



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 3 October 2012

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ECONOMY, ENERGY AND TOURISM COMMITTEE
26th Meeting 2012, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Rhoda Grant (Highlands and Islands) (Lab)

*Patrick Harvie (Glasgow) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

*John Park (Mid Scotland and Fife) (Lab)

*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor Richard Kerley (Queen Margaret University)

Professor Sir Donald MacKay

Dr Jim McCormick (Joseph Rowntree Foundation)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 3 October 2012

[The Convener *opened the meeting in private at 08:00*]

10:56

Meeting suspended until 11:01 and continued in public thereafter.

Draft Budget Scrutiny 2013-14

The Convener (Murdo Fraser): Good morning. I welcome the witnesses and those in the gallery to the 26th meeting in 2012 of the Economy, Energy and Tourism Committee. I remind members to turn off their mobile phones and other electronic devices.

Agenda item 2 is our scrutiny of the Scottish Government's draft budget for 2013-14. I thank our panel, which is here to provide independent commentary on the budget, for coming to the meeting. Professor Sir Donald MacKay is an economist; Professor Richard Kerley is from Queen Margaret University; and Dr Jim McCormick is the Scotland adviser to the Joseph Rowntree Foundation.

Before we ask questions, would the witnesses like to say something brief about the budget by way of introduction?

Dr Jim McCormick (Joseph Rowntree Foundation): Thank you, convener. Good morning, committee members.

I hope to make points about the budget's potential impact on Scotland's tackling poverty objectives in the years to come. I will try to do so by drawing on research evidence from Scotland and across the United Kingdom as a whole.

I suppose that the initial overview sense of the draft budget is that it contains some important and helpful steps towards the goal of tackling poverty. However, it is striking that quite a bit more could be done even within the limits and constraints of the existing powers, the budgets and the austerity. As things stand, there are missed opportunities in the draft budget in some ways.

Professor Richard Kerley (Queen Margaret University): I have looked at the committee's particular interest in the budget, which prompted me to appreciate the committee's very wide-ranging brief to a greater extent than I did before. That is perhaps hard to map into the budget

scrutiny process that committees go through each year, particularly when looking at the fragmented nature of some of the budget lines in which the committee has an interest. I will refer to that matter later in relation to digital infrastructure and the attempts to address aspects of fuel poverty and use, for example.

The second key point that I have arrived at—"conclusion" is too firm a word for it—is that the committee, the Parliament and the Government may well want to turn their attention not just to this year, but to future projected years with regard to the data that is available to them and to the various agencies and organisations that attempt to follow through on their policies and decisions.

Professor Sir Donald MacKay: First, we must understand that this budget is very unusual in a devolved settlement. The Government is given a sum of money to spend and more or less has to spend all of it, and it is not responsible for raising much of the money on its own terms.

One would not expect the budget to be too important in the short run. The most important thing is how it allocates expenditure to public services and whether it encourages sufficient capital investment to assist in restructuring the economy. The Scottish economy needs serious restructuring. In particular, it needs a bigger industrial sector, and capital investment will be very important in that regard. The Government does not have some of the fiscal weapons that are needed to effect that.

The Government needs to think very much in supply-side terms, and the budget is not necessarily central to that. It has to think in a much wider sense about how it will treat Scotland's natural and acquired advantages, as an old classical economist would put it. A lot of that will be funded from elsewhere rather than from the Scottish budget, which will simply not be big enough.

When I look at the budget, I see a number of items that are important and good such as increased expenditure on apprenticeships and assisted housing, and specific investments in schools and further education colleges. However, those are very small amounts of expenditure.

To say that this is a budget that spends every penny in the economy is a bit of a permissible exaggeration. The biggest change in the budget is the increase in investment in—or in expenditure on the capital of—the national health service. That was a commitment that was trailed, but in the short run it will not have much effect on the economy, although many people would approve of it. There is very limited scope for the budget to make much difference to the structural side.

However, if we think much more widely, there is scope. If we look at those areas in which Scotland has some clear natural and acquired advantages, and build on the supply side, we can make fundamental differences, but the budget will make relatively little contribution to that.

The Convener: I thank you all. We will move straight to questions, and I will start off with a fairly general question for all three witnesses.

The Government has said that its budget focuses very much on improving Scotland's economic performance—or specifically economic growth in the short term, given the economic difficulties that we face. If you were John Swinney and you had an extra pound to spend, how would you spend it with a view to best achieving that objective? Would you spend it on capital investment with a view to pursuing construction? Would you spend it on a tax cut, such as the council tax freeze, or on a benefit such as free prescriptions? Would you spend it on higher wages in the public sector, or in an area of spending such as education, which Sir Donald MacKay mentioned? If your objective was the Government's stated objective of delivering economic growth in the short term, where would you get the best return?

Who would like to start?

Dr McCormick: I am happy to start, convener. You are really asking us for our top priority.

What is striking is that, if we look ahead to the end of the decade based on the projections for Scotland's jobs market, we can see—all things being equal—a growth in high-paid jobs and low-paid jobs, and a hollowing out of mid-skill medium-well-paid jobs. That has big implications for social mobility in the longer term. With that in mind, the evidence suggests that we need to make the most of where the job growth is coming from and upskill as far as we can within the known limits. Productivity and return on investment can come from those kinds of jobs.

If I could split my pound into two sectors of the economy, half would go with the grain of the current direction on affordable housing. That investment's value for money would be increased, as we would increase the amount of affordable housing in all sectors, not just social renting. I would ensure that the construction skills investment that would go with that targets those who currently have poor qualifications or no qualifications, so that it does something about the long tail of unqualified people in the labour force. It would also have attractive benefits, in terms of conservation, fuel poverty and so on.

I would spend the other half of my pound on improving the quality and skills of the care workforce, which links into Scotland's

demographics. It is important to note that the care and leisure sectors are among the few sectors that will grow significantly over the next 10 or 20 years. If we have to do anything, let us break the link that makes the care sector synonymous with part-time, low-paid, low-skilled jobs. Over the next 10 years, beginning with this budget, we can start to address the skills deficit and the quality deficit in the care sector.

I want to split my pound between those two parts of the economy, if I can.

Professor Kerley: I will not split my pound. I hope that the cabinet secretary is not reduced to scrabbling for pound coins down the back of the sofa, as that would mean that we were in very bad circumstances indeed.

I am very attracted to some of the points that Jim McCormick has just made—particularly in the longer term—but in the current circumstances I would opt for what I describe as low-intensity capital activity. I am not quite clear what Governments throughout the UK mean by the term “shovel-ready projects”. Shovel-ready projects are rarely the big-ticket items that chancellors and cabinet secretaries like to open. Lists of projects sit on the desks of numerous cabinet secretaries for considerable periods of time, and on and off the desks of lawyers, and so on.

