The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 3 October 2012

Session 4

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CONTENTS

FINANCE COMMITTEE
25th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)
*Bruce Crawford (Stirling) (SNP)
*Michael McMahon (Uddingston and Bellshill) (Lab)
*Elaine Murray (Dumfriesshire) (Lab)
*Jean Urquhart (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Royal Bank of Scotland)
Professor Ian Diamond (University of Aberdeen)
John Hughes (Edinburgh Chamber of Commerce)
Professor Donald MacRae (Lloyds Banking Group)
Professor Colin Mason (University of Glasgow)
Professor Jeremy Peat (David Hume Institute)
Ian Ritchie (Royal Society of Edinburgh)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Wednesday 3 October 2012

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the 25th meeting in 2012 of the Scottish Parliament's Finance Committee. I ask everyone present to turn off mobile phones, BlackBerrys, tablets and any other electronic devices.

Our first agenda item is a decision on taking business in private. Do committee members agree to take in private agenda item 4?

Members *indicated agreement.*

Draft Budget Scrutiny 2013-14

10:01

The Convener: Our second item of business is to take oral evidence from the David Hume Institute as part of the committee's scrutiny of the draft budget 2013-14. I welcome to the meeting Stephen Boyle, from RBS Group economics; Professor Ian Diamond, from the University of Aberdeen; John Hughes, from the Edinburgh Chamber of Commerce; Donald MacRae, from Lloyds Banking Group Scotland; Professor Colin Mason, from the Adam Smith business school at the University of Glasgow; Professor Jeremy Peat, from the David Hume Institute; and Ian Ritchie, from the Royal Society of Edinburgh.

Members will have seen from the clerk's briefing paper that we will address three key issues in this session. The first is the role of higher education and skills development, the discussion on which will be led by Professor Diamond. The discussion on lessons from successful Scottish companies will be led by Professor Mason, and the discussion on access to finance and stimulating investment will be led by Ian Ritchie. I intend to allocate around 30 minutes to each topic. Participants should please indicate to me whether they wish to contribute to the discussion. You will be allowed to contribute based on whether or not I see you, so if I see you, you will be in.

I welcome to the committee Bruce Crawford, who has arrived somewhat late for the start of the meeting.

Bruce Crawford (Stirling) (SNP): I beg your pardon. I was on the money—on the button—at 10 o'clock, convener, sah!

The Convener: Professor Diamond, would you like to kick off?

Professor Ian Diamond (University of Aberdeen): I will just say a few words. I do not need to remind the committee that Scotland has an extremely high-class higher education sector. It is fully committed to providing the skills required for Scotland to become the knowledge economy that it needs to be if it is to be as successful in the next few years as we all wish it to be. The probability that graduates in Scotland will go into graduate education is higher than it is for those in England. The starting salary for Scottish university graduates is higher than average for the United Kingdom. In general, Scotland's universities are completely committed to providing the education and training that are needed now.

The skills gained at the higher education level are not necessarily direct training for particular employment. Although almost all medical students become doctors, that is not the case for many degrees. Scottish universities have worked with employers—for example, my university has worked with the employers that our graduates go to—together with the Confederation of British Industry to identify a set of graduate attributes that we want to see. Those graduate attributes include excellence—a graduate will get nowhere unless they show intellectual rigour and depth in their degree; a belief in lifelong learning; critical thinking; and being able to work in a team, identify problems, communicate properly and think independently. The general development of the young person—although increasingly we are seeing older students—as a citizen is also important. We and our employers believe that those things work incredibly well to develop and give skills to the people who are needed to take forward the vast cornucopia of Scottish employment.

We are also fully committed to working very hard—and we try to work very hard—with industry to provide employment opportunities such as internships during degrees, including work and internships in the third sector; my university also provides internships within the university. We think that those opportunities are incredibly important.

Clearly, there is a huge need to increase the number of people in Scotland who take postgraduate taught courses. They are the entrance-level qualifications in many areas of industry, particularly life sciences, energy, finance and business services. We need to make sure that we have processes and financing that enable the best people to take postgraduate taught courses, regardless of their background.

Scotland's universities are completely committed and are working with employers to get the skills that are needed for employment.

John Mason (Glasgow Shettleston) (SNP): You talked about general excellence and suggested that having a broad education is a good thing. We have heard that there will be a shortage of engineers in a few years, yet I see people with politics degrees crawling out of the woodwork to ask for jobs. Are we getting the wrong people with the wrong qualifications?

Professor Diamond: We need to continue to increase the number of engineers that we train—that is absolutely clear. However, I would not say that our political science students are not getting jobs. You work as an MSP, so it is pretty likely that such students will want to come to work with you. Some of our students have fantastic internships here in the Scottish Parliament. I do not think that the mix is wrong, but if particular areas have a large skills shortage—a recent PricewaterhouseCoopers report points to a skills shortage in the energy sector—we need to say that we need more graduates in those areas.

To address your point, in the new Scottish Further and Higher Education Funding Council outcome agreement for my university, we have suggested that we are prepared to take on an extra 50 engineering undergraduates.

Jean Urquhart (Highlands and Islands) (SNP): Until recently, I was a member of the Education and Culture Committee, which held a roundtable discussion during which quite a few eyebrows shot up when members asked about the Aberdeen universities being used by the oil industry for research and so on. We discovered that a university in South America—I cannot remember exactly where—was top of the list for that sort of work and that the universities in Aberdeen had been bypassed. Will you comment on that?

Professor Diamond: I cannot speak about that point specifically, but I note that just last Friday, the Prime Minister signed an agreement in Brazil for the University of Aberdeen to work with the BG Group to provide research linked to the Brazilian oil industry. I also note that my university, together with Robert Gordon University, Aberdeen College and Banff and Buchan College, was mentioned last week in Mr Swinney's budget statement, with regard to our energy skills academy, which is providing skills. Oil and gas research is incredibly important not only in engineering—at the University of Aberdeen, we are working with Scottish Enterprise on a new way of drilling that I hope will make it possible to get more oil out of the North Sea—but in geoscience, law and business. There is strong research in those areas at my university and at other Scottish universities that is strongly linked to the oil and gas industry. On economics, the best oil and gas economics researcher in the world is at my university.

Ian Ritchie (Royal Society of Edinburgh): I will pick up on John Mason's comments. Blaming universities is unfair. I am independent of the university sector, but I recognise that universities in Scotland train more scientists and engineers than the rest of the United Kingdom does, so we do quite well, and we could do more.

The problem is not at university level but at school level. Bright kids are not encouraged to go into science, technology and engineering. They do not see the future—there is no visibility of the careers to which such subjects can lead. I am an engineer, and I have had an exciting career and have made lots of money. If school kids go into such careers, they will have a future, but they do not see that. They see other occupations on TV or they consider politics or whatever.

The fault lies with the level of ambition in schools and whether they encourage kids to go into science and engineering. My nephew's daughter was very good at maths and physics. I tried to encourage her to go on with those subjects as a career, but she could not visualise herself as a scientist. Instead, she has studied English. We have bright kids who are not going into engineering and science. We are not giving them the message that that is a good thing to do.

The Convener: I have visited 11 of the schools in my constituency this year, and I have mentioned in every one of them that engineering provides a tremendous career for the future in Scotland that will be there for many decades to come. That area is growing. Schools—certainly those in my area—are starting to address that.

Michael McMahon (Uddingston and Bellshill) (Lab): I will make an observation and see whether anyone wants to correct my perception. A lot of the students who go into engineering and science at university do not do so directly from school; some come through colleges, because they see their qualification as vocational, which leads them to the further education sector. Will the downturn in the number of college places have an impact on that? The number of direct entrants to university from school might hold up but, if the stream of people who go from college to university after getting a vocational qualification at college dries up, that could lead to longer-term problems.

Professor Diamond: The point is valid. It is incredibly important that we have strong articulation agreements between colleges and universities, to enable people who go into college to then go to university or to finish at college, depending on what they want to do. That is why the University of Aberdeen has strong articulation agreements with Aberdeen College and Banff and Buchan College. In the past three days, I have talked with Forth Valley College, the new Edinburgh College and Carnegie College about making articulation agreements for engineering happen.

When I talk to the principals of those colleges and to other college principals, they show huge commitment to providing the skills that are needed in engineering, in the oil and gas industry—whether that is downstream or upstream—and in renewables. A proper and mature conversation is needed with industry employers to ensure that we train enough people, because doing that is in all our interests.

The Convener: I understood that the number of college places was to remain the same. Perhaps we can expand on that later.

Elaine Murray (Dumfriesshire) (Lab): Professor Diamond said that a degree opens a door but that the majority of students do not go into a job in the subject in which they trained at university. If that is the case, what is the point in people having academic training in subjects that they will never use again? Should courses be more applied? Should they reflect the needs of industry or the outside world rather than give people an academic background that they will never use again?

Professor Diamond said that postgraduate taught qualifications are an entry-level requirement in many jobs. How such qualifications are funded is a major issue. The fees for postgraduate taught education can be £5,000, plus living expenses. For a youngster from a not particularly well-off background who already has debt—not debt that is associated with tuition fees in Scotland but debt from the living expenses of being at university—the prospect of taking on another burden of debt of several thousands of pounds can be off-putting, if they are not sure whether there will be a job at the end of that. Should employers sponsor people to do such training, if it is a requirement to get into an industry?

Professor Diamond: May I respond quickly to both those points? If not, perhaps I could pick up on them later.

The Convener: I will come back to you, because there are four other people who want to speak who have not yet had a chance to do so.

10:15

Professor Colin Mason (University of Glasgow): I will start by describing a conversation that I had with someone from the information technology industry a couple of years ago. I asked him who he worked for and he looked at me as if I was an idiot and said, "No one works for anyone in IT." We must recognise that the labour market is changing. The job, in the sense of being employed by an organisation, is disappearing. Many sectors of the economy—particularly the creative industries—are organised around projects. As happens with a movie, people with different skills come together for a limited duration, undertake the project and then dissipate and find other projects to do.

