 per cent or 5 per cent of people went for option 1 in the bill and then chose to take their custom away from the local authority. The issue was generally around bridge financing.

We can provide more information, if you feel that more information to back up where our estimates have come from would be helpful, and local authorities could be invited to provide much more detail about the modelling and assumptions that lie behind their figures, so that those are evidence based, rather than a statement being made that the cost will be £90 million. We did not see a huge amount of detail behind how councils arrived at the figures. An itemised list with detailed modelling would be useful to all parties.

Jean Maclellan: The committee should be clear that there has been no lack of effort on our part; our effort has been sustained and considerable.

Gavin Brown: Thank you.

The Convener: To be fair, nine local authorities actually responded, plus COSLA. You are right that, although the local authorities that have given evidence have raised concerns, they have not provided the same level of detail about why they have specific concerns. That is understandable, as they perhaps do not have the capacity or ability to do so, but it is important for them to ensure that their concerns are brought to our attention so that we can raise them on their behalf.

John Mason: Like everybody else, I am supportive of the concept of self-directed support and of individuals making choices rather than just being put in boxes and so on. In the big picture, Ms Maclellan said that there is no sense that greater expense will result from changing the model. I find that a wee bit strange because, if you put six people who are in a centre with two staff servicing them out into the community, the same two staff—assuming that they continue to service the same six people—will spend less time with them. I presume that, for the cost to stay the same, each of the six people gets less time from the staff.

Jean Maclellan: Not necessarily, because in a day centre the staff ratio will vary from place to place and the number of personal assistants that people require vary. Some people may require only one personal assistant, if the level and type of support required is not substantial. There are huge variations.

John Mason: I accept that there are huge variations but, if you provide a service in one place, it requires fewer staff and would appear, at least on the surface, to be cheaper than spreading provision out. You mentioned the hospitals that have been closed. We had Lennox Castle and Gartloch near Glasgow. Individuals I used to visit in those hospitals, where they were with friends and staff 24 hours a day, were moved into flats where they were very isolated and received one visit a day.

Jean Maclellan: You are talking about quality of life as well as the cost. In some places, people were put out into the community with substantial care packages and those were not reviewed. Not everyone has been isolated as a result of going into the community. Some people have had rich and fulfilling lives that are much better than those that they had in long-stay hospitals. They have made friendships and have the same circles of support that you and I have, which do not necessarily involve money changing hands.

John Mason: You mentioned friendships. You probably know that the Accord Centre is in my constituency. It caused something of a stir when Iain Gray was chased into Subway. The First Minister has been out to the centre a number of times. The matter has been extremely insensitively handled by Glasgow City Council because, whereas the picture that is being presented in the bill is that people will have a choice about whether they carry on in a day centre or do something else with the money that might be available, exactly the opposite has happened in Glasgow. Even before people get their hands on the budget, Glasgow City Council has announced that the day centre is closing.

People's great fear is that they will lose friendships and be isolated. Parents come to me and tell me that they do not want their adult with learning disability child just wandering around Argos every day—they cannot store all the catalogues that get brought back—or going to the same college course year after year.

I suggest that the situation has been badly handled in Glasgow. If the costs that Glasgow is proposing are as low as they are but, under pressure, the council has had to create a new centre, where does that leave all the costs in this?

12:30

Jean Maclellan: My sense is that there is not a new centre. Modification to the Tollcross centre has been offered in relation to the Accord Centre.

Your points about quality of life for people with learning disability generally are recognised for some people. The impact that the 10-year "The same as you?" programme, which was completed in 2010, has had on the lives of people with a learning disability has just been evaluated with a view to having a second major strategy for those people. It will address many of the points that you have made.

John Mason: But is it the case that the weight is against the day centres, even if people want them, because, as Elaine Murray suggested, if the number of people going to them reduces, the natural conclusion is that, sooner or later, they will close?

Jean Maclellan: People said in the consultation on "The same as you?" that they did not want building-based services. A number of authorities have gone down the road of not having such services, but not all have done so. For example, it is recognised in Glasgow that people with autism would prefer a building-based service, which they have in the form of the number 6 service for adults who choose to spend their time there. Some of those adults want to spend some of their time outwith that building, but at least they have that building to go to. Local policies on building-based services vary a lot, though.