We should look primarily at some low-intensity commitment to funding for housing stock in various guises and forms. However, that is a particularly difficult challenge, which I hope we will discuss later in relation to fuel poverty. It is difficult because Governments' current interest seems to be focused on new-build housing stock, whereas for a long period of time the main interest and the main home of many people in this country will be housing that was built a considerable period of time ago. Where that housing is located and how that relates to the most readily available mode of fuel supply is directly related to fuel poverty, which is curiously distributed in relation to other indices of poverty.

I would look at housing, in its various tenures and forms, and I would ally that to upskilling the workforce—another point that Jim McCormick made—through such things as apprenticeships in skill areas, rather than generalised apprenticeships in any setting.

Professor Sir Donald MacKay: Unusually, I might be in agreement with the economists—that does not happen too often. One sector that I would pick is house building. That is because, firstly, when we look at the ratio of incomes to house prices, we see that Scotland is much closer to the position where investing in newer housing would be a good idea. The major problem is that it is quite difficult for a lot of people to achieve the size

of deposit that one must put down these days. We have to think about how to do that.

11:15

The other big advantage of house building is that it is dependent on the domestic economy. If we are going to be in trouble as a consequence of the troubles in Europe and other places, as I think we will be, we will need to depend on the domestic programme to increase activity—by the way, house building was the key activity that drove us out of the 1930s recession. There is plenty of evidence that there would be good demand, but we must get the supply side right.

On the supply side, I would also spend money on the skills academy at Nigg Bay. Four years ago, I became a convert to renewable energy. It is clear that we have most of the elements of the supply chain in mind, that we have huge natural and acquired advantages in renewable energy and that the other forms of energy about which we are thinking will be at least as expensive as renewable energy and will take much longer to develop. We need to get on with it now.

We have gone to sleep on energy policy. We went to sleep on it in the 1980s and have done nothing serious since. We now have a serious energy deficit, whereas we used to have a serious energy surplus. For Scotland, the clear advantage is to consider how it can develop its renewable energy supply.

The Convener: Thank you. There was an astonishing degree of consensus from the witnesses. I am sure that other members will tease out some more issues.

Chic Brodie (South Scotland) (SNP): A pound each.

The Convener: Yes.

Mike MacKenzie (Highlands and Islands) (SNP): Our gracious convener asked the easy question; I will now ask the much more difficult question. The witnesses have said where they would spend the extra pound, but the Scottish budget is finite, so where would they take that pound from to spend it on the things that they have just described?

The Convener: That is the hard question.

Chic Brodie: We want our pound back.

Professor Kerley: My views are relatively well known, in so far as anybody pays attention. I happen to think that the council tax freeze is a misconceived policy, and I would cease to support it—not that I did support it but, if I were the Government, I would cease to support it.

I would look far more closely at a number of policies across the Government. The Parliament, the Government and the country are metaphorically scrabbling down the back of the sofa. We are shifting relatively small amounts of money around from area to area.

I do not envy the committee the task of, or Jo Armstrong the task of advising it on, attempting to map the committee's remit on to the budget and trying to work out how the different component elements track through to achieving outcomes in areas to which that remit extends. One starting point would be to assemble elements from different places.

I do not suggest that there is a lot of value in a discussion between us, Mr MacKenzie, because we have different views. However, that is my flag on the mast.

Mike MacKenzie: I always think that there is value in discussion, especially between people of different views.

Professor Kerley: Often, perhaps.

Mike MacKenzie: I am interested to hear the point.

Professor Sir Donald MacKay: The question is important. There is no question in my mind but that we face a long period of fiscal retrenchment. I know that a lot of people do not like that and think that the Government does not have to do it, but it is inevitable.

The size of the public sector debt is huge. We have no peace time equivalent. There has been a similar situation twice before—after the first world war and the second world war—but it was easy to put right then, because all the armed forces were returning and going back into the labour force, so national income rose. We are in a very different situation now. There is a serious danger that retrenchment could go too far and tip us into a serious and prolonged depression. It is a very difficult balancing act, but it is highly unlikely that the Scottish budget will increase or stay still in real terms in the circumstances that we are in.

I took the trouble of speaking to Bill Jamieson last night. One of his recent articles suggested that the UK coalition Government was busy delivering Alistair Darling's fiscal targets. In other words, we have failed to make the retrenchment in the size of the deficit and its accumulation that we sought to make. What that means for Scotland is that you will have to think carefully about how you get greater efficiency out of your spend on public services. An excellent example is the emergency services. In all our experience, what has been done there should produce substantial savings in back-room staff. That is the way to do it. However, there are other opportunities.

Another thing that the Scottish Government has done well is the Scottish Futures Trust, which is a wonderful example of making the poacher the gamekeeper. There is no question but that it produces more output per unit of spend and is meeting its targets, which is almost unheard of anywhere in the UK.

The Convener: So your answer to the question is efficiency savings.

Professor Sir Donald MacKay: It must be efficiency gains, because you are not going to have so much money to spend and you need to think carefully about where you can get it.

The argument has arisen about universal benefits and so on. Crawford Beveridge's report two years ago said that we cannot go on like this. Universal benefits are very popular and in some cases they are the right answer, but we have got to get to a stage where we ask how we can spend less money and improve the delivery of public services. A clear case in point will be how we deliver healthcare for an ageing population. We are doing it in silos at the moment—we have social work departments, district nurses and the national health service. We have to find a way in which we can deliver services, probably mainly to people's homes. Every old person in my family—and I include myself in that—has always wanted to die in their own home. They do not want to die in hospital, thank you very much.

You need to think carefully about how you are going to do that, which means that you need real efficiency gains because you will not have an awful lot more money to spend.

Dr McCormick: On the question about where to find savings and where to deploy new resources, my starting point would be to understand what the evidence tells us. We have stacks of economic and social policy evaluation evidence but we are not very good at applying it. That is a common problem in policy making, not just in Scotland.

In the Scottish Parliament information centre briefing on the budget, I noticed a reference to

“a range of programmes on employability and skills”.

Taking that as an example, we have a pretty broad raft of programmes on employability and skills, with different client groups, target groups and so on. The programmes are not all equally effective; in fact, it would be quite easy to identify those that are highly effective and those for which there is little evidence that they have an impact. My argument is that over the next five years we should be skewing our limited investment within tight restrictions more towards things for which we have evidence that they really work well in the current climate. As Donald MacKay said, there are examples relating to older people. We are starting

to do some fantastically good work on dementia care, which will save money down the line if we invest in it on a preventative basis now.

I have a second, brief point on the vexed issue of council tax. The council tax freeze helps many people—it reduces the tax burden on households. However, the problem is that it locks in the problem with the local tax burden, mainly the problem of the burden falling too heavily upon low-paid households, which start to pay full council tax at a surprisingly low level of income. That has not gone away just because we have a semi-permanent freeze on council tax.