I did some work with some students who are professional musicians. None of them has a job—they are all freelance and self-employed and have portfolio careers. That is the way in which more and more graduates will earn a living. I do not think that universities are equipping students to operate in such a labour market. We should push the entrepreneurship agenda much more strongly in our universities and colleges. The ability to operate in that environment should be recognised as a necessary life skill for our graduates.

The committee should bear in mind the example of the dynamic technology cluster around the Massachusetts Institute of Technology. Most of the businesses that were started around MIT were started not by academics but by alumni. I make a plea for recognition of the nature of how in the future graduates will earn their living, and I suggest that we need to equip them more effectively for an entrepreneurial, freelance or consultancy career.

Professor Jeremy Peat (David Hume Institute): I would like to make two points, if I may. First, I find the reference to further education interesting. I think that articulation and the role of developing people to go on in science and engineering are extremely important. I note that, at a time of constrained budgets, it will be quite difficult for some FE colleges—because they are going through a process of regionalisation and change and, at the same time, are under a lot of pressure to help with the meeting of the opportunities for all targets for young people—to also put funding into the skills development that I think is important, and in relation to which they have a particular role to play. The committee may wish to consider whether there are issues to do with the prioritisation of funding for FE that will enable it to play its right and proper role, particularly in science, engineering and related activities.

Secondly, Ian Diamond mentioned the outcome agreements that all institutions in higher and further education are agreeing with the Scottish funding council, which I believe will be published sometime in the next month or so. I think that they are a tremendous development. Many years ago, Ian Ritchie and I were on the Scottish Higher Education Funding Council. The idea of having outcome agreements that talked about what the institutions would achieve and how that related to the economy was a dream rather than a reality, but it is now becoming a reality. The establishing of outcome agreements is a great development that will enable the universities to think through what they are trying to achieve in the context of the economic strategy for Scotland and in the context of priorities.

This is the first time round for the outcome agreements so, to some extent, we are talking about a pilot. It will be extremely important to have guidance on what the strategy is and what the level down from the strategy is so that it is possible to identify for the growth agenda, in particular, what individual HE and FE institutions can best provide. The outcome agreements are a major development that can really work to enhance the cost-effectiveness of those institutions in the context of the Scottish economy at this very difficult time. They are a development on which I place a lot of importance. It would be well worth the committee having a look at the issue again and thinking about how it relates to your views on priorities for the economy.

Professor Donald MacRae (Lloyds Banking Group): Good morning.

I note my interest as an independent member of the Skills Development Scotland and Scottish funding council skills committee and a board member of Interface, which is designed to promote business and university interaction.

I start from the position that Scotland’s economic performance has been quite moderate over the past few decades. However, if we look at the level of skills and human capital, we can see that the programme for international student assessment scores, the percentage of graduates and so on show that we come out quite well. As a result, I do not believe that the explanation for our low economic performance is a low level of human skills or human capital. Of course, that does not mean that we should not constantly strive to improve skill levels.

However, there is clearly a problem with the utilisation of those skills, which is linked to businesses’ ability to use the skills generated by the whole education system—schools, colleges and universities—and the problem of the low level of business start-ups and of business stock, by which I mean the number of businesses per head of population in Scotland. In summary, the problem lies not with the level of skills but with the utilisation of those skills in our businesses.

Stephen Boyle (Royal Bank of Scotland): First of all, I must point out that there has been no consultation between me and Donald MacRae about all this. However, I want to extend the point that he has just made.

Not only is the quality of Scotland’s human capital strong—indeed, it is one of our genuine sources of economic potential—but it is particularly strong at the higher education level. I do not want to sound complacent but the committee does not have to worry about the quality of the outputs of our higher education system. As the evidence of the wage premium that people earn and various surveys show, we are good at the outputs. The human capital challenge emerges not with more highly skilled people but with those who do jobs requiring lower levels of skills and qualifications. If I wanted to worry about something in the human capital sphere in Scotland, it would be that.

As far as education is concerned, I realise that I am being mildly heretical but I think that I am old enough to be able to say that, at least since Victorian times, Scotland has never had enough engineers. We have been worrying about that issue for years now. The truth is that we do not value engineering sufficiently to attract people into the sector. In other words, what engineers produce does not allow businesses to pay high enough wages to make engineering sufficiently attractive in comparison with other sectors. You simply cannot wish that away.

The Convener: That very salient point brings us back to the old issue of people's perception of going into a job that involves getting your hands dirty rather than going into a profession. We might try to do our best to get people into engineering, but a lot of people will still try to encourage their children to go into a profession. I should point out, however, that top engineers' salaries are increasing substantially, which should be welcomed.

Professor Diamond: Because of supply and demand, engineers' salaries in the oil and gas industry are very good and there are opportunities for people to move to the north-east.

I want to respond very quickly to two questions. First, on the question whether people should take only vocational degrees, I have to say with respect—

Elaine Murray: I was talking more about applied degrees.

Professor Diamond: In any case, we need to understand that not everyone who does a history degree will become a historian; indeed, we might well not want that many historians. However, the ability to think critically and analytically, to solve problems and to address things that come out of left field are the kinds of skills that many occupations, be they in management, the civil service, the third sector or whatever, require. We need to continue to worry about the skills that people get through education rather than through applied degrees alone.

I could not agree more with Elaine Murray's point about postgraduate taught funding. Indeed, that is why we at the University of Aberdeen and all other universities work incredibly hard with employers—in our case, we often work with the oil and gas industry—and donors, who are often our alumni, on providing scholarships to enable people from disadvantaged backgrounds to take postgraduate taught courses. The Government needs to think more about how we enable people to take such courses and learn such skills. Notwithstanding my complete agreement with what Stephen Boyle said about lower-level skills, I also think that we need skills at the very highest level.

I also completely agree with Colin Mason's point about the need to build entrepreneurship. Indeed, I said in my opening remarks that an understanding of enterprise and entrepreneurship should be an essential part of an undergraduate degree.

Gavin Brown (Lothian) (Con): While restricting their remarks to higher education and skills development, do any of the witnesses wish to make any comments or observations on the 2013-14 draft budget?

The Convener: I will leave that hanging.

Bruce Crawford: I am intrigued by some of the discussion that is going on about the links between further and higher education and how important they are to growing the Scottish economy. It is more a matter of how we use the places, in higher education in particular. If my understanding of the budget is right, the Cabinet Secretary for Education and Lifelong Learning committed to 116,000 college places last year, and to the same in the current draft budget.

I have two questions, the second of which is linked to Gavin Brown's. If the numbers are staying the same, how can we best use those places to create the right type of person to go on to university? What changes can be made in the budget to help that flow from further to higher education? It would be helpful for us to know that, given that it is one of the central points that has been made.

The Convener: No one has asked to speak at this point, so we will move on to the second part of our discussion. We can return to points that have been raised if people think of answers, but I ask Professor Colin Mason to lead off our discussion on lessons from successful Scottish companies.

I notice from our briefing that high-growth firms are defined as:

> "enterprises with average annualised growth in employees or turnover greater than 20% per annum, over a three year period"

and that 4 per cent of Scottish companies are in that category, which shows that there are some really dynamic sectors of our economy, even in recession. Sustainable economic growth is a fundamental ambition that the Scottish Government and, indeed, all parties within the Parliament want to address in the budget.

Professor Mason: The Danish physicist Niels Bohr is quoted as saying that

> "Prediction is very difficult, especially if it's about the future",

but we can be reasonably confident in predicting that Scotland's future jobs will be created by entrepreneurs who start and grow companies. The question is what kind of entrepreneurs the Government should support. Should it support ants, mice, gazelles or gorillas?

As I said earlier, an increasing number of businesses are sole proprietors, freelancers and independent consultants. That group is increasing because of changes in the labour market, which is increasingly organised around limited-duration projects. They are the ants.

The vast majority of small businesses are microbusinesses that employ a handful of people at most. We might term them the mice. They are lifestyle businesses that have limited ambition and, probably, limited potential to grow, but they are the bedrock of the economy and of communities. However, there is considerable debate about whether it is good public policy actively to encourage people to set up microbusinesses, on the grounds that they have limited growth potential, high failure rates and often simply displace one another.

Instead, it has been argued that the focus should be on creating more high-growth firms—the so-called gazelles—which, research tells us, create the majority of new jobs in the economy. That 4 per cent of companies—in another study, it was 6 per cent—was responsible for more than 50 per cent of the jobs that were created by their year cohort. Research also tells us that, although Scotland's proportion of high-growth firms is slightly above the UK average, Scottish high-growth firms are not such prolific job creators as their counterparts in the rest of the UK.

Moreover, there are many myths about high-growth firms: they are not disproportionately in high-technology sectors and they are not disproportionately university spin-offs; in fact, hardly any of them are. They are not particularly research-and-development or science oriented, nor are they deeply engaged with the university research base. However, they are knowledge based and innovative within their own sectors and they often use innovative business models, rather than innovative technology. High-growth companies are also not necessarily particularly young. Most of the ones in the study that Ross Brown and I undertook for Scottish Enterprise were actually more than 10 years old. The reality is that high-growth firms are found in all sectors, and are of all ages, all sizes and are found in all locations. It is simply not possible to predict where they will emerge.

Moreover, a significant minority of high-growth firms are management buyouts, management buy-ins or employee buyouts. They were incubated in other organisations, and then their management teams raised the finance to buy them out to run them as independent businesses. That raises the question: how many other potential high-growth companies are imprisoned in our large companies and are, perhaps, being starved of the investment that would enable them to grow if they were independent companies?

Moreover, many of those high-growth companies defy any kind of simplistic manufacturing/services distinction. The business model is to offer a range of services that are built around a product. Simplistic manufacturing/services distinctions do not operate in the real world.

10:30

Policy makers appear to have a fixation on technology sectors as a source of high-growth companies, but Scotland has the wrong kind of technology base to be a source of a significant number of high-growth firms. Scotland's research base is predominantly public sector and university rather than private sector.

