

# **ENTERPRISE AND CULTURE COMMITTEE**

Tuesday 31 May 2005

Session 2

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### ENTERPRISE AND CULTURE COMMITTEE

#### 13<sup>th</sup> Meeting 2005, Session 2

##### CONVENER

\*Alex Neil (Central Scotland) (SNP)

##### DEPUTY CONVENER

Mike Watson (Glasgow Cathcart) (Lab)

##### COMMITTEE MEMBERS

\*Richard Baker (North East Scotland) (Lab)

\*Chris Ballance (South of Scotland) (Green)

\*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

Murdo Fraser (Mid Scotland and Fife) (Con)

\*Michael Matheson (Central Scotland) (SNP)

\*Christine May (Central Fife) (Lab)

\*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

##### COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Fiona Hyslop (Lothians) (SNP)

George Lyon (Argyll and Bute) (LD)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

Mr Brian Monteith (Mid Scotland and Fife) (Con)

\*attended

##### THE FOLLOWING GAVE EVIDENCE:

Frank Blin (PricewaterhouseCoopers)

Bruce Cartwright (PricewaterhouseCoopers)

Peter Donald (Scottish Football League)

Lex Gold (Scottish Premier League)

David Taylor (Scottish Football Association)

##### CLERK TO THE COMMITTEE

Stephen Imrie

##### SENIOR ASSISTANT CLERK

Douglas Thornton

##### ASSISTANT CLERK

Seán Wixted

##### LOCATION

Committee Room 6



# Scottish Parliament

## Enterprise and Culture Committee

*Tuesday 31 May 2005*

[THE CONVENER *opened the meeting at 14:02*]

### Football Inquiry

**The Convener (Alex Neil):** Welcome to the 13<sup>th</sup> meeting in 2005 of the Enterprise and Culture Committee. I will deal first with some housekeeping matters. I ask all those present to switch off their mobile phones. We have received apologies from Mike Watson, who is ill, and from Murdo Fraser. Chris Ballance will join us shortly, but he has been delayed on an urgent matter. Christine May will have to leave at about a quarter to 3, to meet the European Commissioner for Science and Research, on behalf of the committee.

Under item 1 on our agenda, I welcome from the Scottish football industry—if I can call it an industry—David Taylor, the chief executive of the Scottish Football Association; Lex Gold, executive chair of the Scottish Premier League; and Peter Donald, secretary of the Scottish Football League. We have received substantial written submissions from all three organisations, which have been extremely welcome. I ask each of the witnesses to say a few additional words to supplement what is in the papers. An updated table from the SPL has been circulated to members; I hope that every member has a copy. Once we have heard from Peter Donald, Lex Gold and David Taylor, I will open the floor to questions. David, will you kick off, so to speak?

**David Taylor (Scottish Football Association):** You blow the whistle, convener—you are the referee. I thank committee members for offering my colleagues and me the opportunity to address the committee today and to answer any questions that members may have. I welcome the interest in our national sport that the committee has shown. Forgive me for being a little wary, as the popularity of the game of football is seductive to politicians the world over.

I sometimes struggle to understand the rationale behind political and public policy interest in the detail of the governance of our sport, the financing and regulation of professional football and how to get supporters more involved in decision making. Interest in those matters may be admirable, but I sometimes wonder why it is so great, compared with the level of interest in some more fundamental matters that I hope the committee will

address. FIFA, which is the world governing body of our sport, has a firm rule against political interference in the governance of the game, which, as members may have gathered, is regulated through national and international systems of self-regulation.

I was pleased that the committee's consultation paper acknowledged that it is not the role of the Scottish Parliament or the Scottish Executive to run Scottish football. However, it goes on to acknowledge that, at both local and central level, Government has interests as a provider of funds for facilities and coaches and in relation to wider public policy debates on healthy living and youth behaviour. That is absolutely correct—I could not have put it better. There is much to be examined in those areas and considerable scope for more to be done. Given that background, it was disconcerting to see that the first question in the consultation paper was:

“Should there be one national governing body for football in Scotland?”

As my colleagues will confirm, there is only one such body. If nothing else, the committee's report will dispel once and for all the myth that there is more than one governing body for Scottish football. If the Scottish FA did not exist, you would have to invent us.

As members may have noted, we have embarked on a major process of change as part of our 10-year plan to restructure youth football in Scotland. The structures and membership of the Scottish FA will change. We are decentralising our operation into six regions. There will be a sharper distinction between the management of the professional game and that of the recreational game in Scotland. Ultimately, those are matters for debate, discussion and decision within football.

We have a five-year strategic plan. The Scottish FA's priorities are the national team, the youth action plan, club development and the efficient running of the Scottish FA as a business. I will leave it to my colleagues to deal with matters relating to the professional level of the game, although we have considerable interests there, with a national club licensing scheme in place. However, the vast majority of football is played as a recreational activity. To my mind, that is where the scope for Government interest, support and help lies.

I emphasise the importance of team sports, as opposed to individual sports. At participation level, team sports offer the health benefits of exercise, the educational benefits of discipline and the community benefits of identity and togetherness. At performance level, national teams in football and rugby attract huge public interest. In the days before devolution, it was the rugby and football

teams that kept Scotland's identity alive in the international arena, in many ways. The football associations of many of our country's competitors receive significant funding for their national teams from their Governments or Olympic agencies. Compare and contrast that with the situation in Scotland. We are grateful for the support that we receive from Government. We have £10 million of new money over the next 10 years to support the youth action plan, but we should keep that sum in perspective. Everyone knows that it will never address the serious facilities problem that exists in Scotland.

In England, not only is Government committed to major funding for community-based projects, but Government agencies seem to have no problem with directing funds to football and associate bodies such as the Football Foundation to address agreed priorities. In Scotland, we seem to have to deal with a number of intermediary non-departmental public bodies. Although those organisations include many good, committed individuals, they are other bodies and seem to be tied up with red tape and other problems of organisational life. Unlike the FA in England, we do not receive direct grants. There is also no equivalent of the direct-grant subsidies that are made to the Football Foundation, which is doing great things in England.

I am in danger of going on for too long. I will end on a positive note. If the committee considers in depth some of the issues that I have raised, this hearing could be a springboard to a new level of partnership between the public sector and Scotland's national sport. I invite the committee to move in that direction.

**Lex Gold (Scottish Premier League):** I will pick up where David Taylor left off. I, too, welcome the interest in the game that the committee is showing. It is a game of opinions and we would be a poorer nation if those opinions were stilled. However, I have found that it is best to base sporting and business decisions on fact. As set out in the fairly lengthy written submission that I gave to the committee, the facts do not support the discussion paper's comments on the SFA's administration. They do not support the comments about structures in general and the paper is also wide of the mark about the SPL, its input and its contribution.

I hope that the written submission that I sent you spells that out adequately. I will not repeat all the facts, but I will repeat some of them. The fact is that gate figures are at an historic, all-time high. I apologise that the figures for last season have only just been submitted. They are up 3 per cent, not 2 per cent as I indicated in the submission that I sent earlier. I will put that into perspective: out of the five highest aggregate totals for the number of

people watching the top level of football in Scotland since the early 1960s, four have occurred since the SPL was set up. The highest aggregate gate was in 1987-88. That was a good year for Scottish football and in that year there were 100,000 more attendances than we had last season. However, 36 more games were played to achieve that total.

Reading the submission, you might get the impression that Scottish football is a sleeping giant that, if awoken, would get many more people through the gate. We do all that we can to encourage that but, if you look at appendix 6, you will see that, of the European nations mentioned, Scotland has the highest proportion of population attending professional football matches each weekend. Those are facts that winna ding.

Since its inception, the SPL has had a youth policy. We decided that we would not follow the hackneyed approach of reserve leagues but put resources into developing youngsters. We did so because there was a paucity of them in the game. That problem did not flow from our colleagues in the SFL; it is a product of the problem that all sports face: the follow-up to the teachers' strike and the impact that it had on youngsters in our schools. We decided, as a matter of strategic policy, that we would invest in young people, and you can see the huge investment that was made in developing youngsters in 2003-04, which represented 5 per cent of our clubs' turnover and 63 per cent of the money that we give to them.