My solution to that would be to take the powers to have a different rate of increase in council tax—in other words, to freeze council tax for low and middle bands and increase it for top-banded properties. Alternatively, as Simon Jenkins said last week, we could take powers to add a band or two at the top to reflect the fact that the housing market in Scotland for very expensive properties is still buoyant. There are things we could do, without scrapping council tax or lifting the freeze across the board, that give us a pragmatic way of raising extra money while hopefully sticking to the spirit of what the Government intends with its freeze.

Chic Brodie: I have two or three questions.

The Convener: Preferably two.

Chic Brodie: It will be three.

On that last point, it is all very well talking about council tax increases for top-banded properties, but it is not always very rich people who live in expensive houses—in some cases it is pensioners, so there is an issue around the application of that.

Sir Donald mentioned healthcare efficiencies. Do you have a view on the current organisation of the health service, à la police and fire service reform? I am not suggesting that there should be one health service board, but do you have a view on what the health service organisation might look like? What role do you think the third sector and social enterprises and co-operatives might play in delivering the efficiencies that I agree need to be achieved?

Do you have a view on those two areas?

The Convener: Can we have fairly brief responses if possible?

Professor Kerley: People who run and work in the substantial third sector organisations that provide various forms of social and healthcare support will say—many of them privately perhaps, rather than in an open forum—that they are able to provide greater efficiency because the commissioning organisations are consistently and constantly seeking to drive down their costs.

Public bodies are seeking to transfer out costs and reduce costs within voluntary organisations. It is all about the hourly rate that will be paid to those organisations for providing support.

On the overall organisation of the health service, how long have you got? I have just turned my attention to that recently and I can send members some thoughts on it at some point, but not at the moment. The committee will be listening to health service people and I draw its attention—I think this is part of what you are talking about—to some well-evidenced instances of how there can be a shift from hospitalisation to care in the community.

An example is the experience of the Nairn health centre, where you will find some good evidence to show that that shift can be achieved—you can provide better care for older people. The crucial test that Sir Donald referred to is whether those older people are more likely to die at home, as they would prefer, or die in a hospital. In Nairn, they are achieving a greater proportion of older people who are dying in their homes. That is a good thing—obviously, I do not mean that as an immediate request.

Chic Brodie: On my point on health boards—

Professor Kerley: You should be looking at the issue, because organisationally the architecture of the health service and the architecture of local government do not map and have not done over a long period of time. That issue will not be addressed by creating another array of joint bodies—it will just produce yet more actors with a statutory right to say, “We’re doing it this way.” If you look at the current arrangements for collaboration across the health service, you will find significant signals that organisational architecture alone does not resolve that.

The most telling recent newspaper front page was in *The Herald*, where the lead on cardiac work in Scotland as much as said that it is the doctors who are causing the difficulties in this, not the health service. There is a complex array of pressures.

The Convener: I will let other members of the panel comment, but I gently remind colleagues that this is the Economy, Energy and Tourism Committee. The Health and Sport Committee will be looking at this area—we do not want to stray into its territory unnecessarily.

Dr McCormick: On the specific point about governance in Scotland as we are changing, the Scottish Government is investing in a number of ring-fenced change funds—not just on older people, but on reoffending and on the early years. We may see more in the future. When the Government is doing that, my personal view is, “Let’s experiment with the best way to run these

change funds if they are about prevention and saving money and long-term impact.”

Rather than saying that we want to have the statutory partners—councils and health boards—always in the driving seat, why not have the third sector leading those change funds in some parts of Scotland and the statutory sector almost bidding in to demonstrate what it can bring to the table. That would give us a chance to test and evaluate the best way of achieving change that reduces demand and cost over time in different parts of Scotland, rather than have a single model that we assume will work across the diverse geography of Scotland.

11:30

The Convener: Sir Donald, do you have anything to add?

Professor Sir Donald MacKay: I am happy with the comments that have been made.

John Park (Mid Scotland and Fife) (Lab): I have two questions. First, what are the implications of the Scottish Government’s pay policy and the 1 per cent cap? There are different schools of thought on that; the unions have started to take a view.

My second question is on proliferation of the living wage among directly employed people in the Scottish Government and Scottish Government agencies, and the impact on local government and the private sector. Is that impact positive? Does the living wage bring other pressures on budgets and does it have implications that we have not thought about?

Professor Sir Donald MacKay: On pay policy, in the current situation any Government will be constrained in terms of the wage increases that it can offer. Ed Balls has actually suggested continuation of a wage freeze, and I understand that the Scottish Government’s position is for a 1 per cent increase. Basically, that tells us that there is no room in the budgets to increase pay by more than that without a lot of redundancies, which we do not want.

I approve of the policy of having no compulsory redundancies. We must accept that it takes a fair length of time to get costs down in the public sector and that we should not make individuals bear that burden by sacking them when the problems are not their responsibility in the first place. A period of pay restraint will be necessary, although it does not need to be as severe as a complete freeze. If we want to protect jobs in the public sector, that is an inevitable consequence of the situation that we are in.

Dr McCormick: We need to strike a balance between what we need to do in the here and now

and what will be needed in the next 10 years. I am in favour of as much investment—including employer contributions—in skills as possible being put in for the long term, while trying to tackle the pressure on low-paid workers in the here and now. As I understand it, the Scottish Government's cap or 1 per cent provision applies to only a small proportion of the public sector workforce and certainly not to the workforce as a whole. That said, the threshold up to which the increase applies—£80,000—is probably too high. There could be more flexibility for better pay setting for much lower-paid workers if we had a more compressed threshold.

In international terms, our labour market has too large a reliance on low-paid work and on people who are frequently in and out of work or who have short spells of work and long spells of unemployment. Ultimately, the only way in which to break out of that cycle is through the approach that is taken in Denmark, the Netherlands and even some parts of Canada, where there is a much better balance between addressing pressure on wages now and ensuring longer-term investment in skills.

Professor Kerley: I stress the point that the 1 per cent increase applies directly to only 6 or 7 per cent of the public service workforce in Scotland. Furthermore, it does not take account of incremental change, which is a more significant cash lift in each year across the workforce. However, I have observed that the major problem of low pay is to be found not in public services, but in the array of highly fragmented trading organisations, including in tourism and related activities, in which this committee has a direct interest.

John Park: What can the Scottish Government do to promote growth in the private sector? Are there policies that it is not promoting? The small business bonus scheme is a flagship Government policy to generate employment and encourage enterprise in small businesses. Is it effective? Is that how we should be spending money?

Professor Kerley: If your question is directed at me, I say that you have raised a huge area for us to discuss in a short time.

I started to talk about tourism, which is an important sector of the Scottish economy. The landscape is cluttered—a phrase that the finance secretary has used a lot—with a variety of organisations. VisitScotland is primarily a marketing organisation. Scottish Enterprise has a responsibility in relation to capital investment in tourism and has demonstrated an interest in the area, but I have to say that it does not do that very well. It has plunged quite a lot of money into problematic projects—

The Convener: Can you give us an example?