A further point is that high-growth companies have a high probability of being taken over by foreign or non-local companies. Of the 20 or so companies that we looked at in depth two or three years ago, three or four of them are no longer independently owned. Why? Well, if they raised venture capital, part of the venture capital investment model is that venture capitalists need an exit, and sadly, they prefer to do a trade sale to get their money back, rather than an initial public offering on the stock market.

The entrepreneurs and investors might well be exhausted. I interviewed one company that had 13 rounds of finance, and we can understand investors being somewhat impatient to get their money out of the business. Alternatively, in some cases, ambition might be limited.

The acquisition of high-growth companies has negative consequences in the long term. Initially, there might well be a big boost to the companies who are taken over, but in the longer term we see a loss of head offices and senior management jobs in Scotland. I asked one company about its future and whether it was likely that it would be taken over. The managing director said, “If we were taken over, the first thing that would happen would be that this place would be closed down”, and he pointed to his head office. That is damaging to the supply chain, it might mean the transfer of intellectual property out of Scotland and, ultimately, closure often results.

The takeover or acquisition of those gazelles means that we have relatively few gorillas, which are the anchor companies in the economy that have a turnover of £100 million or above. They have their head offices in Scotland and are managed and owned in Scotland; they anchor the economy and generate all sorts of positive externalities.

The challenge is, therefore, not just to create more high-growth firms but to keep them owned and managed in Scotland. How do we do that? We cannot simply pick winners. We cannot predict in advance where high-growth firms will come from either at the firm level or the sectoral level. A lot of companies that we interviewed said that support at the early stages is critical. We need, therefore, a package of early support that is relevant to potentially high-growth firms. That means things like equity finance, export assistance, and management training.

We also need to build on Scottish Enterprise's account management system of relationship support, which enables timely support that is customised to their needs to be delivered to growing companies.

We should not discriminate against our entrepreneurs in favour of foreign companies. Believe it or not, two of the firms that I interviewed said that they were turned down for support because they were deemed to be too successful. That beggars belief. Regional selective assistance means that it is much harder for an indigenous company to demonstrate additionality. A foreign company can say that if the Scottish Government does not give it support it will go to Ireland, but it is much harder for a local company to make that claim. We must be more sympathetic and support our local entrepreneurs. Whether or not it is a reality, there is a perception among many of our local entrepreneurs that the knee-jerk reaction of Government is to treat foreign firms more favourably than our own independent champions.

Finally, we should use local procurement more effectively. Revenue is much better than a grant or loan, and many of the companies that I talked to bemoaned the fact that they had to go overseas for the sales, which is good for the economy, but it is much harder to get sales overseas if your own Government has not backed you initially.

The Convener: Thank you. That has given us plenty of food for thought. Professor MacRae will be the first to comment, followed by Ian Ritchie.

Professor MacRae: This is one of the most important pieces of work in the history of economic development in Scotland that I have seen in the past few decades. We need to know where growth comes from. We now know that it comes from—to be frank—a small number of high-growth firms. We also know that Scotland has a reasonable percentage of such high-growth firms, but it is a percentage of a low business base. The actual number of high-growth firms is still relatively small.

A very important conclusion that can be drawn from the research is that policy needs to take account of the fact that high-growth firms occur in all sectors—the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise need to take account of that fact—not only in the so-called key sectors.

Finally, although I support Colin Mason's conclusions on the provision of early support and so on, I especially want to see some action taken to increase the supply of risk capital in total. The figures that I have for that for Scotland for the latest available year—2011—show that the total amount of risk capital from what is a thriving business angel community, matched with Government funds, was £60 million. That is good but it does not bear comparison with the existing level of debt, which is measured in the tens of billions as opposed to millions. I would argue for a significant improvement in the supply of risk capital to encourage the conditions in which high-growth firms flourish and to ensure that that occurs in all sectors.

Ian Ritchie: I thought that Colin Mason's remarks were very sound, but I will take him up on one issue. I live in the world that he examines. I have had more than 30 start-up companies in the past 25 years. Most of them have been trade-sales exits, because I am afraid that that is the way that the world works.

The situation is caused to some extent by the workings of the British economy, because the London Stock Exchange is not a risk market. You cannot take a risk company to the London Stock Exchange and expect it to prosper there. NASDAQ in New York is the risk market of choice, so that is where you would take an IPO, but obviously taking a Scottish company to NASDAQ is by no means an easy task. I know that people have done it, but it is a challenge because you are servicing a different sort of financial market. The London Stock Exchange has settled down into being a global market—for, basically, international mining companies and so forth. It is therefore not really an effective exit for technology.

The food chain for this sort of thing is that you build an innovative company to a certain scale, you prove that there is a market there and you merge with a company that can take you to that market. That is just the way the world works, but it does not mean that we have to give up on this; we can still exploit the situation. It is noticeable, for example, that Inverness Medical was sold to Johnson & Johnson, which has relocated its global diabetes research area to Inverness, which is now the world capital of diabetes research.

One company that I co-founded, Voxar, was sold and is now part of Toshiba. Toshiba Medical Systems now has a business that is three times the size of the one that we had based here in Edinburgh. It is possible for such innovative businesses to become perhaps not a headquarters but a global centre of excellence. That is something that Scottish Enterprise and Highlands and Islands Enterprise should take a wee bit more note of and they should encourage those sort of businesses, once they have been taken over, to prosper and become the centre of excellence for the world for that particular corporation.

John Hughes (Edinburgh Chamber of Commerce): I have worked with high-growth companies here in the city under a business gateway contract. I have done that for about eight years, so I have got a wealth of anecdotal advice on my work with companies.

I and colleagues find and start about 100 companies a year on Scottish Enterprise growth pipelines, so they satisfy the criteria in terms of displacement and achieving the forecast turnover levels. They credibly predict between £200 million and £250 million in their third year of trading in combination and we follow them through.

Picking up on Professor Mason's comments, I say that there are two views. One is that you should go for the top companies and focus on a smaller number, but I do not agree with that. I think that everybody should get a chance, because you cannot pick the winners and it is everybody's right to have a go. In Scotland it is quite frustrating in that there are so many wonderful opportunities to access support: there is academic output; the Scottish Enterprise products are excellent and the gateway advisory service is very good when it is well applied; there is good legal and accounting support; there is access to good IP advice; there are university voucher schemes; there is the Interface scheme; and there is export advice.

Where I find frustration is in access to early-stage capital. We can get the smart grants and the R and D grants, which need match funding, but for moving through to commercialisation—we work very closely with the business angel community, and I have heard Ian Ritchie speak on this subject before—access to the Scottish enterprise seed fund is a particular bone of contention. I am a big fan of the co-investment fund, on which Nelson Gray spoke very well and presented all the stats about two weeks ago at the conference that Ian Ritchie chaired. There is a holy trinity of funds: the seed fund, the co-investment fund and the venture fund. The co-investment fund works excellently with high deal turnovers and high sums, but the seed fund languishes.

It is criminal that, when there is a necessity for access to early-stage funding, the seed fund does not work and is not getting the deals. Potentially, it will lose European funding if it is not active. The fund operates at the crucial range of funding between £20k and £250k. The perception—it is the reality—among the angel community and investees is that the fund is hard to access and that due diligence is not proportionate at the lower level or at the extreme level. In actual fact, and worst of all, the seed fund competes with the co-investment fund, with which it overlaps at the £100k to £250k range. Angels who are co-investment fund partners will always go for that fund because it has a straightforward process for drawing down money.

More recently, I have got heavily involved with the seed enterprise investment scheme, which is an excellent tax relief scheme. The SEIS is bringing other investors and high net worth people into the investment community, but it is frustrating that the scheme cannot issue preference shares, which means that there is the risk of annihilation by VCs at a later stage of exit, as has already been alluded to. On the one hand, SEIS is fantastic in offering terrific tax reliefs, but on the other hand the threat of VC dilution at a later stage is a major flaw in that process.

John Mason: I am interested in Professor Mason's comments on acquisitions, which is an issue that bothers me slightly in that both larger and smaller Scottish companies just get taken over. Ian Ritchie made the point that this is how the world lives, but I wonder how we compare with or are different from other countries. My impression is that the situation is not quite the same in France and Germany, where companies, whether large or small, do not get taken over quite as readily as ours do.

Is it a question of legislation? Is the UK legislation—I know that there is also a European level—too pro-acquisition, rather than sceptical? Is it just a question of attitude; should businesspeople's and Government's attitude be more about going ahead ourselves and encouraging local businesses, as I think was suggested?

Professor Peat: I share Donald MacRae's view that it is an extremely important piece of research. As a board member of Scottish Enterprise, I am delighted to hear about the work that is going on to help high-growth firms and I agree that the work of SE's account managers is extremely important. I believe that we have to focus on success and potential success so far as companies are concerned, and we have to be prepared, at this difficult time in the economic cycle, for the public sector to be more interventionist in development than I ever thought I would recommend. It would be a tragedy if the high-growth firms were unable to acquire the funds that they merit for expansion, innovation or change.

I have encouraged development of relationships between the account managers at SE and the relationship managers at banks. I think that those relationships are now very strong, which can work very well to the benefit of all parties. The relationship managers gain a better understanding of, and confidence in, companies from knowing that there are account managers working with them, and the account managers can also explain to companies what is needed in order for banks to consider finance and to develop what is a very beneficial relationship.

When speaking to the Scottish funding council the other day, I was surprised to learn that it does not have a list of the high-growth firms. I would have thought that there would naturally be a relationship between the universities in particular, but also the FE institutions, and some of the high-growth firms to see where the universities could provide interns for their mutual benefit, where they could think about the benefits of research and where they could think about placement and even sponsorship of students. Ian Diamond may already do this, but I recommend that each institution produce a list of high-growth firms in its area and develop relationships with them to their mutual benefit.