Our European standing has improved substantially. We have moved from 26<sup>th</sup> to 10<sup>th</sup>, are provisionally ninth for 2006 and are provisionally eighth for 2007. Were we to achieve that, which I hope we can, six of the 12 clubs in the Scottish Premier League would have an opportunity to play in Europe—I say to David Taylor that that is based on the assumption that an SPL club wins the Scottish cup. The standing of the top level of the game is good.

I will pick up on one other factual point. I read the opinions on distribution of income, which need to be put in context: £1.5 million of our income—which represents just over 10 per cent at present—goes to divisions 1, 2 and 3. You can see from the SFA submission that the bulk of the money that the association generates is generated by elite football—in other words, SPL clubs and Peter Donald's clubs playing in the Scottish cup and our players playing in the international team. Therefore, a major cash input to the game in Scotland derives from the professional leagues—in particular, the Scottish Premier League.

I also noted the comment about redistribution, which, given that this is the Enterprise and Culture Committee, strikes me as slightly curious. The position is that 48 per cent of our income is shared

equally among our clubs and 52 per cent is distributed on competitive merit. It also struck me as odd that the committee had not recognised the public debate that we had about that matter two and a half years ago. To describe that debate as lively would be an understatement, and our board is clear that there is no need to go back to it.

I am in danger of going on too long as well. We welcome the committee's involvement, but we ask you not to set up more talking shops. We need help for our national game, and our youngsters are the seedcorn of that game. We believe that the information in the SFA paper makes very poor reading and shows how poorly we compare with our colleagues in the rest of the United Kingdom. Although that is not a national disgrace, I am bound to say that it is not a glowing testimony to the value of devolution.

14:15

**Peter Donald (Scottish Football League):** I will be much briefer than David Taylor and Lex Gold.

The Scottish Football League is perhaps the least well known of the organisations that are represented this afternoon, which, of course, is because of relatively recent changes in the set-up of Scottish football. In my opening remarks, I hope to put the on-going role of the SFL into some context.

The SFL was formed in 1890 at a time when football was developing. The clubs approached the SFA to ask whether they could form a league to play regular football and, even then, the association said, "No, that's not for us." I know that people debate the reasons why a number of organisations provide professional football, but the situation has a historical basis and continues to this day.

The SFL was the principal provider of professional football in Scotland for well over 100 years but, with the formation of the SPL in 1998, we stepped down to a secondary role. However, although we are certainly secondary in terms of public awareness, attendances and so on, we still play a significant and relevant role in the fabric of Scottish sport and in the communities that the clubs represent.

We are principally a centre of administration for our clubs and directly organise many competitions without the support of other footballing bodies. We have a turnover of more than £4,500,000, £3,500,000 of which goes directly back to clubs and £500,000 of which is provided as benefit in kind. The SFL's profit is distributed 75 per cent equally and 25 per cent on merit, which represents a different approach to the SPL approach that Lex Gold outlined. We believe that competition can be enhanced only by a relatively equitable distribution

of resource. Of course, there are variations between clubs and their ability to generate their own income; nevertheless, our organisation hopes to encourage competition by a relatively democratic method of distributing resource.

The league has changed its format over the many years of its existence. There has been much debate about the merits of a pyramid system for Scottish football. We are not against such a system in itself and, indeed, would support its introduction. However, we have failed to find a system that adequately gives clubs an opportunity to play at a level at which they can thrive. We still think that clubs have an identity in their communities, and hope to develop that area in the years to come.

Since the formation of the SPL, we have found it much more difficult to generate finance and media interest in the SFL and all its activities. However, we are pleased to report that, over the past five years, there has been a year-on-year increase in attendances. Attendances have risen by just under 3 per cent this year and by 10 per cent over the past five years. Although our role in Scottish society has diminished and changed, we think that we still have a significant part to play.

**The Convener:** I thank our three witnesses for their robust and frank introductory remarks.

I want to kick off not by asking a question but by making one or two things absolutely clear on behalf of the committee. First, I should explain the background to the inquiry. It was decided on in principle almost 18 months ago at a time when the Parliament was coming under a great deal of pressure from petitions and other sources to look at Scottish football. We also decided to examine the issue because of the lack of sufficient public support and facilities that you have highlighted in your submissions and introductory remarks. I have to say that I was not on the committee at the time, but it was then decided that two members—Richard Baker and Brian Adam—should be asked on behalf of the committee to undertake research and prepare an issues paper. That was duly done. It was decided—rightly or wrongly—that we should issue a discussion paper for consultation on the issues that had come up during the research that was undertaken by Richard Baker and Brian Adam. As Brian Adam is no longer on the committee, it was left to Richard Baker to finish that work. I should make it absolutely clear that there should be no misinterpretation of the committee's motives or our intentions. There is no intention that politicians or parliamentarians should attempt to take over the running of Scottish football. I can think of nothing that is more guaranteed to lead to total disaster than that.

**Christine May (Central Fife) (Lab):** It would be like juggling jam.

**The Convener:** Absolutely. In the words of David Taylor, this committee should be considering ways in which we can develop a partnership between people in the Parliament and people in the football industry, if we can call it that, in order to promote and help develop Scottish football. Our job is to consider the public policy issues that arise in relation to the future of Scottish football, not to interfere in the internal affairs of any individual organisation in football. I want that to be absolutely clear and for there to be no misinterpretation. We do not want to act like tsars of the football industry and I am sure that we would not be allowed to do so anyway.

Richard Baker and I have discussed the fact that some of the media reports this morning were not entirely accurate. I should make it clear that this is not a report; it is a discussion paper. Some of the issues might be totally disregarded in the light of the evidence that we receive while, hopefully, other issues will be developed, such as the youth development plan and additional facilities, which I would like to pursue further. I should emphasise also that it is not Richard Baker's discussion paper but the committee's discussion paper. Given that we have today issued a report on the subject of the BBC, I hope that the BBC will take note of the facts of the situation that I have just outlined.

Our discussion should be conducted in the context of the Parliament trying to do anything that it can to address some of the key issues that have been raised in all three submissions.

**Michael Matheson (Central Scotland) (SNP):** I thank the representatives who are with us today for their submissions, which are extremely helpful. I want to pick up on an issue that links to public policy and is mentioned in each of the submissions. The SFA's submission asks some serious questions about the Executive's current policy of supporting the development of regional and national sports facilities, particularly for football, and compares that with the situation in England. The second aspect of that issue relates to the public funding that has gone into the youth action plan, which is about £1.2 million a year. Again, the SFA's submission gives the impression that that compares badly with what is happening down south. What more should be happening in terms of Government policy in both those areas to address the concerns that your organisations have raised?

**The Convener:** As David Taylor is sitting in the centre, it would be best if he orchestrated the answers.

**David Taylor:** That would be good.

**The Convener:** See, I know that you are the lead body.

**David Taylor:** So do I. We are all friends together at last.

The facilities issue is fundamental. We have some of the best estate, if I can call it that, at the top levels of the game. I pay tribute to my colleagues for the stadium criteria that top clubs have to meet. In the past decade, there have been big advances in that regard. The problem is that we have some of the poorest public facilities in western Europe. Compared with Holland, Denmark and other countries of comparable size, our football infrastructure is seriously wanting. There are still many blaes pitches in Scotland, particularly in the west of Scotland. Changing accommodation is poor and floodlights are rare outside the professional leagues.

There is a big facilities issue, but the difficulty is that it is a dispersed problem. We need a national facilities strategy that deals not only with the top end of the game. I include in that the welcome programme that was announced last year for multisport facilities. That is a national and regional facilities programme. I recall that the total value of the programme, taking account of other sports, was up to £50 million. That covers a new athletics stadium, a couple of municipal stadia for rugby and athletics and full-size indoor facilities for football. That programme is welcome. Progress has been slow because the Government grant goes only part of the way to meet the capital costs of those projects. I could develop the point later in any detail that the committee might wish.