Professor Kerley: There is Loch Lomond Shores. You do not need another example.

The big gap relates to the need for some kind of engagement in the quality of product and service that is offered to our visitors. The people who stay in Gleneagles when they go to watch the Ryder cup in 2014 will no doubt have a great experience, but in plenty other places in central Scotland their experience would not be so good. The issue is how we assist and support an industry that has a long tail and a lot of casual employment. The workforce needs reskilling. Tourism and hospitality is akin to the care sector in that both sectors involve fragmented activities and have fragmented workforces that are often undervalued and not well trained.

Professor Sir Donald MacKay: The basic structural problem in the Scottish economy is that the industrial sector has been shrinking for a long time, which is true of the UK as a whole. Neither Conservative nor Labour Administrations have done anything about it; they have talked about the issue but have developed no policies to address it.

In Scotland, the particular longstanding problem is the low birthrate of new businesses. The problem goes back well over 30 years and is cultural to some extent. In 1975 I spent a year teaching at Cornell University, which is full of bright kids from New York, and the contrast between students there and how they envisaged their future careers and my students back in Scotland was amazing. Everyone in Scotland wanted to join the public service; the students in New York did not want to go into the public service and if they were going to go into big business they intended to set up their own businesses later.

There is a serious problem, which is partly cultural and partly about the tax system. We need a system that encourages more people to start businesses. British policy for a long time has been that the financial services will float us all off. That policy needs to stop. No country of 65 million people can depend entirely on that; we have to be able to make things and sell them and we need to get to grips with that. Scotland needs to get to grips with it, because it is a particular cultural problem in Scotland.

Dr McCormick: I cannot comment on the impact of particular policies such as the small business bonus scheme. However, it is encouraging that, for example, Scottish Business in the Community has a programme to assist small and medium-sized enterprises in five or six regional hubs in Scotland, where there are high rates of turnover and low rates of skills investment in hospitality, retail, catering and tourism. The regional hubs model is an attempt to work long

term with SMEs, through a different human resources model and a different approach to investing in skills, so that businesses can become more competitive. That some of our business organisations, such as SBC, are now in territory in which they are also asking what the role of small employers is in tackling poverty, is potentially very interesting and is worth having a look at.

Chic Brodie: First, four cheers for what Sir Donald MacKay just said. I had the same experience for some time at Stanford University.

We have mentioned tourism, which is effectively an export business, although people do not see it that way. Do you have any comments on the likely impact of what is done in the budget to—as you say—support our export and revenue generating businesses abroad?

Professor Kerley: Is the question related specifically to tourism?

Chic Brodie: It is not necessarily related to tourism.

Professor Kerley: I can address tourism, which is an interest of mine, but not other activities.

I agree that tourism is primarily an export business. Actually, technically it is not primarily an export business, because we know that the greatest number of visitors are from within these islands, but it is a significant investment and earning activity.

It is remarkable that we have such a paucity of good data on tourism in Scotland and the UK. It is not even in the standard industrial classification as a distinct area of activity. The data that I look at are often non-congruent, by which I mean that I see an increase in visitor numbers but a reduction in spend and a reduction in nights spent here and so on.

About 18 months ago, I think, Deloitte produced a report that dramatically argued that the value of tourism in Scotland is three or even four times the figure that we have conventionally assumed. It merited a couple of front pages and a report on the evening news programmes, but it then disappeared. If I was responsible for tourism, I would be asking, "How can we make judgements about this activity with such dismally poor data and data that we can't be confident about?"

The Convener: That is a very good answer to a question that was not asked.

Professor Kerley: I have taken advice.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, gentlemen. I note that the convener was particularly mean in giving you only £1, but none of you was tempted to gamble it by buying a lottery ticket.

Sir Donald MacKay mentioned energy in his introductory comments. Do you believe that the university and college sector has probably missed the boat slightly over the past 10 or 20 years by not teaching the skills to address the current skills shortage? The University of Aberdeen, the Robert Gordon University and the colleges in the north-east are addressing the issue now, but has an opportunity been missed and should we continue to examine the curriculum for excellence and feed into it to ensure that we have the appropriate skills in the workforce?

Dr McCormick mentioned the importance of having appropriate skills and upskilling the workforce. Will merging health and social care provide a positive platform for upskilling the workforce?

Professor Sir Donald MacKay: I certainly hope so. We have to become more clever at providing those services. Many of my friends have children and grandchildren in Australia and what have you. How do they communicate? They communicate by going as often as they can to visit them, but they also have Skype, so they have contact.

You have to think about how services are provided in people's homes; for example, there might be investment in the homes themselves. It certainly means that old people need to be visited regularly—at least once a day—and that they need to have a means of communicating. The service must be highly localised, which means that you must upskill the local labour force, because they are the only people who can deliver the service in a cost-efficient way.

11:45

There are other examples that have rather surprised me. For example, the information technology industry in Scotland is far bigger than many of us realise. IT people constantly complain to me that they cannot attract enough people, particularly women, into IT. At my age, you know that most women are cleverer than men—they are highly motivated and continually outcompete you in subjects in which you think you are an expert—so I find that shortage of women in IT surprising. How is it that we cannot persuade them that IT offers huge career opportunities? Something is wrong, whether in the careers advice that we give or in something else, because the IT industry is definitely anticipating a difficulty in recruitment. That would not have been true 20 years ago, or at least I did not have that impression—

Dennis Robertson: In some respects, might that be due to the stereotyped nature of the employment market?

Professor Sir Donald MacKay: IT employment is increasing rapidly in Scotland and has been for

years. These days, IT is critical to all kinds of businesses, so we need to think very carefully about that. We need to upskill our labour force—we certainly do not need to downskill it—because modern technology requires a wider range of skills. Scotland used to be good at producing those sorts of skills. We need to do better.

Curriculum for excellence seems to me to be a step in the right direction. Certain core skills are important in education, so we had better get them right. You can add on fancy things at the end of the day, but if there are just a lot of fancy things, you do not have a good education. I always remember someone in the newspaper world saying to me that their newspaper never employed anyone who had a degree in media studies because it is not a real degree. So—there you are.

Dr McCormick: Mr Robertson asked about care. The entire care workforce—spanning those who work with children, adults with disabilities and older people—matters because, first of all, it is a non-tradeable sector, so what we do with it is really within our gift, unlike in respect of some of the risks that attach to the export sector. The care sector is also important because—as I mentioned—it is growing for various reasons, so getting it right will be critical in the next decade. I risk repeating what I have said about the Danish experience, but we can look to Denmark: its care workforce is, broadly speaking, twice as skilled and twice as well paid as the equivalent workforce in Scotland, across the workforce, from those who work with children in care to those who work with older adults.