10:45

I noted John Hughes's point about seed funding, and I may discuss that further with Scottish Enterprise to hear its response. However, I note that, at this stage, when investment in the Scottish economy has to pick up, and given that we have traditionally had a lower stock of high-growth firms than other parts of the UK, we must focus more on maintaining what we have, increasing the number of high-growth firms and increasing the growth rate and scale of our high-growth firms. That may mean picking winners not in terms of plucking out of the air sectors that may be successful, but in terms of investing in success and helping to maintain and enhance success. That will be being selective, and at this juncture it is the right road to take.

Professor Diamond: I echo my belief that the work of Colin Mason in the area over many years has been outstanding.

I will make three quick points. First, Colin Mason mentioned that only a minority of high-growth companies are university spin-outs. That is true, but we have a good record of university spin-outs in Scotland. The figures for four or five universities in Scotland are incredibly impressive. Not only that, but the fact that the universities exist means that companies are growing around them because of the skills base. One looks to bioscience and computer games in Dundee for examples of clusters of companies growing up around the fact that there is a research and education base in the area.

Secondly, in recent years, a good number of companies have invested in Scotland because of the quality and strength of our higher education. I might mention Outplay Entertainment, FMC Technologies and Sky, which have all said that the quality of graduates and research are their reasons for investing here. We need to keep saying that.

Thirdly, I will echo a point that Colin Mason made in passing, about procurement. Public sector procurement has a potentially incredibly important role to play in driving innovation, although it will involve some risk. I and others have said for many years that it is not impossible to take the idea forward.

Stephen Boyle: I will make four brief points. I apologise if it sounds as though Donald MacRae and I have been comparing our homework behind the bike sheds.

First, we need more businesses in Scotland—that would be a desirable outcome. We have been trying to increase Scotland's business start-up rate for more than 35 years—for decades—but the result has been no improvement whatever in Scotland's relative business start-up performance. We must conclude either that we have been doing the wrong things, that we have been doing the right things badly, that there is something innate that keeps our business stock relatively low, or that we should be doing something entirely different. Continuing to do what we have done will get us what we have got.

Secondly—and related to that—as Colin Mason said, there may be high-growth firms trapped away somewhere or other. Look at some of the public policy changes that took place in the 1980s and 1990s, partly as a consequence of which some of Scotland's biggest and most successful companies now exist. I am thinking of Robert Wiseman Dairies, Scottish and Southern Energy, FirstGroup and Stagecoach. It is worth considering whether there are potentially very successful businesses lying in parts of the public sector at the moment.

My third point is about overseas acquisition. I am beginning to feel a bit like the old man of the hills, because we have been worrying about that all my adult life. I agree with Ian Ritchie that we should not lean against it. Scottish companies are at liberty to acquire companies elsewhere, and that is right.

That relates to my final point, which is another point that Colin Mason touched on in passing. The evidence shows strongly that it is an absolutely essential requirement for economic growth that we allow businesses to fail. If businesses do not fail and exit, and we somehow try to keep businesses alive, the competitive urge is not let loose and we do not drive productivity improvement.

Gavin Brown: When John Hughes talked about funding, he was positive about the co-investment fund, but less so about the seed fund. I wonder whether he has any experience of or direct observations on the other two funds—the venture fund and the Scottish loan fund.

John Hughes: I am mainly involved with the co-investment fund and, with more difficulty, the seed fund. The venture fund is at a level that I do not get involved with—I think that it is from £500k up to £2 million. It works away itself. The criteria for the Scottish loan fund are pretty strict. I think that the required turnover level is somewhere—

Ian Ritchie: The turnover has to be more than £1 million, but they also want your arms and legs.

John Hughes: Yes. There are a lot of fees. To be honest, I looked at it when it first came out and thought, "I'm not going to spend a lot of time on this." It does not really fit with the early-stage companies with which I work, some of which are pre revenue and some are revenue generating.

To pick up on one of Colin Mason's points, I work with a range of sectors. I am involved with life sciences and medical devices—I make a distinction between drug discovery and medical devices in the life science sector—informatics, the internet and low tech. An example of that is the Safetray lady, who has been profiled by the business gateway. However, we do not get involved at all with the Scottish loan fund.

Professor Mason: I thank the various people who have made kind comments. As an academic, it is satisfying to feel that my research has penetrated beyond academia and has some kind of value.

I will react to some of the interesting comments that have been made. The point about the low business base is valid. There is a suggestion that the figure that 4 per cent of firms are high-growth firms is pretty constant over time. So, for sure, if we raise the business birth rate and if that 4 per cent figure is pretty constant, we will get more high-growth firms. That is certainly a valid point.

Stephen Boyle talked about 35 years of supporting start-ups without much success. I recall the evaluation in 2000 of the business birth rate, starting from 1991, which suggested that Scotland had simply maintained its position. However, defenders of the Scottish business birth rate strategy said that, in relative terms, not a lot of money had been put into supporting the business birth rate. Perhaps the problem was that we did not put in enough money to support that initiative.

On risk capital, it takes probably £20 million to £30 million to grow a global company. We certainly have an active business angel base that can put in £1 million to £2 million, but we are lacking in the £5 million to £10 million venture capital money—the development capital money—that can grow a business to global scale. Maybe we have to think about whether we can import that kind of venture capital from elsewhere.

Ian Ritchie is right about IPOs, but research from the Ewing Marion Kauffman Foundation earlier this year that looked at growth pre and post IPO in America found that companies were growing at about 50 per cent in terms of employment and turnover before their IPO and by about 150 per cent after the IPO. The fact that, for whatever reason, we do not have many IPOs is losing us significant potential growth.

Perhaps trade sales are inevitable, and we could certainly quote lots of good and bad examples of trade sales but, if they are inevitable, the problem is that we are selling our companies too early. The later we sell them, the more embedded they are and the less likely it is that an acquirer will uproot them and take them elsewhere. Further, more value is created so that, when the entrepreneurs and investors start again, they have more wealth to reinvest. My concern is that, if the norm is that people grow a company to £20 million and then sell it, that means that entrepreneurs do not have the ambition to grow a global company.

One company that I interviewed—I will not mention the name—had a real battle with its VC, who wanted to exit the company and sell it. The entrepreneur involved felt that there was a lot of growth, so he stuck by his guns. That is now a global company and a great Scottish success story.

On Ian Diamond's point about university spin-outs, the evidence does not really support the idea that there is success in that area. Numerically, we have many university spin-outs, but most of them are pretty small. Some of the university clusters—I have done research on the games cluster—are overhyped, and the data does not support the idea that they are successful, albeit that perhaps they should be.

The point that was made about regulation and deregulation is spot on. Many high-growth companies have been able to grow either because of regulation, such as recycling companies, or because of deregulation, such as bus companies. Arguably, the Government's biggest impact is made not through direct support but through the way in which it regulates and deregulates the economy.

My final point is on failure. I have a PhD student who is looking at entrepreneurs who have failed. The failure of a company is a traumatic experience for the owner and it has knock-on effects on their social life. Given that, as a society, we encourage people to start businesses, I wonder whether we have a responsibility to start some kind of after-care service for those entrepreneurs who fail. My student's research shows that such people are left to their own devices and they do not know who to turn to. Even some kind of support group for failed entrepreneurs would be valuable. As a society, we have a responsibility to them. If we want people to start businesses, we have to pick up those who, for whatever reason, are unsuccessful.

The Convener: We move on to the subject of access to finance and stimulating investment. We have already touched on that. Our discussion will be opened by Ian Ritchie. After that, I will ask each of our guests round the table—I am giving them a wee bit of time to think—what the Scottish Government and the cabinet secretary can and should do in the draft budget to improve small business start-ups and sustainable economic growth, in their view and that of the organisations that they represent. I would like to hear some specifics, if possible, on how we should move forward.

Before that, however, I call Ian Ritchie.

Ian Ritchie: Thank you, convener. I am drawing on two reports for which I have been responsible recently. One is by the Scottish science advisory council, of which Professor Diamond is a member, and the other is by the Royal Society of Edinburgh business innovation forum.

On the first report, a couple of years ago, we had an interesting mix on the Scottish science advisory council. We had several people who had been involved in technology businesses, including spin-off businesses and growing businesses, and we thought that we had the experience to have a good look at the area. The fact is that Scotland is pre-eminent in scientific research. We are the Andy Murray of scientific research. We are way up in the top four with Israel, Switzerland and so forth. We are way ahead of England and California on any measure of published scientific papers and citations. We are up at the top, yet we are not getting the economic benefit. Scotland has faced that dilemma for 30 years.

When we looked at the issue, we put together four groups of about 20 individuals each, all of whom were involved in technology businesses, growth businesses and so forth. They were people who should have had a good relationship with our university sector, but we discovered that they had either no relationship at all with that sector, or almost no meaningful relationship. That is echoed in Colin Mason's report, which states that his high-growth firms had almost no connection with the university sector.

Our conclusion was that our university sector was living on its own planet. That is not surprising. It is excellent at research and it works with the best researchers in the world. We have three of the world's top 100 universities and six of the world's top 200 universities and they live on their own planet of research excellence, but that does not necessarily lead to economic benefit.

We should not be trying to persuade the universities to do more spin-outs, because, as Colin Mason pointed out, they do not necessarily turn into growth companies. The fact is that a good research programme is probably 20 to 25 years ahead of the market, so if we try to create a company from it, we will have a company that is way ahead of the market and it will not find a ready market. Spin-outs are not really the answer.

The answer is skills and skills transfer. The vast majority of students in Scottish universities, including postgraduate students, will not stay in academia, yet the education that they receive is largely geared towards an academic career. Subjects are taught very much as theoretical subjects and not as practical subjects. I will give an example. My son studied maths and physics at St Andrews. When he left, he did not know how to negotiate, how to plan a project or how to run a budget. He did not know all the basic things that someone needs to know to work in business, so he went to Selex Galileo, which put him on a graduate training programme. Such programmes are geared to turning bright kids into workers.