That programme is in place, but we do not have a coherent strategy at national level, worked up with local authorities, on pitch provision. We are starting down the road and are trying to get an independent consultancy group to consider the matter with sportscotland, but we really need to get some impetus behind the approach so that there is a framework within which decisions could be made if additional central resources were to become available.

In England, since 2000, the Football Foundation has funded more than 200 changing pavilions, built more than 70 artificial turf pitches, supported 618 community initiatives, and provided 100 schools with new football facilities and so on. We do not have a vehicle in Scotland to do the same thing. Members will see from my submission that a body has been set up called the Scottish Football Partnership, which I think offers the potential to do the same as is happening in England, but it has a finite sum of money: football's money, which has been contributed over the years. I would like Government, provided that it can see a strategy from football, to back that strategy by resourcing not necessarily the Scottish Football Association but the Scottish Football Partnership to take up some of these important issues.

**Lex Gold:** I echo David Taylor's point.

I go back to Alex Neil's comments. I believe that if we get anything from today, it ought to be further



energy in the direction of ensuring that public policies on health, fitness and well-being are promoted. Our national sport, football, is a good vehicle for the promotion of such policies, although it is not the only one. There has been a piecemeal approach. When I view the situation wearing one of my other hats I see the health consequences of people being sedentary. The review is an opportunity to give youngsters and adults facilities that enable them to participate in sport and ensure that they have no excuse for not participating. We believe that if that emerges from the review, it will be powerful in Scotland.

**Peter Donald:** Rather than repeat what has been said, I stress that establishing the number of fields that are available does not tell us the story. The significant point is how many of them are available for play during the winter months when we play our football. That is the key. Although the issue is topical in the context of senior football, for me the provision of artificial turf for sport seems to be the way ahead to overcome that challenge. That can be achieved only through a co-ordinated discussion between Government and football.

14:30

**Michael Matheson:** In effect, you are saying that the national and regional sports facilities strategies are fine, but that the missing link is the local strategy for communities throughout the country.

David Taylor referred to the problems that are encountered with red tape and with the non-departmental public bodies to which sporting organisations must apply to obtain funding. That sounded a bit like a shot across the bows of sportscotland. Will you expand on the problems that you have with those bodies?

**David Taylor:** Again, I will compare and contrast with our colleagues down south. I believe, from the figures that I have been shown, that the equivalent body, Sport England, is happy to fund governing bodies directly for community facilities or other matters. For example, the Football Association got £10 million and the Football Foundation is funded directly. However, in Scotland, we do not seem to be trusted with funds to that extent. Nobody is looking for funds for which we are not accountable or that come without a requirement to achieve certain aims that the funds are directed towards, but the organisational structures that we have in Scotland militate against quick action to deal with the problems that we face.

I mean no disrespect to any of the individuals who work in sportscotland—we engage with other sports, and some of the multisport facilities programmes are worth while. As the convener

might remember, I previously worked for a non-departmental public body, so I have some experience of the matter and I know that there is an inevitable organisational dynamic in organisations that happen to be facilitating rather than doing organisations. I would like more facilitation and more direct support for governing bodies in sport generally, rather than to have sport policy taken out of the governing bodies' hands.

That is a philosophical issue, but there is a practical issue about the time that it takes to get funding from organisations, which, to be fair, have to get money from other organisations to put it into sport in Scotland. The system, which is incredibly complex, should be much more organisation friendly, so to speak, for the governing bodies than it is at present.

**Peter Donald:** The traditional route from the SFL to sportscotland is through the national governing body. That tends to be the way in which the system operates, which is encouraged by the SFA and almost insisted upon by sportscotland. Therefore, any input that we have in determining policy in the area is channelled through the SFA.

**Michael Matheson:** That is helpful. I am sure that we will reflect on the issues that have been raised.

My final point is about the league structure, which is a matter for different organisations in Scottish football. All the organisations appear to be in favour of some type of pyramid league system, but there seems to be an impasse in getting such a system to come about. Given that, as you highlight, the issue has been discussed for years, what is the problem?

**David Taylor:** I will kick off and then pass over to my colleagues. There might be a slight divergence of views on the matter. I am totally behind the idea, although there are practical problems, to which Peter Donald alluded. Tomorrow, we will try to show leadership on the matter by proposing at our annual general meeting that junior clubs should be allowed to participate in the Scottish cup competition. That is not a proposal for a pyramid league structure, but it is an attempt to move to a situation in which sporting merit is more important than the organisation to which a club belongs. We want to facilitate sporting contests—certainly in the Scottish cup competition—between junior clubs and non-league or non-senior league clubs, if I may call them that. However, that proposal will be hotly contested tomorrow.

The criteria that must be met are part of the problem. As clubs ascend the levels in a pyramid system, they generally have to meet stricter ground criteria. Similarly, the Scottish cup competition has generally been open only to

member clubs of the SFA, which must meet certain criteria. Some of our members are concerned that non-member clubs that were admitted to the Scottish cup competition would not have to meet those criteria. Of course, money is always tight and resources that are spent on meeting the criteria are not available to pay players. That is one of the underlying themes about a pyramid system, which we will face tomorrow when we try to put forward the proposal for the Scottish cup competition.

Scotland is one of the few countries in western Europe that does not have a proper pyramid system with a number of lower levels. I think that in England there are seven levels of the game, so a club can start at the bottom and go all the way up, as long as it meets certain criteria on the way. We do not have that luxury—I should call it a necessity—in Scotland. Part of the challenge is to find the right structures at lower levels of the game, so that clubs that fall out of senior football find an equivalent and suitable environment in which to play. I will leave that point for others to develop.

**Lex Gold:** The question is more for Peter Donald than for the SPL. However, I have considered a range of structures throughout the world and no structure is absolutely trouble free. We have a strategy day every year, when we consider structures and try to improve on what we have. We look not just at the Scottish context but at how we might develop the game with colleagues elsewhere in the United Kingdom and at developments in Europe. We have been among the most active in Europe on that front.

There is no unanimity among our clubs on any issue, but the majority view is that we should continue to look outwards and seek to develop the game. A majority of our clubs is clearly in favour of the introduction of a pyramid structure for the domestic game. However, it is easy for us to say that, because the matter does not directly bear on us; it is more for our colleagues in the SFL.

**Peter Donald:** First, the SFL is clear that competition is the key to successful league structures. Competition can best be achieved if there is an opportunity for progression at the top and the possibility of relegation at the bottom. I need only point to the SPL to demonstrate that: the possibility of relegation following the change in the stadia criteria meant that this year there was suddenly interest in the league—such interest had been difficult to find in recent years. That is a clear indication that the threat of falling through the trapdoor enhances interest not only for clubs but for spectators.

The SFL is not against the principle of a pyramid. Our difficulty is that we currently have three divisions of 10 clubs, and if we merely

introduced another division we would have four divisions but would still not have a structure below league football. The more general challenge for the game is to identify a structure that will allow clubs that have aspirations and ability to progress through the game. In recent years the SFA attempted to find a way for clubs to move from non-league or junior football into the SFL but, as I highlight in our submission, our difficulty is to do with finding a place where a relegated club can play. We cannot just let a club fall into oblivion and have nowhere to play, so a supporting structure is required.

For most people, the interesting idea about the pyramid is that it would allow non-league or junior teams to move into what we call senior football. However, there should also be a structure below that, as David Taylor has mentioned. If teams at amateur or youth level have the ability, and if they can sustain the rise in position, they should be able to move up.

Football has not addressed that issue seriously for a number of years; it would be fair to say that SFL clubs have been reluctant to take the broader view that I am describing. However, we are now at the point at which we have to address it. Scottish football as a whole—not just the SFL, but football generally—has to be more open in its approach so that we can have competition all the way through the leagues.