Another indicator of our starting to get that right would be the number of men in the care workforce. It is absolutely within our gift to increase the productivity and value-added employment of the care sector. Integration with the health sector should help at the margins, but what is really important is ensuring that we are driven by the right set of objectives.

To go back to what we said about getting skills right among young people, the most important objective of all is to ensure that we get right the investment for children aged between birth and under three, so that the long-term human capital development of the workforce has been laid down. The draft budget has something to say about what we do in the early years—it does not say enough, but it has something to say—and provides a platform that we could build on more boldly in the future.

Dennis Robertson: On universities and colleges, I know that a centre of excellence has been set up in the north-east to address the problems for the energy sector workforce. I believe that we are trying to move away from the stereotypes so that we get more women going into

the science sector and even going offshore. In your opinion, how do we break down those stereotypes to get a better gender balance in the energy sector? We are not talking just about employing women in administration—it was always the case that girls went into secretarial roles—because we are now trying to encourage them into the sector and to become part of the skilled workforce.

The Convener: That is a little bit off topic for the budget. However, if any member of the panel wants to respond to that, please do.

Dr McCormick: There is evidence that, in the past, our apprenticeship investment in Scotland has been skewed too heavily towards young men. If we are thinking about the equalities impact of the current budget and previous budgets, we should be scrutinising the gender balance more carefully, certainly regarding the apprenticeship investment that comes from the public pound. We should make it a priority to ensure that we are getting more women into jobs that were traditionally men's jobs and vice versa. That is the only way to make the best use of the talents that we have and to ensure that we do not continue with the unproductive and costly gender bias that we have seen in the past.

Dennis Robertson: Thank you.

Rhoda Grant (Highlands and Islands) (Lab): My question is for Jim McCormick. In your opening statement, you said that the budget has missed some opportunities for dealing with poverty. I am keen to hear what those might be.

Dr McCormick: The opportunities fall broadly into two groups. The first concerns the here-and-now pressure on family budgets and the second concerns the longer-term prospects of driving down poverty across the next generation.

On relieving the here-and-now pressure, there is good evidence that programmes that maximise people's incomes have at least a 10:1 return on the investment. So, on the basis that we should be putting money where the evidence says it should be put, we should be investing more in income maximisation programmes. They may be about fuel poverty or about ensuring that people with long-term conditions get all that they are entitled to. Council tax benefit and pension credit take-up rates are substantially lower in Scotland than in Northern Ireland, for example. There is a raft of things that we can do within existing powers to ensure that people get the incomes that they are assessed as needing.

There is then a set of issues around mitigating the coming impact of welfare reform. If we invested quite modest amounts of money in advice, advocacy and representation, those would

have a positive impact in terms of their return on the investment.

There is also a grey area in which we may not have formal powers to legislate and regulate in Scotland, but on which we could still take action. I am thinking about the main fuel companies—the domestic energy providers in Scotland. They have a substantial licence to operate across the UK and have some required responsibilities, but more could be done to persuade, influence and negotiate with them simply using the soft powers of political leadership. For example, every major company in Scotland could be asked to ensure that all customers who are currently paying for domestic energy in an expensive way—which typically means weekly or fortnightly in cash over the counter or through pre-payment meters in their homes—should automatically be moved over to the cheapest tariffs available unless they want to stick with a high-cost tariff. That is not about getting new powers to legislate; it is simply saying that, as a society, we expect large and profitable players to deliver on their responsibility to their vulnerable customers.

Those are a few examples of what we could try to do now. The real long-term driver of whether the next generation will live in poverty is to be found in the early-years and schooling system. It is remarkable that there is so little debate in Scotland about the size of the attainment gap among young people in our schools. Although the attainment level has risen at the bottom, all other young people by the age of 16 are attaining three times what those who are attaining the least are achieving. That contrasts to the situation in Wales and Northern Ireland, where there is now much more scrutiny of the attainment gap in schools. It might not be a pupil premium—it may be something different in Scotland—but, my goodness, we need to do more than is suggested by the curriculum for excellence specifically to close the attainment gap, because it applies typically to disadvantaged young people. The budget could make a start by doing something specific on that.

Rhoda Grant: Okay.

Professor Kerley mentioned in his opening statement some of the different things that could be done to tackle fuel poverty that might fall under the committee's remit.

Professor Kerley: I do not know that I talked about some of the things that the committee could do as much as some of the things that it could explore. First, there has been a rapid shift in the number of households that can be defined as being in fuel poverty. We know that the trend was downwards for a time and that it then turned up quite steeply. As I recall, there was a seven-point increase between 2010 and 2011, which does not

bode well for where we are now because the combination of rising fuel prices and constrained income will make life very difficult.

Convener, if the committee is seeking evidence on fuel poverty, my interest in it came from looking at data from South Ayrshire Council from about seven or eight months ago. There is some very good background information about the distribution of fuel poverty within South Ayrshire, and it is not what one would necessarily assume. I do not want to concentrate on one council area, so if you look at the incidence of fuel poverty in different parts of Scotland, you will see that the correlations are not conventionally poverty-related. As I see it, the incidence is more closely related to the form of fuel that is available, so there is a potential conflict in what we are seeking to achieve.

I do not know whether members have seen the rash of advertisements and leaflets like the one I am holding up about boiler scrappage. Such advertisements are addressed to families such as mine, had we not replaced our boiler three years ago. We have a gas supply, disposable cash, and we might have thought about replacing our boiler if there were 800 quid in it as part of the deal. We can see that we have a problem: some areas, such as Aberdeenshire and the Highland Council area—the three island groups are different—have the highest average incomes, whether individual or household, but they also have high instances of fuel poverty.

We have a paradox. Like Donald MacKay, I am a convert to renewable energy, but it will primarily produce electricity, as I understand it. I should say that I am ill-equipped to discuss this topic because, as my physics score of 8 per cent at the age of 16 should tell the committee, I am not that hot on it. However, we are going to generate a lot of electricity in parts of the country that might well be coterminous with parts that are in fuel poverty because of the combination of increasing prices—which is, in some ways, a good thing because it can drive down usage—and poor supply. The committee and Parliament should look longer term about what to do to tackle that dilemma. In many of the areas that Mrs Grant represents, for example, we will not see gas mains supply being put in; it is just not going to happen, so we must think about other approaches.

For 30-odd years, I guess, most of us who are owner-occupiers with available income have been moving towards using gas-fired central heating. We abandoned electricity ages and ages ago. We do not seem to have any more of a well-considered notion of how we use electricity as a domestic heating fuel than we have had in the past.

Patrick Harvie (Glasgow) (Green): Good morning. First, I want to reflect on the convener's first question about where you would spend your extra pound to achieve the Government's objective, and I want to step back and talk about what that objective is. The Scottish Government seems to be very focused on achieving short-term benefit to gross domestic product growth. Does it have the right balance between that objective and the longer-term achievement of its wider national performance framework targets? For example, the Government sets great store by the low carbon economy's being part of the future of Scotland's wider economy. However, it might well be that the best way in which to achieve that in the long run will not achieve the best GDP result in the next quarter or two. A balance needs to be struck between the short term and the long term and between GDP and the wider priorities.