We need to face facts and build at least some business management, project management and scientific management skills into courses. Our report's major recommendation was that we should try to ensure that the universities are more connected economically.

11:00

I advise MSPs in the room to have a chat with Joan McAlpine MSP, because her daughter did engineering at MIT, which is number 1 in the list of the world's 100 top universities that was recently announced. Her daughter's experience as a student at MIT was dramatically different from the experience of most Scottish students who do engineering. She spent most of the time working with various industrially connected companies and projects, almost to the extent of it being a wee bit too far the other way. However, they certainly create an excellent experience.

We decided that it was important that the Scottish universities should try hard to connect more economically with the wider economy and to have those skills embedded in their courses. It is also important that academics in Scottish universities should be able to work with industry and with economic activities and get rewards for that. The research assessment exercise has included impact, but it is difficult to measure that or to see it happen in practice. I was the one non-academic on the previous two research assessment committees and I felt quite lonely. It was difficult to argue, for example, that a piece of economic or business-related work that an academic was doing was every bit as good as a scientific paper, because the scientists could not measure that in the same way.

We think that it is important that universities should be able to reward academics for doing work that is not necessarily research work and which is more economically attached. We would also like universities to bring people back into academia from industry. By and large, it is difficult to get somebody who goes out into industry back into academia, because they do not have the research record and so forth and it does not work well for universities.

Those were the main conclusions of the Scottish science advisory council, which were basically about connecting universities more with the wider economy.

I do not know how many of you know about GEM—the global entrepreneurship monitor—which studies 89 countries around the world. The Hunter centre for entrepreneurship at the University of Strathclyde does the independent measure for Scotland, so GEM includes measures for Scotland as well as for the United Kingdom. Basically, we have measures for all the countries in the world that are in this game.

We do not do too badly, because we are quite good at early-stage financing and that sort of thing. However, we are poor on attitudes to entrepreneurship and risk and on knowing somebody who has started a company. There is an old joke about why Indians do not have a good football team: it is because when they are awarded a corner, they open a shop on it. That implies that the Indians are naturally entrepreneurial—they open shops. The Chinese are naturally entrepreneurial and we all know that Jewish people are naturally entrepreneurial. Scots are not naturally entrepreneurial. We need to do something about the attitude of Scots towards starting businesses. In our soap operas on TV or radio, for example, it is always the little businessman who is the crook. We must tackle our attitudes in that regard.

The second area that I want to draw on is the Royal Society of Edinburgh's business innovation forum, which I took over in the spring. We decided to tackle the area of financing innovation. Financing is a big issue and a big problem. A company that needs some development must develop a product and build a market and so forth, but it is difficult to fund that internally, particularly now that the banks no longer participate in the process. Basically, companies must find risk capital; they must sell some equity in the company in order to fund the development phase before they can build their business. Risk capital is potentially a big problem here in Scotland.

We held a workshop at which we had 20 attendees from various places—Donald MacRae was an attendee—including banks, angel syndicates, corporate finance advisers, the public sector and so on. We came to some interesting conclusions. The report has been written and is being formatted, so it will be out in a couple of weeks.

The main finding is that seed finance—angel funding—is extremely strong in Scotland. There are two reasons for that. First, the UK's fiscal policy creates the enterprise investment scheme and the seed enterprise investment scheme. The EIS, which has been going for 15 years, gives good tax breaks to people who invest in early-stage risk companies. They get a tax break as they go in and they get tax-free gains as they come out. That is extremely attractive to angel investors, which is why we have a good, strong angel community in the UK. We have a particularly strong angel community in Scotland because of Scottish Enterprise's co-investment fund, which matches funding from angels. Therefore, an angel group that can raise £300,000 can invest £600,000 in a company. That makes a huge difference, because it is the right sort of level for such start-up companies.

It is great that angel funding is very strong in Scotland, but there are some problems with the next stage. The next level of risk capital is almost impossible to achieve. There are very few venture capitalists in the sector—they have moved away from early-stage companies and away from risk. Venture capitalists who used to be involved in backing early-stage and growth companies have now moved up into private equity, so we do not have the funds that we used to have for risk capital.

There is a good reason for that. The sector has not performed. In 2001, there was the dotcom bust, which resulted in a lot of value being wiped out. The venture capital companies that got started after that phase backed companies that matured in around 2007 or 2008, and we all know what happened then. Because of that, there has been a blight on the whole sector—for the past 12 years or so, almost no returns have been made in it. Corporate finance people, who put their money into good bets, ask why they should put money into the sector when it does not make money, which is understandable. The venture capital area has languished because of that.

Government can and does intervene—the EIS is a Government intervention, as is Capital for Enterprise. I do not know how many of you know about Capital for Enterprise—it is a UK Government scheme that creates new venture capitalists and backs them. It puts in a maximum of £25million, for a maximum of two thirds of a fund, so if at least another £12.5million of private money is raised on top of that, it creates a fund of at least £37.5million. The Government wants only a fixed return. All the entrepreneurial gains from those funds go back to the private investor. That is quite an attractive programme, but the fact that it is limited to £25 million because of European state-aid rules makes it sub-optimal.

We think that there are ways in which we can be more intelligent about how we create new funds and that there are sources of funds that could be tapped into to address the issue. For example, some of the pension funds could be tapped into. At the moment, pension funds do not really participate in the sector, because of the way in which they are measured. We think that it might be possible to measure them differently or to give them a different kind of guarantee, such as an underwritten Government guarantee, so that they could participate. Without risk capital, we will not have companies and we will not have an economic future, so we need to solve the problem of how to get substantial risk capital.

A recommendation that our committee will make in our report is that we set up an advice group for Government. We have just had a meeting with Scottish Financial Enterprise, and it is keen to work with us on that. The group would look into what new forms of risk capital can be created and where they can come from, with a little bit of Government support or encouragement. It would ask whether we can create some new types of Scottish solutions to the problem.

John Mason: I was interested in the point that some countries are naturally more entrepreneurial than others. I presume that how entrepreneurial a country is can be changed, but how do we do that? I absolutely accept your point about attitudes. I believe that attitudes are extremely important.

I do not want to pre-empt our final session, but is there something practical that we could do? Should we send Brian Souter or Jim McColl round all the schools? Could we do something like that?

Ian Ritchie: There are things that we have been doing. There is the youth enterprise programme in schools, which Tom Hunter underwrote. It has done a great job, but it has been going for only eight years or so, so the kids are still in high school. It takes a long time to change a culture. Tom Devine has written at length on the subject. The entrepreneurial culture that Scotland knew in Victorian times, when we took on the world, was wiped out in the first world war, because the Scottish entrepreneurial classes were mown down. In the second world war, we supported all the heavy industries that were no longer competitive because we needed them. Over the 20th century, we became a more dependent nation. We need to get back to that old atmosphere of believing that we can do things.

John Hughes: I am interested in Ian Ritchie's comments on pension funds. I have done quite a bit of research on the differences between the American history of funding VCs and the history here. Like many people, I always thought that the Americans' very heavy funding of their VCs, particularly from the late 1970s onwards, was cultural and market driven. However, I found out that many people knew bits and pieces, but not all of what happened.

I was intrigued when I found out that things were driven by statute—in other words, by the will of Government—in the 1970s. The Employment Retirement Income Security Act 1974 came along to make pension fund managers more liable because of disasters with massive pension funds in the US, but that did not do it. It is interesting that there was a change to an old clause in pension fund guidance on investment. That was the prudent man rule, which said that a prudent man would not invest in VCs—some bright guy in the federal Government took out the "not" and the floodgates opened. That was in 1979. The Apple IPO in December 1980 was the biggest since the Ford Motor Company IPO. The graphs are quite interesting. The returns in the first two decades were phenomenal, but they are not so good now. The key point is that things were done by the hand of Government. What happened was lobbied for, but market forces were not waited for. It was done by statute.

Professor Diamond: I want to comment on a few points that Ian Ritchie made. I completely agree that universities, in planning their courses, need to ensure that they talk to industry. That is why they all do so. Let me make that very clear. More than 115 professional bodies work with universities across Scotland to ensure that their needs are met. All the students in my university undertake their undergraduate degrees with a set of graduate attributes that have been agreed in conversation with industries and the CBI and which will provide the skill sets that those industries have said that they need. Universities are talking to industry.

I think that Ian Ritchie's point that perhaps universities should not be doing spin-outs is plain wrong.

Ian Ritchie: I did not say "should not".

Professor Diamond: I will continue to make money from our spin-outs at the University of Aberdeen. We believe that that is good for Scotland and that other universities, such as the University of Dundee, the University of Edinburgh, the University of Glasgow and the University of Strathclyde—whose technology and innovation centre is unbelievably good—will continue to do that. However, our graduates are incredibly important.

We look out to industry. I recall Richard Lambert's review in 2003, in which Melfort Campbell was involved. It started off by looking at universities and said that business had to look to them and that it is a two-way street. It also pointed out that we need academic and industry interface. Universities are increasingly looking for that. There are ways in which we manage and promote people who spend time in and out of industry. In the past few years, all universities have built industrial liaison as part of the promotion categories. In my previous position, I used to tell universities that they had to do that.

I absolutely agree with everything that Ian Ritchie has said, but the journey that the universities are on is perhaps a little further than he might have implied.

The Convener: We have had an interesting and eclectic discussion. We have looked at the role of higher education, skills and development and lessons from successful Scottish companies in accessing finance and stimulating investment, but we are, of course, keen to look at the draft budget and lean on the expertise around the table.

As I mentioned, I am keen to hear how, from your experience and what we have heard and discussed today, the Scottish Government can help to deliver sustainable economic growth through the budget. For example, what changes could be made? What is going well? What should be done differently? I am keen to hear the views of our witnesses in particular on those issues.

11:15

Professor MacRae: I start with the observation that the capital investment spend in Scotland and, indeed, the UK compares poorly with that in many of our European competitors. The most recent results for the Scottish economy, which are for quarter 1 of this year, show that the level of business investment, at about 17 per cent of total gross domestic product, is actually lower in cash terms than it was in 2007. I find that quite a stark figure.