**Christine May:** I have to leave in 10 minutes so I may not manage to ask as many questions as Michael Matheson did. Having been put very firmly in my place at the beginning and told exactly where my interest in questioning should lie, I will try to stick to that place and ask about governance, about facilities and, if I have time, about the development of the sport in general and about where and how public money should be spent.

On governance, David Taylor said that it is absolutely clear that there is only one body. From the papers that I have read, I agree that that is so. However, I want to ask about the perceptions that are coming through from our online survey and from many people to whom I speak. The average football fan—and I do not claim to be one—does not perceive a clear structure. Why is that, and what is being done to make the structure clearer?

**Lex Gold:** Those are not the issues that people walking down the main street of Kirkcaldy have at the front of their mind. If they are interested in the game, they are thinking about how their club is doing and about what has been happening at the ground.

In our paper, we make it clear that what is happening in Scotland—with the SFA as the governing body and the SPL and SFL as satellite

bodies—is on all-fours with what is happening with the elite leagues of Europe: of the top leagues, 15 out of 15 have the same structure.

I have never known Christine May to be hampered by being put in her place, and she is right to suggest that we ought perhaps to be doing more to make the structure clearer. However, it is not the kind of subject that folk are going to sit down and spend a lot of time on.

I am very exercised by the worry that we might stumble towards a structure that is less helpful to the game. In our paper, and in my remarks earlier, I sought to explain that we are doing well. The common perception is that we are not doing well; however, if we consider our position in Europe as a nation of just 5 million people, and if we consider our leagues as opposed to our national team, we can see that the current approach is a winning, workable solution.

The national team is following two or three years behind because of the paucity of youngsters. However, youngsters are now coming through in large numbers. As a consequence, I hope that we will see a change in the success of the Scottish national team, starting on Saturday.

**Christine May:** I want to press you on perception issues. Politicians are used to them: we often say, “No, no—things are not as you perceive them to be,” but we all know how powerful perceptions can be. I am sure that you have seen the response to the committee’s consultation; it shows just how strong people’s perceptions are—although I am talking only about the people who are interested enough. What difficulties do such perceptions pose for you?

**Lex Gold:** As I have suggested, I am happy to look into that.

14:45

**David Taylor:** Saying it, saying it again and getting others to say it are really the only ways of getting the message through. The tabloid media do not make a distinction between the professional leagues, which run their own competitions, and the Scottish Football Association, which is responsible for the overall governance of the game. I will not go into all the details, but that is a fact; that is the reality of how we are organised in Scotland. As Lex Gold said, that is no different from what happens in other countries. Only Northern Ireland is different, as it has been decided to merge the league with the Irish FA. Frankly, I would prefer the models of western Europe to that of Northern Ireland for a future structure.

It is clear that the SFA is the governing body, but we choose to allow the leagues considerable freedom to organise and run their own

competitions. We think that the senior clubs are the best judge of what is in their best interests. Professional clubs run commercial businesses and they have to decide what kind of competitions are best for them. Provided that they observe the laws of the game and enshrine the principles of football, such as promotion and relegation, the SFA is perfectly happy to support them in what they do.

**Peter Donald:** What Christine May describes is not so much about spectators and supporters not understanding the various roles that we perform as it is about the misunderstanding of how we relate to one another. That is probably based on relatively recent history: the development of the SPL out of the SFL; the formation of the SPL in its early years and the relationship between its members; the bedding down of the SPL’s new constitution; and the SPL’s relationship with the national association. I was in the SFA for 20 years before I went to the SFL and was careless enough to lose 10 clubs to the SPL, so you can understand the stresses. However, having gone through that process, I hope that we can now find a way of working more closely together to ensure that the development of the game is more integrated. There will be differences, because we all have different responsibilities, but I hope that we can prove to the people whom Christine May mentioned that we can relate to one another and that we can work together to ensure that the game develops sensibly.

**Christine May:** That is where I have some difficulty. You each have your own constitutions and so on, but while David Taylor says, “We trust them to get on with their own business”, Peter Donald has just said—and I agree—that the average man in the street does not trust you to get on with your own business. You then say that public money to help support and develop the game should be given directly to institutions in which the interested public have relatively little trust. I have not heard you explain what you are doing to show that the differences are being managed or that you are conscious of the distrust among the public, nor why you are saying “Trust us with public money because we can deliver. We can agree among ourselves, we can manage our differences and yes, we can deliver for the public.”

**Lex Gold:** I am not conscious of anything in the papers that we submitted that invites the Parliament to put public money into the running of the Scottish Premier League; quite the contrary. I indicated in my paper that we produce quite a substantial economic impact in Scotland. That impact is not only economic; at appendix 9 we set out our social involvement, which is also about health, drugs and education. I wish to make it clear that we are not asking for public money. If I heard David Taylor properly, he indicated earlier that by comparison with England our national

game—at grass-roots level, not SFA level—is poorly funded. The proposition that you are putting is a false proposition; it is not one that we have made.

On the issue of trust, in the case of the SPL, I have 12 clubs that I respond to directly. Those clubs are fully embedded in their communities. It is possible to overstate the position that you were positing earlier. I am indicating to you that, as far as I am concerned, the SFA is the governing body. There are a host of ways of arranging things, and we are not alone in looking at that. Our colleagues in England are currently promoting a more dramatic change that would involve establishing a board of governance, which would be run by the English Football Association, and dividing the game up into amateur and professional sport. The English Premier League and its colleagues in the championship league and what was the Nationwide league would run the professional game, including the cup and internationals. That is the level of change that is being considered in England; we are not promoting that in Scotland.

The proof of any pudding is in its eating. That is why I have been keen to stress the facts today.

**Christine May:** I am grateful to the three gentlemen for their courtesy but I have to leave the committee at this point.

**The Convener:** I think that Peter Donald would like to respond before you leave.

**Peter Donald:** I simply want to point out, as Lex Gold has done, that the Scottish Football League is not the recipient of any funds from the public purse and that any element that is received comes through the SFA, whose policies we are behind. There are not three different voices speaking today. The SFA, sportscotland and the Scottish Executive speak with one voice.

**David Taylor:** Before Christine May leaves, I would like to add that, in order to receive support for the youth action plan, the SFA underwent a fit-for-purpose examination by an independent firm of consultants. That might go some way towards reassuring Christine May about our ability to manage public funds properly and with due regard to the requirements of achieving timetables and milestones.

The perception issue is perpetuated by the tabloid press, which spends more than 90 per cent of its time, quite naturally, examining the professional game. Pages and pages are devoted to decisions within football, and the niceties of the differences between the roles of the bodies are lost.

The SFA is committed to broadening the base of its membership. It is comprised largely of member clubs, including those that belong to the league

organisations and others. We want to ensure that we are more representative of football in Scotland.

**Richard Baker (North East Scotland) (Lab):** I welcome the submissions that we have received and the opening remarks that we have heard. David Taylor's comments in particular helped to put this discussion into the right frame. We are talking about building stronger partnerships.

When Brian Adam and I were appointed to draw up the first report that informed the committee's discussion paper, the context of our debate was that football was in crisis: our national team was doing badly and professional clubs had certain financial issues. However, when I looked into the matter, it was clear that a large amount of work to identify some of those key issues was already being done. In its interim discussion paper, the committee recognised that that was the case, particularly in the area of youth development.

One of the problems identified by the organisations, particularly the SFA, is that the fact that a great number of organisations have been involved in various aspects of the game across the country has meant that it has been difficult to enforce policies relating to everything from small football schools to establishing a national strategy for the development of the game. That is why I see the moves by the SFA to encourage greater integration as welcome and necessary. The process is obviously on-going. How is it developing? Are the witnesses confident that a national strategy, national standards of coaching and a national approach to youth development will be achievable through that process?

**David Taylor:** Change is never easy. We are trying to change structures and outlooks. The best way to address the question is to remember that there are two broad levels that we are looking at in our youth action plan: the performance level and the participation level.