12:00

Several witnesses have mentioned renewable energy. I have been making the case that, as well as private investment, we should be thinking about having publicly owned renewables in order to generate revenue for local authorities. People have talked about housing investment, energy efficiency, fuel poverty and so on. The Government finally has a national retrofit programme. It is being called "universal", but it is really just an incremental development of what was happening before.

Finally, there is a fundamental problem in relation to whether the budget is properly geared towards the low-carbon economy. The Government has not yet published its new report on policies and proposals under the Climate Change (Scotland) Act 2009. None of us knows what policies the Government is trying to fund in relation to the low-carbon economy and climate change in the budget.

Could you offer us your reflections on that small bundle of issues?

Professor Sir Donald MacKay: My understanding is that the Scottish Government is intent on substantially increasing the supply of electricity from renewables. That policy will not be much affected by the budget; it will be affected by building on the fact that we have a good resource that has all the attributes necessary to develop renewables, because it was developed for North Sea oil.

What made me a convert to renewables was my going back to old friends in the supply sector of the oil and gas industry and finding that all of them were saying that it is perfectly obvious that we can supply renewables and that we should develop renewables. More than one said to me, "It's not a

question of 'if', but a question of 'when'." It does not need a lot of Government intervention, except for the fact that there must be the right planning framework. We have a development agency that has been fully focused on the issue for quite some time. If you ask someone from Scottish Enterprise what they see as the supply chain for renewables, they will give you a detailed answer. They know where the gaps are, and most of them are filled.

Patrick Harvie: We took a lot of evidence during our renewables inquiry, and we know that a lot of the issues do not relate to the budget. However, there is less happening around the parts that do relate to the budget, which involve reducing demand and investing in publicly owned renewables to generate revenue for the public sector.

Professor Sir Donald MacKay: I do not think that the public sector would do renewables as well as the private sector. In the North Sea, we finished up with privatisation of the British National Oil Corporation and so on because, at the end of the day, the oil majors were better at developing than BNOC was. Interestingly enough, a lot of the oil majors in the North Sea have been sold off, so there is a substantial number of businesses in Aberdeen that are operating in the North Sea, having bought up those interests, and are also developing overseas. If you were to ask Alex Kemp to come here sometime, he could tell you all about it. He surprised me a few years ago when he explained to me the extent to which what we are talking about has already happened.

There must be a Government policy, but that should not be a budgetary policy. The Government must put together a policy that operates on the supply side of the economy and creates the required framework. I would say exactly the same thing about housebuilding. If there were to be the right policy on release of land by the public sector, for example, and on dealing with down payments, the private sector would respond.

Patrick Harvie: On housing, I was not asking about new build; I was asking about the retrofit programme, which is about public sector investment.

Professor Sir Donald MacKay: There is an interesting public sector investment that is being supported by the Scottish Government. It begins with "R". I have forgotten what it is called. One of the major businesses in the field is involved in it. I was sent a pamphlet on it a couple of days ago. I wrote down the name, but I have left it behind. I will pass the leaflet to you, if you want.

There is scope for the Government to get involved in some areas. However, the fact of the matter is that you do not have a big budget. Therefore, you are going to have to create a

framework that encourages businesses to invest more, because that is what you will have to depend on. There are at least two sectors that I can think of—energy and housebuilding—in which, if you get the supply side right, you will get a substantial response and, as a consequence, income will increase.

Patrick Harvie: Would the other witnesses like to comment?

Professor Kerley: I am no longer, as I may have been at one point in my life, in favour of utilities' being run by public agencies. I am not persuaded that it is a particularly effective model—except as a collateral outcome—for a wide variety of reasons, which relate to incentives, organisation and internal organisation.

What large public agencies of different types offer is a potentially quite exciting opportunity to think far more about provision of domestic fuel from some form of district heating. At Fountainbridge, Edinburgh Napier University is building 780-odd units. I do not know how that development will be heated, but I hope that it will involve a common heating system throughout the organisation. Other public bodies are massing activity and people to get into recycling heat and energy in different ways. We have not paid enough attention to that. I say that as someone who 20-odd years ago chaired a council committee that looked at that and saw a great opportunity in Edinburgh, in particular. I suspect that the opportunity also exists in Glasgow—although not so much in Dundee and Aberdeen—to do something about that and to use big public entities and assets to recycle heat and energy. I am not advocating that it be used as a revenue generator—I do not want to see the Edinburgh corporation back in the electricity business.

Dr McCormick: On Patrick Harvie's opening point about the Government's overall objective, if we can define sustainable growth as a type of long-term economic progress that reduces carbon consumption, reduces poverty, is good for people's health and so on, there must be a number of conditions around that. There are different pathways to growth. In the last decade, we were on a pathway to a particular form of growth. In the next decade, we must envisage a pathway to growth that is different from the one that we were on pre-recession, and it must serve some of the longer-term objectives.

Decentralisation is quite an important principle in the future of the energy economy. Although there are efficiencies to be made from large-scale commissioning and procurement of capital investment, and negotiating and brokering in the marketplace, I think that decentralisation to bring together and align points of production and consumption across the energy economy is a

good principle. There are a few examples in Scotland and many in Europe of good decentralised heating schemes.

In some of the work that we do on climate change and social justice, we are shining a light—this is relevant for Scotland—on the importance of the transport sector for climate change and—closer to home and in the near term—the future of insurance for flood risk. Across the UK, we are seeing flood risk increasing. We are coming to the end of the current arrangement between Government and the insurance industry on the way in which costs are charged and consumers are protected from the full costs of flood risk. Those are tangible issues that should also form part of our discussions, because they are relevant to Scottish consumers and what they pay for insurance.

Patrick Harvie: I have a final point on a separate issue. As part of its NPF, the Scottish Government has a solidarity target on the percentage of total income that is earned by the bottom three income decile groups. For a good few years, we have been moving further away from that target. The most recent figures show that significant progress has been made towards achieving that target. Does anyone know why there has been a significant increase in progress in the past year, which appears to have wiped out all the decline since 2004?

Dr McCormick: Broadly speaking, the 30 per cent target is a cluster that includes households living below the poverty line, which is broadly 20 per cent of the population, and people with low incomes who are vulnerable and at risk of dropping below the poverty line. Those people, who make up the next 10 per cent, tend to be low-paid workers and pensioner households on small incomes.

As a whole, poverty fell across the past decade, but then progress stalled. Poverty is projected to rise again substantially to the end of this decade, driven mainly by the decision to uprate tax credits, benefits and so on according to the consumer price index rather than the retail prices index. In other words, the good aspects of welfare reform and the positive elements of universal credit will be undone by the UK decision to uprate on a less generous basis. That is why poverty, all things being equal, will rise to the end of the decade.