I note in the draft budget that capital spend in Scotland was £4.5 billion in 2007-08 and £3.1 billion in 2012-13. Of course, that is in cash terms; if inflation were taken into account, the reduction would be even more severe. In any case, the level of capital spend in 2012-13 is substantially lower than it was in 2007-08. I also note that the spend goes up to £4 billion in 2014-15 and that the increase will be sustained by transferring £270 million from the resource to the capital budget. I commend that very sensible move; however, the increase to £4 billion also relies heavily on £973 million from the non-profit-distributing model.

My point is that the capital spend in Scotland is low compared with what it has been. I realise that the Scottish Government is constrained by its total budget, but my argument is that we should look to increase those capital spending totals in each of the next three or four years.

The Convener: Given that our budget is fixed, what should such an increase be at the expense of? In many debates in the Parliament, people say, "We should spend more on A, B, C or D" without actually specifying the areas in which we should spend less money in order to balance the budget.

Professor MacRae: I would argue that the total should be increased. It should not necessarily come from a cut in what you might call resource spending.

The Convener: Should we raise taxes then? After all, our powers are limited as far as the budget is concerned.

Professor MacRae: I suggest that it would come from the UK Government—

The Convener: Well, we would agree with that.

Professor MacRae: Personally, I think that the date by which the UK aims to have a balanced budget should be pushed back a bit. The question is how we balance the risk from reduced—indeed, no—growth against the risk from a high debt-to-GDP ratio, and I think that the answer will come down to extending the time by which we are to be in balance and increasing spend on capital investment projects.

Secondly, we have a lot more to do on procurement in Scotland. Finally, I believe that Highlands and Islands Enterprise and Scottish Enterprise should be targeting support at high-growth firms much more than they are at the moment.

Professor Mason: I have to slip away in a minute because my wife has a hospital appointment, convener, so I thank you for letting me come in early.

We need funding for entrepreneurship centres in every Scottish university along the lines of the Hunter centre in my previous university, the University of Strathclyde. Those centres would look inwards to educate students in entrepreneurship and could interface with external companies for placements and so on. As for the question of where the funding for that would come from, we might be able to divert some of the R and D money that is being used to produce high-growth firms and which, as I have suggested, is a little misplaced. Perhaps there should be some reallocation of university funding.

Before that money is invested, however, we need to look at best practice in this area. In England, there was a Quality Assurance Agency for Higher Education report on best practice in entrepreneurship education. The fact is that a lot of what is labelled entrepreneurship education is not terribly effective, and we should understand how best to teach the subject before we let universities spend money on it.

Professor Peat: There are no easy answers to the question that you asked, convener. If there were, I am sure that the Government and others would have found them.

I start by quoting the Royal Society of Edinburgh's submission to the committee's consultation on the budget:

> "It is essential that, when setting the Budget, the Scottish Government takes a strategic long-term view and links, in a transparent and consistent way, spending to outcomes within this strategic context.
>
> The Scottish Government must also provide clear, transparent reporting on its spending and the impacts this has on the Scottish economy."

The submission states that that would allow the Scottish Parliament, including the Finance Committee,

> "to take a significantly enhanced role in assessing and then approving the draft Budget".

The point about transparency is important. To use the example of capital investment, I agree with Donald MacRae that it was the right decision to transfer money from departmental expenditure limit—DEL—resources to DEL capital. However, last month's Scottish Parliament information centre briefing on the draft budget states:

> "the Scottish Government has proposed transferring £250m from DEL resource to DEL capital in 2013-14, but this proposal is not reflected in the capital and resource totals within the document."

In other words, SPICe could not find out whether that money is being transferred, how it is being transferred, where it is coming from or where it is going to. It is critical that all of us, and particularly the committee, have consistent data so that we can monitor the changes during the financial year and between financial years in such a way that we know what is happening.

It is also critical that we have clarity on how particular activities are expected to contribute to the outcomes that are priorities for the Government and the Parliament. We do not have that clarity in every instance. That is why I welcome the outcome agreements with the universities and FE institutions, but I would welcome such agreements across the piece. There are other words on that in the RSE evidence—which I was involved in producing—that I underscore and commend to you.

As far as specifics are concerned, I take Donald MacRae's point on procurement. I am delighted that the sustainable procurement bill is out to consultation at present. We have a seminar coming up on that and we have offered a session on it to the relevant Scottish Parliament committee, which will probably be held early next year. We are delighted to engage in that work and think through how we can combine efficient procurement with procurement that adds the most value in Scotland. That is not an easy task, but it is one that merits close attention and the right procurement decisions.

I agree with the point about better targeting of HIE and Scottish Enterprise funds. At times, that will lead to some difficult decision making for the enterprise bodies and for Government. If we are to put more funding into high-growth firms, where will it come from in the budgets, given that Scottish Enterprise and HIE have to take account of other Government priorities? I leave that question hanging, as it might merit consideration.

My final point is on FE. When I gave evidence to the Education and Culture Committee last week, I emphasised the role of FE in skills development and the close links with businesses in individual areas. I am beginning to understand that role better. I like the structural changes that are going through and I believe that substantial efficiency gains can come from them but, as I said earlier, I worry about whether the resource will be available for the skills development end of FE on a lifetime learning basis. You should ensure that that is addressed as a priority, because it is important.

As Stephen Boyle said, we have done well on HE. The worry is lower down the scale of skills and human capital. That is where Scotland has traditionally failed to produce the right contribution to growth. We fail to make the best use of people with FE skills within businesses, and we fail to develop people with the right skills and to impart them. FE can encourage entrepreneurial activity for small businesses and microbusinesses and it can have close links at the low and medium-skill level. However, businesses must want to make use of them. Businesses still tend to take people but not encourage them to perform in the way that businesses in many other countries do.

FE is an area that merits your close attention. HE is doing well in terms of both its contribution and—dare I say it?—its funding. The question is whether FE is sufficiently resourced and targeted.

Those are some thoughts.

Stephen Boyle: I would stop doing two things. I would stop spending public money on encouraging people to start up businesses and I would stop spending public money on encouraging universities to spin out research and development.

I would do more of two things that the Government is already doing. Where possible, I would allocate money from revenue to capital. Above all—taking to heart your point that we are talking about sustainable development for the long term, and taking into account my concern about equity—I would put all the resources that I could lay my hands on into active early years support for young people and their families. Without question, that is where the biggest returns for our investment will come from.

Finally, I would look for opportunities to find businesses that might be hidden in parts of the public sector.

Ian Ritchie: I have one practical recommendation. When I started my company in the 1980s, it was backed by Scottish Development Finance, which was part of the Scottish Development Agency at the time. The first thing that it told me was that it did not lead investments, but then it went on to lead the investment. SDF operated by working in partnership with other people. Of the four venture capitalists that came into my company, three were London-based. SDF was there to make it all happen.

Colin Mason asked how we bring in venture capital from around the world. In the past 20 years or so, venture capitalists have become much more global and willing to invest anywhere there are smart people, but they usually require a local partner who is fairly savvy and hands-on, who goes to the board meetings, and who keeps an eye on things.

Scottish Development Finance continued until about 2003 when it was privatised and turned into Scottish Equity Partners. I was on the board of Scottish Enterprise when that was done, and I approved it because it was the right thing to do. We now have a very strong private sector venture capital group that is based in Glasgow and invests all over Europe. That is great, but we lost Scottish Development Finance, which was required to invest only in technology—in its widest definition—and only in Scotland. By the way, that did not cost money; it made a shedload of money. Scottish Development Finance made really great returns.

It is now time to reinvent Scottish Development Finance through a private sector partnership deal with Scottish Enterprise. It would work like venture capitalists in the same way as the old SDF. It would not be a Government bureaucracy or agency; it would look and feel like a venture capitalist and it would work in partnership with venture capitalist groups from London, around Europe, Boston and so forth.

Two particular areas are in need of attention. Angel money is very good at the £1 million to £2 million level. That is okay for informatics, which is my sector. However, larger and longer-term amounts of money are required for life sciences and green energy, and the angel community cannot do those things. Angels cannot fund £10 million for 10 years. I think that that is a good reason for considering setting up a couple of SDF-lite funds for life sciences and green energy.

How would we pay for that? As I have said, it would not cost money in the longer term; it would make money. However, we would have to divert a relatively small amount of funding. If the fund was set at £100 million for five years, it would cost only £20 million in the first year. I am afraid that I think that Scottish Enterprise could find £20 million if it had to, or indeed we could find it from other schemes. The Scottish budget is £30 billion, so we are not talking about a huge amount of money, but it would be very strategic in generating future investment in companies.

Professor Diamond: If I may, I will have two Mandy Rice-Davies moments. First, I welcome the Scottish Government's continued commitment to higher education, which is important if we are to become the Scotland that we want to become. Secondly, I welcome Mr Swinney's commitment to an energy skills academy, which brings together FE and HE and strives to provide the skills that the energy industry needs.

11:30

What do we need to do? First, to echo what Jeremy Peat said, we need to think about the interaction between FE and business. There is no point in just training people in FE if there are no industry careers that offer them opportunities to go up a ladder. In other words, we do not want just to train people and give them a set of skills, and then send them away to use them for 40 years. We need to give them the opportunity to go up a ladder because that ensures productivity. It is incredibly important for Government to work with industry to ensure that.

Secondly, we need to think of and develop ways of financing postgraduate taught courses, particularly those that are linked to industry needs. Industry should be part of that, but the Government needs to bring something to it, particularly for disadvantaged students. Some kind of means-tested maintenance for that would be incredibly helpful.

Finally, I want to reiterate what I said earlier about procurement. Getting public sector procurement to drive innovation is incredibly important. I have written about that, and I would be happy to provide any help.

The Convener: The last word is with you, Mr Hughes.

John Hughes: I will restrict my remarks to my own area because it is what I know best. I would like to see continuing support for the excellent SE products and services and the business gateway contract. It is where I work.