I am pleased to say that, with the assistance of my colleagues, we have made considerable headway at the performance level. We have an integrated national youth performance initiative in which clubs participate on the basis of their meeting certain criteria and standards regarding provision for developing talent—I am talking about the elite talent at the top end of the game. There are requirements regarding facilities and youth coach licence certification as well as the more basic requirements regarding child protection and the like. That work has gone well, but it is still a difficult, on-going business, and we have another pilot season to go. It is interesting to note that we have been able to work with our colleagues to lay the groundwork for the introduction of youth summer football at the performance level, starting in 2006. If all goes to plan, that will run from March through to October.

At the participation level, we need to get the regions up and running to start to make a difference. Six regions are being established, and candidates are on the point of being appointed as regional managers. Our discussions with the Scottish Youth Football Association, the Scottish Schools Football Association and Scottish Women's Football have been positive; however, we have had—and are still having—some difficulties regarding how they will be properly assimilated into the SFA structure.

The committee's report shows the direction in which we are moving, which is not quite as far as Lex Gold suggested is the case in England. There are all sorts of reasons why top Premiership clubs in England would want control of international matches—I leave that hanging. However, as far as we are concerned, in the management of the game there should be a sharper distinction between the professional side and the recreational side. As I hinted earlier, the SFA must get to grips with, and become more active and involved in, the youth recreational side, as our membership at the moment is mostly made up of the professional clubs.

That is a quick progress report. There is still a lot of work to be done, especially on structures.

**Richard Baker:** That is a helpful outline. As you have identified, achieving integration is challenging in itself. You must assure the people who are increasingly part of the structure—from the SYFA to those involved in women's football—that their views will be taken on board and that they will be consulted on decisions. It is right to have such integration, but people need to feel that they will play an important part in the structure. The process might establish more trust between your organisation and public bodies, which might help to release funding in a variety of ways. Are you confident that the process of reform that you have undertaken took on board the concerns of the organisations that are part of the new, more integrated structure?

**David Taylor:** Yes. However, as I keep emphasising, it is difficult for the organisations, which are concerned about losing their identity and relative autonomy. It is also difficult for the SFA, which is a membership-based body. In my submission, I hint at the fact that the membership must approve any changes to the association's composition and membership structure. As Lex Gold pointed out, one way or the other the SFA generates its money from the top end of the game. It is now moving in the direction of providing broader support to the youth side of the game not just at performance level but at participation level, which raises interesting questions about our members' commitment to and interest in doing something for other levels of the game. Their

attitude is almost, "What's in it for us?" The response is that it is good for the game, which, after all, is the rationale for the SFA's existence. We must live up to our mission. However, such words are fine but this is a matter of football politics, which can sometimes be as tricky as the real thing.

15:00

**Richard Baker:** I wonder whether either Lex Gold or Peter Donald has any comments from the perspective of the membership organisations, who I hope embrace this change as well.

**Lex Gold:** We do. As David Taylor has indicated, we have joined in the process. Indeed, we are happy to do so, because one of our founding principles is to develop the quality of our youngsters.

That said, David Taylor is right to highlight the tension that exists. If our clubs are generating a great deal of the money and, as I indicated in my submission, are spending up to £7.2 million per annum on developing youngsters, they might feel that something should come their way as part of it.

**Richard Baker:** What sort of thing should come their way?

**Lex Gold:** They might feel that they should receive support for what they are doing in youth development. After all, they are doing considerable work in that respect.

**Richard Baker:** I am from Aberdeen—I am aware of that work.

**Lex Gold:** You found that some clubs are models of community engagement. As I said, David Taylor is right to highlight the tension, but I do not think that we will resolve it at this table today.

**Peter Donald:** Although the budgets of clubs in the SFL are much less than those of SPL clubs, they are enormous as a percentage of their turnover. Because of the diminished effect of the transfer market, their contribution towards developing young players in their areas does not have much chance of giving them any substantial financial return. They do an awful lot of work with an awful lot of young players in the hope that they can develop a few for their own club.

Many years ago, the SFL began the youth initiative programme, which is a development league. Although it has taken some time to get there, we are delighted that the SFA is now in charge of that programme. We proposed the move a number of years ago and are about to tie the knot on it as an association development programme. The wider youth development plan is an SFA initiative that we have supported.

**Richard Baker:** Again and again, people have highlighted facilities as a huge issue for developing the game in many areas. We have already discussed some of the partnerships that need to be formed between the Government and national bodies, but surely the fact that access to local facilities is so crucial demonstrates the need for more local partnerships. Do the new regional councils, which will allow local authorities to work with football clubs and football development officers, represent the best forum for such partnerships? Will they lead to the implementation of good local plans for access to better local facilities?

**Lex Gold:** The devil is always in the detail. They ought to be able to achieve that, just as the committee's discussion paper showed how much of a driver local partnerships can be for health in communities. Our clubs have indicated that they are happy to work with community planning partnerships in the process and a similar arrangement exists with local authorities to consider facilities more generally.

**Richard Baker:** Surely that shows that advertising the cross-cutting benefits of participation in football, and sport in general, will involve not only clubs, SFA regional officers and local authorities but health boards, police boards and so on. Can more be done to tap other areas of funding for that kind of work?

**Lex Gold:** We do a lot with our health boards, as Richard Baker knows from sitting on our community partnership awards scheme, which is our sponsor's initiative. We are also engaged in drug awareness and education approaches. However, that is somewhat aside from the starting point of the question, which was about facilities. We have clubs the length and breadth of the country, so engaging with the community planning partnerships is a good way in, as they can make an input to the bigger public policy issues. We have good linkages in relation to facilities.

**David Taylor:** Briefly, the regional structures that we are putting in place must help in this regard. Local knowledge is essential for good, local provision. One of the first tasks of the new regional managers, all of whom will be in post by August, will be to take the matter forward.

**Richard Baker:** I want to move on to a different aspect, which relates to the starting point for the report, which was the financial state of the game and the community impact—that is why I first took an interest in the issue. Dundee Football Club, which is in my region, went into administration, as a result of which 20 people lost their jobs.

The SPL submission is combative in describing the current financial situation—

**Lex Gold:** Never, Richard, never.

**Richard Baker:** It is combative—very much so. There appears to be scepticism about what support can be given to improve the situation. For example, there is scepticism about having a financial advisory unit or an independent commission. There are encouraging signs of an increase in attendance at games—in the Borders for example—and wage bills are coming down. Nevertheless, clubs are still in millions of pounds of debt. Some clubs have been in and out of administration and other clubs have been on the verge of administration only very recently. Therefore, there remains a serious problem, not only for Scotland.

Clearly, communities and supporters are keen to hear how clubs will ensure that they are sustainable in future. Are there no other proactive measures that can be taken, by either governing bodies or the clubs themselves, to encourage confidence that our clubs will be around for a long time to come?

**Lex Gold:** The paper spells out at great length what we see as the causes of the difficulties, which go back more or less five years. We are not unique in western Europe in facing them. The first of those was the Bosman decision, which I will not go on about at length—the convener might not want me to go down that road. The big drop in media income has also had a huge impact. Some three and a bit years ago, our clubs were planning on an increase in income, not a reduction that is now getting on for 25 per cent. The drop in media income came quickly. As a result, our clubs, together with those of other leagues across Europe, found themselves with wage bills that, in essence, were unsustainable when set against income.

We looked hard at a range of ways of helping our clubs. As Richard Baker will recall, in February of last year, I wrote to the Chancellor of the Exchequer. I described football as an industry in distress and our position as being on all fours with the rest of Europe. I set out seven little steps that could be taken that would help. We were not looking for public money; we were looking for the kind of help that can be given to industries in distress. I suggested that the Government could take the same approach to football as it took to cinema.

I got a nice letter back from Gordon Brown, in which he more or less said, "Thank you for your ideas. We will think about them." We are sitting at committee some 18 months later, and nothing has happened. A copy of the letter was sent to the Executive.