I cannot comment on a particular year's figures and why they might have changed in the short term, but that is the picture in the longer term.

Patrick Harvie: Thank you.

Marco Biagi (Edinburgh Central) (SNP): I have two questions. The first one is smaller in scale. There was much mention of the importance of skilling in—[*Interruption.*] I am sorry. I was

heavily on the Strepsils earlier, but they seem to have worn off.

The question of skilling has come up at the Education and Culture Committee, on which I occasionally sit. The concern is that, although budget interventions can go so far, the real logjam in further expanding skilling lies in the private sector's lack of ability to accommodate a further expansion of apprenticeships in order to offer people entry-level jobs. How do you see the continuum between the public sector's role in supporting places and the private sector's role in providing opportunities thereafter? Have we got that right?

Dr McCormick: There has been something of a missed opportunity to use devolved powers effectively in this area. In the past decade, unqualified workers and those with few qualifications were three times less likely to have access to on-the-job training than people with medium and high-skill qualifications. There is a stark and persistent gap in access to on-the-job training as distinct from pre-employment training.

There are various reasons why that is the case. They are to do with the balance of incentives between public investment and what employers are able or willing to invest in lower-skilled workers. They also reflect the high rate of churn in some parts of our economy. To address that, we need to do two things. First, we need to ensure that our public investment in skills addresses some of that market failure, and that the cohort of unskilled and low-skilled workers shrinks faster over time. That might involve a mixture of requirements and incentives.

Secondly, we should recognise that, in the SME sector, we have very small enterprises that genuinely struggle to invest much in long-term skills. We need a wider agenda in Scotland about investing in the assets of individuals so that, even if an employer is unable or unwilling to invest in an employee's long-term skills development, we equip them with some kind of asset that allows them to go into the marketplace and source and access the skills that they need for the longer term.

It is striking that Australia, the Netherlands and other countries have gone in that direction with their welfare-to-work strategies and have opened up a new front. For example, the Dutch have introduced what they call reintegration agreements, which are in effect skills accounts that individuals can take with them. Such an approach incentivises employers and equips individuals to find a longer-term place in the labour market.

12:15

Professor Kerley: I think that there would be merit in the committee or someone else taking another look at what were called individual learning accounts. What was potentially a good idea akin to the sort of thing that Jim McCormick has just described was gamed by pre-existing providers who moved into the margins of what could at best be called sharp practice and at worst out-and-out fraud. Essentially, where we have rapid turnover and a fragmented labour market of employees who move around a lot, we need to give those people something portable.

I have personal experience in my extended family of kids who could not stick it at school, got out at 15 or 16 and realised at the age of 23, 24 or up to 30 that they could be doing something more. It is difficult to get back in at that age, so as a starting point it might be worth trying ILAs or something akin to them in some parts of Scotland where we know that there is a particular problem.

Marco Biagi: Another question, which is on the slightly larger-scale issue of where our economy is going globally, comes back to Dr McCormick's opening comments about labour market projections for 10 years from now and Sir Donald MacKay's comments about building the industrial sector.

In our pre-meeting discussion, the issue of leakage came up; concern was expressed that much of our investment and many of the things that we do result in benefits moving abroad and it was felt that we really need a concrete strategy for almost changing the terms of trade to ensure that 10 years down the line we are better able to build on our own advantages in human capital or other areas. If you could take us in any direction economically, where would you go? More important, what would this budget have to look like in order to do that? It is all very well saying that we need an industrial sector and that we need to re-industrialise Scotland and so on—I certainly whole-heartedly agree with those sentiments—but given that we are scrutinising the budget, what would the budget for achieving such an aim look like?

Professor Sir Donald MacKay: The budget would have to be a lot bigger and Parliament would have to have more powers. Given the devolution remit, what you are, in effect, looking at in the present budget is better management of certain important social services, many of which have real economic consequences. One such example is education; of course, I am bound to say that, coming from that sector myself. Although human capital is very important, it is a very long-term issue and at the moment Parliament lacks a fiscal budget of sufficient size to address it.

That is why I have emphasised the supply side of economics. If there is a fault with British economics, it is that it is absolutely obsessed with the demand side of things. Most old-fashioned classical economists were obsessed with the supply side and argued that if you can get that right the demand will follow. Instead of looking at the budget and asking ourselves about the skills that we want, we should be using the skills that already exist. For example, planning skills and other distinct advantages can be developed; indeed, that is what has happened in the oil and gas industry without even using a devolved budget, if you see what I mean. There are all kinds of ways of approaching this issue.

At the end of the day, however, I do not think that it is necessarily the size of the budget that counts; its structure is important. For example, if you want to make a short-term economic difference, you need to consider ways of incentivising businesses. The biggest factor that I would always focus on is the birth rate of new businesses. I would say, "Never mind big businesses—they can look after themselves." If you really want a dynamic economy, you must be able to get far more people to start up their own businesses, as in the Scandinavian model.

To some extent, therefore, you want what happens at the bottom of the income scale. I am a strong advocate of moving the tax level up so that people with lower incomes do not pay taxes. I am also a strong advocate of the first few years of businesses being the one time that they should not be taxed. That is a very simple philosophy, but my experience is that not a lot of capital is needed at the beginning to start up a small business. However, if businesses start to become profitable, they need to be able to reinvest the money rather than send it all to the taxman. That is the way that I would go.

A lot can be done if the budget is not looked at as the prime motivator. You should look at where you have advantages and can get the private sector to build on them. Your job is to provide cost efficiently an environment of good public services that deal with the needs of the population and businesses. They should be given the opportunity to show what they can do.

Dr McCormick: I guess that the committee knows better than we do the relative advantages in the Scottish economy now and possibly in the future. It is striking that it has been projected that we will lose many medium-income and mid-skilled occupations and that there will be an hourglass-shaped economy with growth at the top and the bottom. Whatever sectors we think are the growth sectors and choose to invest in, we must take a long look at the relatively lower productivity in Scotland, all things being equal.

What is striking about the differences between us and some of our competitors and comparator countries in Europe that have also had low to medium-growth economies over the past 30 years, is that they have not decimated their tradeable sectors to the same extent, as has been said. In addition, if a person comes out of school with few qualifications in Switzerland, Denmark or the Netherlands, say, their risk of ending up in long-term unemployment and on a downward spiral is much smaller than it is in this country. We must consider why the risks that are attached to underachievement and, therefore, lifetime lower productivity, are so high in Scotland. Whatever we think about the industrial strategy, we must go back to human capital formation from the earliest stage and invest as much as we possibly can to get the pre-school and primary school agenda right, drive up quality and reduce the stark inequalities in attainment, which are different from those of some of our competitors.

Marco Biagi: It strikes me that, by most measures, the education gap between us and comparator countries is not anywhere near as stark as the gap in economic performance. What is the difference?