John Mason: You have obviously studied, consulted and all the rest of it, but my impression is that certainly the social work department in Glasgow is very much pushing against ghettos—I agree with that policy—but the resistance is coming from the users and the carers. Another issue is the extent to which councils have consulted both the users and the carers. Certainly, it has been my gut feeling at times that the carer and the user have had a different agenda. I wonder whether the money that we are talking about for advocacy is really going out for that. Are all users getting the opportunity of an advocate, even if the carer thinks that they do not need it?

Jean Maclellan: Some users and carers have very good relationships and understand and are respectful of each other's positions. Part of our consideration in relation to the current exceptional circumstance for a family member to be the employee centres on what you are alluding to, which is whether there is any potential for abuse in the relationship. A simple example is that, if you are my relative and you are caring from me and I want you to do something in your employee capacity at 10 in the morning but you fancy doing something else, you could say, "Och, Jean, never mind. I'll do that at half 11." Sometimes, the relationship between user and carer in the exceptional circumstance in which the latter is the employee can have its difficulties. I endorse the point that you make.

John Mason: Another point that you made was about the fact that, in some councils at least—I think that it would be the case in Glasgow—there has been a cut in the budget and a realignment between some people getting a lot of care and some people getting very little, which is all happening in among the introduction of SDS.

Jean Maclellan: Yes. The overlayering is unfortunate, as I think several committee members have said and as I said in my opening remarks.

John Mason: I accept what you have said on that, as have other people. I just wonder whether we will ever be able to get underneath that and separate out the reasons for things. I get people coming to me who used to have two days of a service of some kind but have now had that cut to one day, and there are similar kinds of issues. Do we trust local authorities not to push the service level down to meet the budget and to say instead, "Well, this is the need, and the budget follows on from that"?

Jean Maclellan: Craig Flunkert might have something to say on that point, as he is closer to some aspects of Glasgow than I am.

Craig Flunkert: As I think you have alluded to, some of the issues that you are raising are general social work and social care issues. The question of whether the amount of support that an individual gets, in financial terms or otherwise, meets their level of need is a fundamental one. That is a challenge that local authority practitioners must weigh up on a daily basis, regardless of the options that the person is choosing.

Jean Maclellan: It is the duty of care.

Craig Flunkert: Yes. The bringing together of the fact that social work budgets are being pressed and sometimes reduced and the fact that councils are rolling out changes to people leads to a mixing of the two. You mentioned a constituent whose service provision was reducing from two days to one. That person is not taking control of the budget; they are experiencing a reduction in the service that they receive. If the choice is between a flat reduction in services across the board or translating provision into individualised budgets that people can control and which deliver better-quality services, the latter choice is the better one.

John Mason: The problem is that the two things are happening at the same time and people are being given control over the lower amount, which means that they cannot buy the same service that they had before. There are issues with that, of course, and I take your point.

Mark McDonald: Like Gavin Brown, I was struck by the forceful tone of Angus Council's submission, until I got to the final paragraph, in which it basically suggested that it was implacably opposed to self-directed support, which might explain the tone of the rest of its submission. Nonetheless, a number of concerns have been raised by authorities around the costings.

One of the things that disappoint me is the number of local authorities that we have not heard from. In particular, I am disappointed that we did not hear from Aberdeen City Council, of which I was a member for five years, until I stood down last week. I know that it has done a lot of work on the cost of individual packages, as there were some learning disability packages that cost six-figure sums. What is your assessment of the landscape with regard to local authorities' transformation of social care services? Is it the case that some of the local authorities that have written to us have not gone through the kind of transformation that Aberdeen City Council went through to reassess the delivery of social care services? Might the background to some of the concerns that have been raised with us relate to the fact that councils are looking at the issue in the context of what they deliver rather than in the context of the kind of transformation that other authorities have gone through?

Jen Willoughby: You might have a good point there. We know that all local authorities are at different places, and it is hard to gauge precisely what stage they have all reached. For example, in the direct payment statistics that the Scottish Government collects, North Lanarkshire comes right at the bottom of the list, with the smallest number of direct payments per 10,000 people. However, we know that North Lanarkshire is quite advanced in terms of the transformation to a more personalised way of doing things. We suspect that it is offering what we might call a direct payment but it calls something else, which means that that is not being measured in quite the same way.