**The Convener:** A copy is included as an annex to your submission.

**Lex Gold:** The letter spells out what we were doing around that period. It is quite clear to

everyone what has been done since that time, which is that clubs have been encouraged to ensure that they live within their means. As we sit here today, I can say—while touching this lovely, wooden table—that we have no clubs in administration. Turning matters round is a hard slog and takes a long time, but it is clear that our clubs have learned the lesson and are moving in the right direction. The English Premier League was probably the only league close to us that did not suffer similarly, but it had to sell the television rights to double the number of games to receive the same money.

We have raised the issue and, with our colleagues in the SFA, we have considered licensing. There are two aspects to the issue: Richard Baker touched on the financial impact on communities; and the other aspect is sporting. If a club spends more than it receives, it might gain a sporting advantage, but our clubs are not keen for that to happen. As our submission says, we have considered a range of issues such as wage capping and squad capping, but the practicalities are such that it has been suggested that those options ought not to be pursued, so we started the process of discussing licensing with our colleagues elsewhere.

We are not alone. We have taken several steps. The clubs are—touch wood—in a better position, but they are not entirely healthy throughout. I stress again that we were not looking for public subvention. We were looking for the support that industries in distress can reasonably expect from the Government—Alex Neil knows more about the matter than most of us who are sitting round the table.

If we want to develop youngsters, I have a suggestion for the committee. The part of our submission that deals with the economic impact does not contain it but, if you like, I could provide information about the amount that our clubs pay in rates and the vast sums that they pay for policing. The case might exist for the devolved Parliament to use its powers to ring fence some of those payments for youth development. We would support that.

**Richard Baker:** The convener has allowed me one more question. One problem that was described to me when clubs were having financial crises was that many supporters felt powerless and were worried about the input that they could have to decisions that might have a huge bearing on their clubs' future. We have Supporters Direct, but people who are involved throughout the game want to have their point of view heard more often and to have the right amount of dialogue among the range of people with expertise, including coaches, players, fans and volunteers. Are enough structures in place for dialogue? Are they

evolving? Can more be done to ensure that such dialogue takes place and that everybody feels included and able to back the game, whatever part of it they work in?

**Lex Gold:** We have engaged with Martin Rose of the Scottish Federation of Football Supporters Clubs and supporters trusts, which we met last year. Greig Mailer, who is here, attended the annual conference of the supporters trusts. It is clear to us that the natural home for supporters is in our stadia and, more particularly, in being linked to their clubs. Our clubs are the organisations through which supporters can have a say in our affairs. That is the right route and that is our position.

**David Taylor:** I fear that we will end up creating other bodies, forums and what have you. With great respect, frankly I am not exactly sure what the Independent Football Commission down south has done of any great significance.

As Lex Gold said early on, football is a game of opinions, and everybody has opinions. To influence football policy making, opinions need to gather support and momentum through clubs and in our various organisations. We have regular dialogue with others, such as the Scottish Professional Footballers Association and referees associations. We try to take on board the opinions of a range of other people who are involved in the fabric of our game.

As our organisations develop, I would like the SFA to be as open as it can be. Perhaps in the longer term there might even be representation from various elements of the game in the SFA itself. However, that is to look beyond the current, more demanding problems to do with the youth issues that we have been discussing.

15:15

**The Convener:** If you introduce freedom of information, we can give you advice on what not to do.

**Peter Donald:** Without exception, the SFL clubs that have faced financial difficulty owe their survival to the energies and efforts of their supporters when the clubs found themselves in the trenches. The supporters turned the situation round, with the help of the business skills of the people on the board of directors. Without those endeavours, it would be easy for football clubs to slip beneath the waves.

It is pretty difficult to put a football club out of business; clubs are extraordinarily resilient organisations. It is safe to say that every director who is involved in the SFL is engaged positively, because he wants to help his local club. He usually gets nothing back for his involvement,

apart from a bit of abuse on a Saturday. Often, after a few years, the people who hurled abuse get the opportunity to join the board, because we all need the support of the people who pay their cash. In our experience, such people tend to become directors—obviously they do not all become directors, but there is direct input from supporters to many of the community clubs that take part in league competitions.

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** I thank the witnesses for their submissions and their comments today. We have gleaned a great deal of detail—fact and opinion—from your evidence, but I want to consider the bigger picture and ask you to look ahead to the future of Scottish football. I preface that question by asking that we go back to first principles in relation to the committee's interest in the matter. I reassure Mr Taylor that he is not alone in not wanting an empty talking shop. We want to ensure that our deliberations add value to our understanding of the sport—I mean not just the Parliament's but the nation's understanding—and to the actions that we take. None of us will move forward if we remain buried in considerations of operational detail or in apportioning blame. I will give you an opportunity to enable us to put our deliberations in context. Can you give us a sense of the direction of Scottish football? Where could or should the sport be five or 10 years from now? What priorities must be addressed if we are to take Scottish football forward?

**David Taylor:** Was that an easy question?

**The Convener:** I should mention that we are beginning to run short of time.

**David Taylor:** You want a one-sentence answer.

The question is challenging. We know where we want to be. As I think I said in my submission, we want Scotland to be a successful football nation that has many players, strong clubs, passionate supporters and winning teams. The question is how we get there. We will be required to pay attention to the base of the pyramid of football, by which I mean the number of people who play, and to work with clubs, to give them the best opportunities to develop talent, so that players become excellent and act as role models for others. In a virtuous circle, those players would perform well for our international team, which would generate revenue for the SFA to reinvest in clubs and the broader base of the pyramid.

We need assistance from the public sector for the base of the pyramid. The professional level is a matter for people in the football world. However, the issues that we have highlighted today also demand attention outside football, because of the

impact that football has on communities and—I would go so far as to say—on quality of life in Scotland.

**Lex Gold:** I say amen to all of that. Scotland is a founding father of football and I would like to think that, as a founding parent—to put it in more politically correct terms—it punches way above its weight in the quality of the football that it produces. I would like the Scottish national team to get back to where it should be. The Scottish Premier League has done well in getting its standing as high as it has in Europe, but we should not be content with that; we need to reach higher still.

However, my biggest wish is for many more youngsters to play the game. I am the son of a miner and was brought up in a mining village where we played football morning, noon and night. In those days, it was possible to call down the pit shaft and get three or four professional-standard footballers. As a product of that, our nation was fitter and healthier. I hope that the work that we are doing together with our colleagues in the SFL and the SFA will help to generate more footballing activity. If it did, we would be a healthier nation and could get back to the pride of being a nation of footballing excellence. That is what I want to happen and what the SPL has been seeking to achieve in its own corner over the past seven years.

**The Convener:** Unfortunately, we have nae pit shafts left.

**Lex Gold:** There are a few. I will take you to them and show you them, Alex.

**Peter Donald:** The provision of facilities is the most important issue. With adequate—indeed, excellent—facilities, we would be able to develop the interest in football that is intrinsic in Scotland. We would be able to increase the number of children—boys and girls—who participate and, from that, the professional game could hope to draw on sufficient support to enable it to develop.

My specific responsibility and interest are in league football. As I look forward, I have some concerns that the competition that is essential for vibrant football will not necessarily be available. The pressure on clubs to avoid relegation has probably led them into overspending and the gap between SFL football and SPL football is increasing every year. It used to be a gap but it is now a chasm. In the past seven years, old firm clubs have won 20 out of 21 of our national competitions. We must try to establish a broader base than that. I am not sure how we can break that circle, but competition is the key to vibrant football.

**Susan Deacon:** I am grateful for those answers and realise that I asked you to cover a lot in a little time. You have touched on my next question in



various comments but I want to be crystal clear on it. Do you agree that many of the challenges or opportunities that football faces—the challenge of broadening the participation base, the need for greater facilities nationally and/or locally and the wider hopes and aspirations for health outcomes—are shared with many other sports, even though they manifest themselves differently and, I accept, on a greater scale in football? If so, do you agree that one of the key emphases in the period to come will need to be on sports working together wherever there are shared objectives to maximise the benefits, resources and simply the impact of all their efforts? Will you add anything to what you have said already about how football is doing that, or about what more sportscotland and the Government could do to enable such cross-sport working to develop?