The pipeline service is less well known than the account managed service, but it is a forerunner to it. It is very rich because we work not just with SE products but with other products and services through the likes of Edinburgh Chamber of Commerce, the city council and so on. I would like to see that resource continued and possibly expanded. My colleague John Harkins and I run the pipeline service for the whole of the city of Edinburgh. We can only do so much, but it is a good service and when it works it works really well.

While we have been running that service, we have also developed another initiative. A year ago, I and my colleague Howard Flint, formerly of LINC Scotland, developed a product called road to investment, which was supported by the business gateway and Edinburgh Chamber of Commerce. We wanted to get 12 companies together every quarter to teach them what they need to know about investment. Our experience was that they did not understand the subject. The money was there and the companies had the technical skills, but they did not understand the language.

That product came out of the union between the chamber of commerce and the business gateway. We have trained about 50 people in the past year and raised about £1.5 million, including matched funding, by running what I call an academy of learning how to raise investment in the public and private sector.

The Convener: Thank you very much indeed. I thank all of our distinguished guests for their helpful and informed contributions. I will suspend the meeting until 11.40 to give members a natural break and to allow our witnesses to leave.

11:33

Meeting suspended.

11:42

On resuming—

Employability

The Convener: I reconvene the committee. I apologise to the committee for starting almost three minutes later than I said we would.

Agenda item 3 is to receive a report back from members on the employability workshops that took place on Friday. As part of its examination of the need to improve the employability of those furthest from the labour market, the committee held one-day workshops in Ardrossan, Dundee and Dumfries, involving more than 45 organisations from the public, private and third sectors as well as individuals, to hear about people's job-seeking experiences. We will now have a discussion on what happened. We will try to keep this reasonably brief, but I do not want to restrict people if they want to make any comments.

Let me kick off with the workshop in Ardrossan, which I attended with Michael McMahon. I will talk to a couple of points, but I will not go through the excellent notes that Jim Johnston and Ross Burnside prepared for the meeting, which will all be appended to our report so that people can look at them in depth and things are not missed out. Michael McMahon can follow on from my comments with any salient points that he wishes to make.

An interesting point in the Ardrossan workshop was that there seems to be a disconnect between the perceptions in some of the different groups. For example, in the first session the local employability partnership representatives talked about providing employers with the individuals and skills that they need. They talked about partnership working and the complex employability landscape, but they also conceded that there is an issue about competing with each other for funding to reach targets. They talked about how big public sector employers are doing a lot less on the employability issue than the private sector is, and they also talked about the need for co-location—providing employability services in a shared space or physical close proximity—and the importance of schools and local flexibility.

11:45

That view was contradicted by the local business sector, which seemed to feel that it did not have much engagement at all with employability agencies. Businesses said that they got what they referred to as aggressive phone calls from various different organisations and agencies asking whether they would take someone on and offering financial inducements to do so.

The problem is that those inducements do not seem to be particularly important to employers relative to the need to have the right person sent to them. A lot of employers were concerned that someone would just be sent to them regardless of that individual's particular interests, aptitudes or skills. In the hotel and catering sector, for example, there was a deep sense of frustration that there appears to be no acknowledgement of different types of employers, and that businesses are simply sent someone just so that targets can be met.

It seems that there is not enough focus on asking employers what they need. There was talk among employers of building attitudes to work, and of the desire to do that as early as primary school, particularly in areas where there are second and third generations of unemployed people.

Businesses did not believe that the education system is fit for purpose in getting some school leavers ready for work. They believe that there is a real issue with the effectiveness of some placements with regard to soft skills. The Department for Work and Pensions came in for particular criticism for sending people who are not appropriate. Businesses also talked about the lack of long-term placements, and said that people are being sent to them without the basic necessary skills.

Businesses' experience of Scottish Enterprise was mixed, which somewhat contradicts some of what we heard earlier today. There was concern about the process of allocating grants, and we have heard some of those concerns today with regard to RSA grants. Some people seem to be exasperated by how difficult it is to get grants and by who gets them.

There was an issue with the planning system in North Ayrshire. It seems to be easier to say no to an application than to approve it, which is apparently restricting some business developments. Businesses believe that they should get direct funding to do their own training rather than funding being allocated to agencies, where there is perhaps a mismatch with training needs.

There was a real concern about the benefits system and flexibility, and businesses talked about things over which we do not have any control, such as reserved issues. For example, they said that cutting VAT on building developments would help in getting banks to lend more money.

Among third sector organisations, there was a feeling that the agencies are less joined up than they have been previously, and that they need to co-design and co-produce services. The view was that work programmes are done on the cheap and that the compulsory component of the benefit system is counterproductive.

There was a real issue—which was also raised later by the service users—about the need to build the confidence and self-esteem of people in the school system. The organisations believe that support for employability programmes and entrepreneurship programmes in school is crucial in giving young people the right focus.

There was real concern about the focus on targets and numbers, and the view was that soft skills should be included when measuring outcomes. The problem—as those organisations perceive it—is that the DWP in particular is focused only on getting people into work, which is not very helpful as some individuals are effectively bypassed by the system as a result.

With regard to tenders, not enough weight is given to the quality of schemes that need greater time and intensity rather just processing numbers. There is an issue with the sausage-machine mentality in processing some of those things.

The organisations are supportive of what local authorities—and North Ayrshire in particular—are doing, but they feel that the NHS is more difficult to work with on employability. Again, they emphasised that the private sector is better than the public sector in that regard. They said that we need less short-term funding, to be less reactive and to take more of a long-term approach, which the trade unions commented on some months ago. They believe that there needs to be more accountability and transparency with regard to what the employability budget is spent on and what it can deliver. They emphasised that the priority should be a one-to-one focus—that was not exactly what the International Labour Organization said last week, but it was something that was also emphasised today.

In the service users session, there was a consensus that the most effective work programmes are those that focus on positive thinking, confidence building and teamworking. However, there was concern among the participants, most of whom were older than the 18-to-24 age bracket, that because most interventions are directed towards the young, older long-term unemployed people are at a major disadvantage in employability programmes. That is a particular issue for women who have been out of the labour market, perhaps because they have been raising children.

All the participants had had negative experiences with Jobcentre Plus and the Department for Work and Pensions. Problems with a lack of flexibility and unwelcoming and intimidating environments were mentioned, as was inconsistent advice from the DWP on people's entitlement to benefits while on training courses. If someone goes on a certain course, will they or will they not lose their benefits? That is clearly a real issue for people.

There was also concern that the compulsory element means that square pegs are being put into round holes for the sake of box ticking at the DWP. There was criticism of some of the training courses that are offered, which are viewed as being mass-produced and generic. There is real concern about people not being treated as individuals.

Michael, do you have anything to add?

Michael McMahon: That was a comprehensive overview. As Ardrossan is not in my area, I tried to compare and contrast the position there, using the information that we were given by people from various sectors, with the position in my area, which I know about from speaking to people from the same sectors there. Although there are specific issues in Ardrossan and North Ayrshire, the position there is comparable to the position in my area. It seems that there is a Scotland-wide issue rather than just a problem in certain local areas.

As the convener said, the problem seems to be too great an emphasis on quantity rather than quality. The tick-box exercise to get large numbers through is working against both the private employers that want to engage in providing training and opportunities for people, and the public sector, which wants to be seen to be getting as many people through as possible.

We need to focus on the outcome that we are trying to achieve. A lot of evidence was provided that simply churning numbers through the system is not sustainable. We heard that, if more time was taken to work with people individually, in a more focused way and over a longer period of time, more people would have the opportunity to use their skills to go on and have greater experiences in the workforce. In the longer term, that would be a more stable and sustainable approach.

The Convener: I will add a further comment. Employers said that they often feel that their time is being wasted because they are sent people who are clearly unsuitable, given the skills base that is required by the company. It is a case of just anybody being fired over to them. We heard that some of the people who are sent are of high calibre and that there is no difficulty with them, but that others clearly do not have the right attitude or aptitude, and the employers feel quite aggrieved about that. Busy people are putting in time to interview folk who are clearly not suitable, and preparatory work is not being done before those people are sent to employers.

John Mason and Elaine Murray attended the session in Dumfries. Who wants to kick off?

Elaine Murray: Again, it was a good session. We started off with the attendees from the public sector and the local employability partnership, who believed that they were telling us a very good story. They talked about their partnership working and they had a table that showed their aims and when they expected to achieve them. They said that there is a problem with work placements, particularly in rural areas, where there are not many small and medium-sized enterprises that can take people on for work placements. They also said that there should be more emphasis on key sectors in the area, such as hospitality, tourism and leisure. Jobs in those sectors are still seen as not being good careers, and we heard that there ought to be more emphasis on that.

The attendees said that one-to-one support is successful but costly. I think that we wondered why, if it is costly for the public sector, they are not involving the third sector a bit more. There was a feeling that some of the national schemes are a bit too urban-centric and are not as well tailored to rural communities as they could be. They also talked quite a lot about what they call the pipeline, and the need for successes along the pipeline as they get people to the point at which they become employable. They said that it is not just getting people to the end point and into a job that is important, but the progression that they make along the journey.

A piece of jargon that I had not heard before was “hiding the wiring”, which apparently involves—

The Convener: We heard that as well, funnily enough.

Elaine Murray: It involves a scheme that they were obviously very pleased about—an offer that they were going to describe as an employer offer on recruitment and training—and that had been recently launched. They felt that it could offer a service to employers. It sounded quite good until we asked local businesses what they thought about it, but nobody had consulted them.

There is still a disconnect between the public sector and the other partners. Perhaps people in the public sector are getting better at speaking to one another, but they are not yet necessarily communicating as well as they could with the private sector and the third sector. Indeed, the employer offer was seen as competition for the private sector, which thought, “Well, some of us do that and the public sector is trying to come in and do things that we do.”

It was a fairly large concern among local businesses that there is not enough private sector involvement in the local employability partnership.