We know that there are a lot of pockets of good practice, where people are being innovative and flexible. We also know that other local authorities have not made the same degree of progress on strategic commissioning that North Lanarkshire has made. We are thinking in the longer term about what services will be required and where they will be required.

I would not like to comment on the stages that the various local authorities that responded to you have reached, but we know that they are all at different places.

Mark McDonald: Yes. We will have to factor that into our thinking. Obviously, you will have to do some work with regard to how you liaise with the authorities about the impact that the bill will have. I suspect that some authorities will find it easy to adapt to the new legislation and others will have to have their hands held for a little while in order to get them to a better place.

You have talked about the £23 million or £24 million that will cover costs that are associated with the policy. How do you see that being spread across the various authorities? If what I have just said is accurate, and you appear to be suggesting that it is, one would assume that there will need to be more front-loading of spend in some areas than in others, and some authorities will need more financial support during the transition than others. Have you assessed which authorities are likely to need more intensive financial support?

Jen Willoughby: In conjunction with COSLA, we recently finalised the breakdown of the £23 million over three years. We consulted COSLA quite closely on the formula for the breakdown.

We decided that the fairest way to do it was to have a base amount per local authority, to ensure that the smaller local authorities did not lose out completely. For the next three years, there will be a base amount of £50,000 per year per local authority. We thought about weighting the remainder of the funding by local authority, depending on where they were in the stages of transformation, but COSLA has asked us not to do that. It thought that that would penalise local authorities that have already used funding and progressed substantially. We have considered that argument and we think that there might be some merit in it. We should not penalise local authorities that have transformed; we should encourage them to use that money to continue to transform. That is the formula that has been agreed with COSLA for the transformation funding.

Jean Maclellan: I want to go back slightly to elaborate on a point that Jen Willoughby made. Commissioning strategies are key to this whole agenda. We have not talked at all about scrutiny bodies and the part that they play in measuring what is going on in each of the authorities and in getting into some of the underbelly that John Mason described. Dating back to 2009, the Social Work Inspection Agency has expressed its dissatisfaction with commissioning strategy progress across Scotland. That is also a critical component.

Mark McDonald: I am interested in what you said about the argument that COSLA has posited. I do not see it as a penalty if one local authority does not get as much money as another if that local authority does not require the same level of support to get to where it needs to be. Some authorities have got their houses in order and got to the stage at which they can implement the legislation seamlessly, and some authorities will need quite intensive support. There is an argument that funding should be directed towards those authorities that will need assistance, rather than being spread more evenly so that those authorities that need intensive support do not receive it and do not get to where they need to be while other authorities that are already there get money thrown at them that will not do anything other than be added to their pot. I can see where COSLA is coming from but, at the same time, I think that it is a risky strategy.

Jen Willoughby: I accept your point, but there is a difficulty with identifying the stage that local authorities have reached. It would be incredibly difficult to draw up a league table of where everyone has reached, so it would be hard to divide the money in that way.

Craig Flunkert: I have one thing to add to what Jean Maclellan and Jen Willoughby have said. Mark McDonald talked about future engagement with councils about the transformation money. At its most recent meeting, the bill steering group agreed that officials, in conjunction with the ADSW, should send out a questionnaire to ask local authorities for their early plans for the funding. That will start quite soon as part of the on-going dialogue and communication between Government officials and local authorities about what they are doing.

The other aspect that has not been mentioned is the 32 self-directed support leads who have been identified in councils. Those people have come forward with our assistance and volunteered to be a lead co-ordinator in their local authority. It will be their job, partly funded through the transformation funding, to co-ordinate their local authority's readiness or preparedness, and to share information with other lead co-ordinators. It is not all just about money going to local authorities; it is also about those leads sharing their experience of what they have done so that others do not repeat the same mistakes. They will also share a lot of the good things that they are doing so that local authorities that are a bit behind in their journey can pick up and go a bit quicker. It is not just about the level of transformation resource that authorities get; it is about making the right decisions in managing the implementation of the legislation.

Jen Willoughby: There are also plans for us to visit every local authority. Dates are being set for us to do just that.

Mark McDonald: Thank you.

The Convener: I thank colleagues for asking those questions and I thank the bill team for answering them so comprehensively.

12:45

Meeting continued in private until 12:53.

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