**The Convener:** Peter Donald has not had the first say for a wee while.

**Peter Donald:** That is okay. I do not feel slighted; I know my place. However, I am grateful for the opportunity.

The generation of facilities throughout Scotland is a responsibility of the SFA in relationship with sportscotland. There are technical challenges in providing specific sport facilities, but the SFA has worked closely with sportscotland in recent years on the provision of facilities nationally and regionally. David Taylor can give you more detail.

**David Taylor:** A couple of years ago, the SFA submitted a discussion paper to the Executive that contained suggestions on the football component of multi-sport facilities. The SFA has obtained funding from UEFA for a mini-pitch programme—we have £400,000 to contribute if we can find matching money from either the Government or the private sector. We have not really talked about the private sector, but I hasten to add that we do a lot to get sponsors such as the Bank of Scotland or McDonald's involved in community programmes. Our aim is to have two mini-pitches in each local authority area. The pitches are not just for football; they are casual play areas where young kids under 12 can kick a ball about, throw a basketball about or play volleyball.

There is scope for multi-sport facilities, but the scale of football is immense. All the surveys that we have carried out show that participation levels for football are much higher than those for any other sport. That is why we are happy to be involved in multi-sport initiatives—we believe in our sport and we believe that many people will continue to choose football as their preferred sport. We work with other sports, although I am sure that there are opportunities to do more. However, to return to a point that I made earlier, the governing bodies in the various sports have the best view of their priority needs. We must work

from that base forward, not with the top-down approach of which we sometimes see evidence.

**Susan Deacon:** There is no time for me to ask another question, so, if I may, convener, I will just log for the record a point that has been concerning me throughout the discussion. While it is obviously important that we consider public funding, I caution any or all of us about always considering the efficacy of Government or political institutions purely in terms of the size of their cheque book—that was the backdrop to the media coverage of our discussion. I hope that you can assist us in considering how devolution can create ways to foster dialogue and to reach solutions accordingly. In that context, I refer to a comment that Mr Gold made and point out that the Parliament as an entity does not fund anything—the Government and its agencies and local authorities are responsible for that. Our contribution cannot simply be to provide money; it must be wider than that. Your assistance with that would be welcomed.

Convener, I hope that you do not mind me simply making a contribution.

**The Convener:** Not at all. Obviously, when we produce a report, we often make recommendations to the Executive; it is then up to the Executive whether to accept or reject them. Basically, it has eight weeks to decide what it intends to do.

Jamie Stone has been patient.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** My comments will be brief, but pertinent. I have listened with interest but—I must say—growing irritation to what I have heard this afternoon. I do not doubt the good intentions and laudable motives of our three good witnesses, but I must cut to the chase. We have heard about healthy communities, participation, health boards and the bottom of the pyramid, but my constituency of Caithness, Sutherland and Easter Ross is probably the worst provided for of any constituency in Scotland. There is not one covered stand-alone sports centre in either Caithness or Sutherland and the provision of pitches is laughable. We talk about the pyramid and getting youngsters involved, but is it right that youngsters in Caithness should be so disadvantaged? Do you audit or look over the shoulder of local authorities to see what they have been doing—or have not been doing—for years? Do you at least direct or give advice to sportscotland about what to do with its increasing funds, which, we read, are up by 9.4 per cent? Are you not ashamed of the situation? What has gone wrong?

**Lex Gold:** It is not our responsibility to oversee local authorities, although it might be the responsibility of the Parliament and the Executive.

We have indicated what we are seeking to support as we go forward, and Susan Deacon's point is a good one in that regard. However, I think that your challenge to us is misplaced.

15:30

**Mr Stone:** It is more a question for David Taylor. Given all the talk about establishing a pyramid structure, is there not at least a moral responsibility to speak out and say that something is not right?

**David Taylor:** That is precisely what we are doing now.

**Mr Stone:** Why has nothing been said about Caithness or Sutherland for years?

**David Taylor:** I cannot speak with any knowledge of that particular geography.

**Mr Stone:** I advise you to look at it. I would be grateful.

**David Taylor:** We are happy to take that on board. The Scottish Football Association has some excellent outreach programmes, and the excellent Highland football academy in Dingwall draws the best talent from the north of Scotland. On local pitch provision, I am sorry to hear what is happening in Caithness and Sutherland and I will certainly look at that.

**Mr Stone:** Dingwall is nearly 100 miles from Caithness. I leave my case at that.

**David Taylor:** I understand that it is some distance, but I am talking about the talent identification process rather than local pitch provision. However, we are happy to look at the matter.

**The Convener:** I will generalise Jamie Stone's point. I take on board your point that the single most important public policy issue is facilities—particularly, but not exclusively, facilities for younger people. It would be helpful if you would provide some additional written material on the facilities that need to be provided. At least two of the submissions refer to that in some detail, but it would be helpful for the committee to have further information on it. Do not forget Caithness and Sutherland, Ayrshire, Dumfries and Galloway or any other part of Scotland, because many of us can cite parts of our areas in which we think facilities should be much better than they are. Having said that, as Susan Deacon said, it is not just a question of saying, "Gie us more money." If we presented the issue in that way, there would be no chance of getting more money.

Before we finish, I give you an opportunity to wind up and make any further points that you have been unable to make.

**David Taylor:** I finish with a point about the opportunities that are available for home-grown players at the performance end of the game. UEFA has developed an initiative, with the full support of the national football associations, including that of Scotland, to ensure that our best youngsters get opportunities to play for teams in their own countries. That reflects a general trend that developed after the Bosman ruling, to which Lex Gold referred. In many of the more affluent leagues of western Europe, we see a considerable number of journeyman professionals—if I can put it in that way—plying their trade. Sometimes it makes good economic sense for professional football clubs to look for the quick fix and employ seasoned professionals rather than to go along the more challenging, difficult and sometimes costly route of growing their own, so to speak, and developing their own youth players.

UEFA has decided that, from the season after next, it will introduce provisions to its competition to have a squad cap of 25, of whom, initially, four will have to be home grown, so to speak. To avoid any discrimination on the ground of nationality, home grown will mean that a player must have trained with the club or in the national association area for a certain number of years. In future years, the number of players will increase from four to six and then to eight.

Adoption of those proposals is being encouraged in national associations' territories. We are considering the matter and have started discussions with our league colleagues on it. We believe that the initiative, in parallel with all the other initiatives, is important for Scottish football.

**Lex Gold:** This is the committee's 13<sup>th</sup> meeting this year and so I run a risk in saying what I am about to say. The only message that I would like to leave members with is one that I think that they have received. The committee has a role to play in helping to foster and promote for legitimate public policy reasons the playing of our national game and other sports. I hope that it gets that message across to the Executive and that the message will then be turned into action rather than result in more folk sitting in a corner and talking.

**The Convener:** All members would entirely agree with that sentiment.

I thank our three witnesses for a robust, frank and honest evidence session, which was preceded by robust, frank and honest submissions. Their contributions are much appreciated.

## Business Growth Inquiry

15:38

**The Convener:** Agenda item 2 is the inquiry into business growth. I welcome Frank Blin and Bruce Cartwright from PricewaterhouseCoopers. We have just received from them additional information on the world competitiveness scoreboard and their curriculum vitae. Obviously, we have not had enough time to read the documents—we can be forgiven for not having done so.

We have focused on business growth and looked at the horizon over the next 10 years, from 2005 to 2015, and we appreciate both witnesses coming to the meeting to discuss the issues with us. The procedure will be iterative. I invite both witnesses to say some introductory words.

**Frank Blin (PricewaterhouseCoopers):** I am not sure that this debate is as exciting as that on Scottish football—perhaps it is. We might talk about Scottish football if we have enough time at the end of the discussion.