Dr McCormick: I will simplify a very complex set of evaluation findings. The Improvement Service has also highlighted the issue. In programme for international student assessment—PISA—scores on school attainment, the difference is not in our performance at the top or at the average, but at the bottom. The lowest-attaining 20 per cent here are doing much worse than those in some of our competitor countries. Even countries that have economic growth rates that are similar to Scotland's do better across other indicators because they do not carry the burden of a long tail of underachievement. Even with a low to moderate economic growth profile, they are doing better than we are.

The Convener: I will ask a question on a slightly different subject that we have not yet touched on. We have talked about the expenditure side of the budget, but not the income side. One detail that has come out of the budget is that non-domestic rates income is projected to rise by 12 per cent in real terms over the next two years. That comes to roughly £400 million. Given the current state of the economy, how realistic is that projection? What would be the impact on economic growth if that £400 million was taken out of private sector businesses in the main?

Professor Kerley: I have puzzled over that for some time. Last year, to the chagrin of some members of the Parliament, John McLaren of the Centre for Public Policy for Regions in Glasgow was the first person to raise the matter publicly. He and I talked about it briefly at that point. You must

ask the Cabinet Secretary for Finance and Sustainable Growth whether that signals an intention to increase the non-domestic rate poundage or whether it is a projection of major non-domestic assets coming on stream. I do not know whether it is more likely to be the latter, but I assume that that must be part of it.

You should not underestimate the extent to which non-domestic rates can come in big slugs of money. I assume that it may well reflect the on-streaming of a number of renewable energy sites, but I do not know how they are valued. There are a variety of ways of valuing non-domestic rate assets. If it were the contractors principle, that would be an explanation. They will have a substantial rate poundage—that seems an old-fashioned term. I cannot imagine that the cabinet secretary simply intends to increase the pound rate for non-domestic assets, as that would be a remarkably business-unfriendly decision to make, particularly over the next two-year period. You would need to ask him. If it were that, it would be a big hit on existing businesses. It is most likely to be the on-streaming of new assets. However, I have not been able to get the figures—I do not know whether your committee adviser or others have.

The Convener: Not yet, but we are working on it.

Chic Brodie: Sir Donald, I agree with you that a start-up success rate of 36 per 100,000 is not very successful, but I think that the survival rate is as important. We tend to focus not on that but on birth rates.

In his book, Professor Stiglitz talks about the stimulus package and quotes the International Monetary Fund as saying that, for a real multiplier effect, there must be a significant move to capital investment. In the budget, we have moved to capital investment and have tried to protect lower-income households through the council tax freeze and other universal benefits. We have also introduced preventative spend to increase efficiency. Is it your general impression that we have got the balance right? I know that you would spend in different areas within that, but do you think that the balance is right?

Professor Sir Donald MacKay: If it were not for the extremely constrained current financial regime, I would favour a shift to more capital investment, because a Government providing public services is important to business—if they are the right services. The problem at the moment is that I do not see the room to do it. I know that there is a big argument going on about universal services and all the rest of it and that is a real issue. You cannot go on providing those services—Crawford Beveridge was saying that two years ago. My preference would have been to

do rather less of that provision and put more into capital investment, but you are where you are and I suspect that you will not have room to do much. That is why I emphasise the need to create the conditions in which the private sector will do those things for you. To increase house building or the size of the energy sector needs substantial sums of investment. There is no way that you can do those things within your budget, or affect them very much. All that you can do is create the conditions in which businesses will see real opportunities—and you certainly have quite a lot of powers to do that.

I am reasonably impressed by the approach of the Scottish Futures Trust and the work that has been done on the supply chain for renewables. I am reasonably impressed by the fact that it has beaten its targets, and I see real potential for that being done elsewhere. In setting your budget you must think about not spending more, but spending more cleverly. How do you create those conditions when, at the end of the day you need most of the investment to come from the market? In fact, in the energy case, most of the investment will be paid for by consumers for a period of years. Whatever else you should know, it is obvious that consumers will have to pay for all alternative forms of energy, particularly nuclear and renewables, for a few years before they become economic.

12:30

The big problem with nuclear at the moment is the big row going on between the French companies and the British Government as to what the price of electricity will be. As someone said the other day, the French companies are being sensible, because they started by suggesting an impossibly high price knowing that the British Government would suggest an impossibly low price, and it will finish up somewhere that the French companies want to be, which will not be cheap energy.

That is why I think that you need to stop obsessing about more tax powers and all the rest of it. What you need to think about is how you create a framework in which you get far more investment paid for by the market sector, which should have the resources to follow an opportunity. The fact is that at present a lot of our big companies are swimming in cash. The issue is creating a framework that they want to invest in.

Chic Brodie: Thank you.

The Convener: Do you want to add anything, Professor Kerley?

Professor Kerley: I plumped earlier for capital investment with my pound. I say to Mr Robertson that I would not buy a lottery ticket with it and I suspect that none of us three would, because so

far as we are gamblers we may well be rational gamblers and would prefer to make some choices.

Preventative spend by its very nature has two major challenges. First, it takes a while to see whether it achieves any impact; secondly, it is extremely hard to implement, because the nature of preventative spend is predicated on the basis that, in achieving some of the measures that you seek to achieve, you will reduce response spend.

If we relate that to the health service, for example, I remain unconvinced by an organisational reform that simply integrates things or attempts to do so. I was less than convinced about the virtue of putting care into the health service tout corps, because essentially the man or woman who might eventually perform cardio or neurosurgery on you and me is not particularly interested in whether my granny gets her breakfast in the morning. They see people as a heart or a brain that comes into an operating theatre. Major decisions in the health service at board level and hospital level are made by the big glamour operations. We must have a rebalancing in that respect. That applies across the piece, whether it is schooling or health. I can find you comparable instances of people saying, "Yes, that's all very well, but we have to do this—now."

Dr McCormick: The litmus test should be the extent to which we are investing at a faster rate, in relative terms, than the budget is changing. In housing improvements and transport infrastructure, to make a point about climate change, there is the balance that Richard Kerley mentioned between private companies, consumers and the public purse. I guess we could ask whether we can sharpen the incentives around matched funding propositions, whereby a Government is willing to put so much investment in if it gets the right kind of response from the private sector. What do we know about incentives and matched investment schemes, and can we build on that evidence?

Powers coming our way courtesy of the Scotland Act 2012 around borrowing, income tax and stamp duty, for example, will all be here sooner than we might have been planning. It is time to think about where such powers should be used, if they are to be used differently. Housing, transport and incentives for longer-term investment in skills and research would be up there as early priorities for those new types of fiscal flexibility.

The Convener: That has probably exhausted questions. I thank the panel members, Sir Donald MacKay, Professor Kerley and Dr McCormick. It has been very helpful to the committee to get your insights and I am grateful to you for coming along this morning.

That concludes our evidence session.

Meeting closed at 12:35.

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