There was also a strong feeling that there needs to be an ability to train management and that it is not just about training people at the bottom. If we are looking at the demand side, it is about training the managers as well. More needs to be done on that.

It was felt that a bit more involvement in the school curriculum is probably needed to explain the opportunities of the various sectors, and there was a feeling—I am not sure whether this is true in the public sector as well—that there are too many schemes and too many different funding streams. I know that the Scottish Government is beginning to address that. I think that there is talk of a single employability fund in “Working for Growth: A refresh of The Employability Framework for Scotland”. Perhaps that might begin to cover concerns about there being too many different funding streams.

Strangely, there was a feeling that one of the problems in schools is that people go to school and then to university and then go back to school as teachers. That was said in two of the sessions. Perhaps teachers do not have the life skills and experience to be able to teach pupils about or expose them to other work opportunities, as they have not had such opportunities.

There was a bit of concern about whether people will have the right skills when the economy starts to grow again and whether we are investing in the skills that we will need to grow the economy. As I said, there was a general view that the landscape is too complex.

The third sector thought that getting the third, private and public sectors around the table is difficult. There is a lot of talk about working together, but it did not feel that things are working as well as they should be.

The duplication of effort was talked about. More than one third sector organisation thought that there is a rather low referral rate from Skills Development Scotland, and it was also thought that SDS does not cope. The third sector was represented by people from Apex Scotland, for example. Some people who are very far from the job market have significant problems and it was felt that, in some ways, public sector initiatives do not cater for some of those youngsters and they are not being referred on. Some of those young people have very few core skills and they need assistance.

There are problems in engaging youngsters at school and significant issues around chasing funding.

The service users’ input was very interesting. They talked about the real barriers that they experience in trying to get into work. Members will not be surprised to hear that transport to get to work is a barrier in rural areas. A youngish man who lived in Kelloholm was eventually offered a job in Annan, but it cost £12.30 a day to travel by train from Kirkconnel. By the time his travel costs and what he would lose in benefit were taken into account, he would be doing that work for £8 a week. A young woman in hospitality described how the bus to Dalbeattie left at 11 o’clock at night. If her shift finished at 7 o’clock, it did not matter: she still had to hang around to get the 11 o’clock bus. There are big transport issues in rural areas.

It is rather shocking that a young mother of youngish children has had problems with employers asking about her childcare arrangements. I think that it is illegal, but fairly large employers have asked her how, with young children, she will manage the shifts. The types of businesses in rural areas, such as those in the hospitality sector and the big retailers, expect people to work weekends or nights. There are not that many childminders who will look after kids at those times, so there are big childcare issues there.

The service users felt that more information and guidance could be given out, and that the Government should make more use of social media to get information out there. That was quite interesting, and perhaps reflected the age of the people who felt that we could be doing more in that regard.

There was a feeling that, although there are some jobs out there, the difficulty in rural areas such as Dumfries and Galloway is being able to get to the job in the first place.

12:00

The Convener: Does John Mason wish to add anything?

John Mason: That was pretty comprehensive.

Like Michael McMahon, I found it good to be in a completely different area. Originally, I was going to go to Dundee, but I ended up in Dumfries. It is a big town, but there were a lot of people from outwith the town. They were very appreciative, and I think that I got more credibility for coming down from Glasgow, whereas Elaine Murray is more local.

The wider point is that it is extremely good to do that type of thing. I know that it is time consuming and it causes problems for me as it does for everyone else, but people really appreciate being listened to. We got that feeling from all the sectors that we spoke to.

A number of issues came up. For example, the point was made that some stuff is too urban-centric. Both the public and the employers spoke about incentivising employers, which was quite interesting. Some of that is, of course, outwith our control—for example, employers would like national insurance contributions advantages or corporation tax advantages if they are taking people on. The idea of being more joined up on non-domestic rates was another suggestion—employers want a bit of relief if they take people on.

There was an issue with the private sector not being included—although the public sector thought that it was—so there is a wee bit of a lack there. There was a concern that, although catering and hospitality is such a major employment sector in that area, there are no training facilities—a centre of excellence, for example—such as there are in the Highlands. That seems to be an obvious problem that somebody needs to tackle.

The issue of schools came up, although I am not sure that I have fully got my head around it. There was a discussion about what core skills are and what soft skills are, because some of us have been using those definitions interchangeably. There was a feeling that core skills are things such as problem solving, whereas soft skills are more to do with communication and that type of thing.

There was a feeling that the payment of £2,000 for an employer who took someone on was a big advantage, and that it would be disadvantageous if that was not there. It was felt that 26 weeks is not really long enough to train up young people.

There was a bit of criticism that everything has to be innovative: at council level, Government level and indeed at every level, people think that they have to have new ideas. For the third sector, that can just become confusing. Transport was also raised as an issue.

A good point from the third sector was that people need to be allowed to fall off the bus a couple of times—in other words, they blow it, and you still give them a chance. That is necessary for some people, which was quite a good point.

Gavin Brown: I will restrict myself to just one point from each of the four meetings. I echo John Mason’s point that it was a great idea—it was a very valuable day for me, especially as I spent it in Dundee, outside my region, which gave me the chance to speak to people with whom I had not come into contact before.

I will start with the service users session, which was pretty inspirational. It involved listening to people who had turned their lives around and who spoke quite eloquently about that.

There were a lot of key points, but I will leave the committee with one point, which is the question whether support should be provided to individuals or in groups. The service users were pretty adamant that a group setting is better. I am sure that there are exceptions, but they felt that having to go through the act of going into a group of people they did not know boosted their confidence. When people go to work in the real world, that is how it will happen—they will not get a one-to-one session in their job. They said that everyone in the group became quite good friends, and that they provided a support network for each other through the highs and lows of the courses that they took. I want to flag that up as it seems to tie in with what the ILO said to the committee a couple of weeks ago.

We then heard from third sector organisations. Their biggest frustration is funding and the fact that it is often provided for only a single year. As we might imagine, they want funding for longer stretches of time; they said that two-year funding would be a big improvement, but they are pushing for three-year funding. They also talked about the optimum length of time for working with individuals. As others have said, if an organisation has only a few weeks with somebody, it will make a minimal difference. There are exceptions, but in general the organisation will need at least six months, and probably closer to a year in most cases, in order to make a meaningful difference.

The biggest frustration for the businesses that we spoke to—it was mainly expressed by small businesses, as I suppose the bigger ones are a bit better plugged in—was that the landscape is still quite crowded. We have heard about that before. They said that it is not always clear who they should speak to about a particular issue, and because the head of human resources in a small business is also the head of health and safety and the head of pretty much everything else, they do not have time to go and look at four or five websites or make four or five phone calls. They want one person they can phone. They do not care what that person does next or who they pass the inquiry to behind the scenes. If there was one number that businesses could phone or one person they could contact, that would make a huge difference. At least one of the businesses said that, if that was the case, they would probably have at least another two apprentices within their business, and I am sure that that is not an isolated example.

Our final meeting—it was actually the first one—was with the employability partnership. This comment is subjective and anecdotal, but I got a pretty good feel from the group that they work with each other, know each other and speak to each other. They like each other and they are also happy to disagree and debate things, which is refreshing. Much of that comes down to the fact that, when the partnership in Dundee was formed, in 2008, pretty much everything was co-located in one office, so they can hear each other’s telephone conversations and they work together daily. That seems to have worked well for service users.

The area in which they feel that they need to do a bit more work involves ensuring that they engage with individual businesses, and particularly small businesses. In some cases, they go out and knock on the doors of shops and try to speak to the owner or manager, but that is slow going. They think that they need to do more work in that area. However, I was quite impressed by what we heard.

The Convener: Bruce Crawford and Jean Urquhart were not involved as they joined the committee only recently. Do either of them, or indeed any other committee members, have any comments to make at this point?

Jean Urquhart: I have personal experience of some of the difficulties that we heard about from all the members who have spoken. It has become obvious, not only in my business but in businesses in the Highlands in general, that the other European workers who come into the tourism, catering and hospitality trade, which is what I know, do not come through the job centres, Skills Development Scotland or other such agencies. There is an entrepreneurial spirit there. The position has changed in the past 20 years. We used to see far more young people across Scotland who were prepared to move around for jobs and to come and take them. We seem to have got stuck, in that people remain in their own areas and they are not particularly being encouraged to go beyond them. I do not know why that is the case.

The Convener: That is an interesting point. Perhaps some people are just more risk averse than they were. There could be a host of different reasons. For example, if a Polish person goes to live in Inverness, they will know that, because there are already 5,000 or 6,000 Polish people there, they will have a proper community support network. It is sometimes more difficult for people to move within their own country, and not just because of accommodation costs. People's expectations are different.

Also, it is a different type of person who comes from overseas. We have a really high expectation of Polish workers, but they might not be representative of all people in Poland, in that they are the ones who get up and go. It is not always fair to compare people who are here with people who have come from elsewhere. Scottish immigrants in America were very dynamic.

Jean Urquhart: I accept that, but it was not like that in recent history. We used to get several hundred applications from Scottish students—from the Glasgow area in particular—who wanted to come and work either part time or full time, but that no longer happens. We might get one or two applications. Most things come through the internet now, anyway, but—

The Convener: Has there been a change in relative pay and conditions?

Jean Urquhart: No.

The Convener: Okay.

I thank all the participants for their useful contributions, particularly committee members. I also particularly thank Dawn Redpath from Dumfries and Galloway Council, Andy Lee from North Ayrshire Council and Allan Millar from Dundee City Council and their respective teams for all their assistance in setting up the workshops, and I thank our clerking team, which did an excellent job on this.

All the information that came in from the sessions will go into our employability report, which we hope to have—

James Johnston (Clerk): At the end of November.

The Convener: We are going to secure at the Conveners Group a full parliamentary debate on employability in the new year, so we will look forward to that as well.

The final item on our agenda is item 4, which we agreed to take in private.

12:11

Meeting continued in private until 12:16.

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