I will take the CVs as read, give an introduction and context and go through the pages of the document that members have before them. Bruce Cartwright will then cover business failure, as his expertise is in preventing business failure. Members can then ask questions.

The areas of focus that I thought that I would touch on—innovation, finance, international links, and building competitiveness and preventing business failure—are shown in diagrammatic form on page 3 of our submission. The pyramid reflects how Scotland's top-tier, mid-tier and smaller companies and small to medium-sized enterprises, make up our corporate landscape. I will refer to the economic impact of our larger corporates in a moment. I know that you have covered the headings and bullet points underneath the diagram in previous meetings and I am happy to take questions on them; however, we will not dwell on those in our presentation.

Page 4 shows in pretty stark terms the impact that the top 24 companies in Scotland make in terms of employment and profitability, which must have a subsequent economic impact. The shape of the companies that are coming through and the pace at which companies are coming through to that top tier is not a particularly rosy story in Scotland. It is something that we need to put on a faster track, because the impact of one Royal Bank of Scotland is significantly greater than that of 100 SMEs in terms of economic growth.

**The Convener:** Does the number of companies refer to the number that are incorporated, or does it include partnerships and sole traders?

**Frank Blin:** It includes only companies that are incorporated. We cannot capture the others through publicly available information.

Page 5 is on Scotland's public companies. Although there is some concern about the absolute number of public companies in Scotland, in comparison to other regions of the UK, Scotland fares reasonably well. You may ask whether it matters that Scotland has a good share of public companies. The fact that the public markets have an interest in Scotland is part of our brand, internationally and globally; it is part of the attraction of doing business here; and it gives an implication of the richness and scale of our operations. It is a not bad story.

As you can see from page 6, I thought that in the context of the football discussion we could talk about playing the game better. As you are well aware, there is a statement that the Scottish venture capital and private equity players are increasing the size and scale of the deals that they are looking for. That is accompanied by an increasing form of debt, financing smaller Scottish corporates. The consequence of that has been an increased presence of business angels and the syndicates that they form as a way of financing start-up companies, companies that are in their second or third phase of development and greenfield research. The larger private equity players have less interest in and less appetite for that space.

Schemes such as the co-investment scheme—which I chair as a board member of Scottish Enterprise—and the business start-up schemes have helped, but they have not closed the gap sufficiently. It has been identified—and I agree—that there is an equity gap at the lower end. The creation of a new £1 million to £5 million equity fund is something that would be welcomed. That could come from public sector sources on the basis that it might flush out a matching of private sector money.

As you would expect me to say, there is a strong advisory and intermediary community in Scotland, but it is a vulnerable one. If you want a strong Scotland with strong institutions, you need strong intermediaries to go with it. There is, undoubtedly, concern that there will be a talent drain and that Scotland will not be able to attract the best of the talent or retain those people. It is a vicious circle: if such people do not have the best quality corporate and public sector to work with, they will move to other opportunities.

Finally, on page 6 there are some propositions and areas for consideration for improvement. The access to grant and financial assistance schemes is still over-confused and over-complex. There needs to be greater simplification and codification to help people who are trying to find their way through the maze of offerings in those areas.

15:45

Perhaps there could be a simplification and standardisation of taxation treatment. There is complexity, particularly at the smaller end, for sole traders, partnerships and limited companies. I question whether some of the criteria for regional selective assistance, as a form of subsidy in today's climate, are relevant for a knowledge economy. For example, money might be spent on plant, equipment and creating jobs as opposed to research and development, innovation and more intangible areas.

Page 7 is on innovation. As Professor MacRae said:

"Scotland's expenditure on business R and D ... is quite low. ... evidence ... demonstrates that high-growth economies have a higher level of R and D spend".—[*Official Report, Enterprise and Culture Committee*, 12 April 2005; c 1721.]

Companies that innovate successfully tend to be more profitable. We have recently undertaken a survey of about 400 corporates. That indicated that there are higher sales from new products and that markets are more profitable for those that innovate. In general, companies that spend significantly on R and D will generate higher profit margins.

The intermediary technology institutes are conceptually sound, but need time to mature and prove themselves. I would question whether the ITIs and industry currently have strong enough links. Such links need to be improved. Greater connectivity of university R and D to corporate needs is required. A big challenge is whether universities will allow influence over their purist and academic view of where research should be placed, whether it has a business application and whether that is right or wrong in respect of developing thinking. Increased and more focused incentives are also required. For example, could bigger and simpler tax allowances be created for R and D investment?

On page 8 I comment on international linkages. As members all know, the global market is a reality. I am just back from Beijing. I was gobsmacked by some of the statistics that I heard there. I mention one that reflects the scale of China's operation, which is not the fact that China will create 100 world-class universities within five years, but that there will be more English speakers in China than in the United States of America by 2008. That competitive market is one to reflect on.

Our leading companies are aware of growing internationalisation. The public sector has done well through developments such as the international advisory board, the global Scot and other such networks, but we must do more. For example, offshoring and outsourcing are propositions, but there are different propositions in

different parts of Scotland. We would perhaps benefit from having a national offshoring proposition for a country of this size. We have some unique talents and skill sets that would allow us to compete—it is not all about cost.

We should make better use of the Scottish diaspora. We should encourage overseas entrepreneurs to bring companies into Scotland using our network. There should be mentoring and coaching by international executives. Non-executives from international companies should be used for some of our smaller companies in Scotland. We should, in particular, build our international sales skills. Many corporates do not know how to break into international markets. That becomes a barrier to their ambition and prevents them from taking their companies to the next stage.

Page 9 is on competitiveness, which is a difficult issue, but it is about focusing on high-growth industries and companies. That means perhaps not focusing on others and making decisions about where we will put the focus. There is perhaps also a role for the public sector in creating meaningful and authoritative benchmarks. Statistics and data about performance by industry and by individual businesses are produced ad nauseum but often lack credibility.

I ask Bruce Cartwright to touch on competitiveness.

**Bruce Cartwright (PricewaterhouseCoopers):**

I would say competitiveness rather than business failure, because although I specialise in business failure we probably turn around one company for every one that we formally handle in insolvency. The issue is to keep the businesses that we already have and sustain them rather than lose them. There is no point in scoring three goals if you give away four. Scotland is well served with people in the market such as accountants, solicitors and people in banking. People have very strong connections and understanding of the turnaround market. What we try and focus on—I will say this until I am blue in the face—is picking up the early-warning signs and dealing with the issue before it goes too far.

We and everyone else are often called in too late. As time goes on, the options diminish. I have observed more recently that stakeholders often see the difficulties before management sees them, perhaps because management is in denial or is so close to the problem, living with it every day, that it does not notice it increasing incrementally. Most management teams assume that they can fix problems themselves, but we would say that they are dealing with situational crises that they have not faced before. We are not saying that they do not understand the business that they are in, but

simply that they have not been in such situations before.

I said that sometimes stakeholders are the first to pick up difficulties. In more modern industries, such as technology, which are run on the basis of cash up front and investments coming in, and which have no bank borrowings, companies simply disappear at the end of the cash burn. We have seen that happen to some games companies. When the banks are involved, they manage the problem and work with the company. If they are not there in the first place, the situation can slide away and the new technology can disappear. I have just sold some software to the US for £100,000. It is now being fully developed in California. We must align stakeholders and management, but the real issue is early intervention.

Page 11 depicts a corporate life cycle. I do not want to talk about the stages of going public and maturity, because not all businesses go through those. The key is that all businesses ultimately reach maturity. The secret is to take the arrow at the top of the diagram and to turn it upwards on an S-curve—I call it a curved step that keeps going up. The problem is that if companies do not take steps at some point they will go down the demise curve. In some businesses that we see, one could take a right exit at the point labelled “rapid growth”, because following initial investment they do not get off the ground. That is partly the result of the equity funding gap to which Frank Blin alluded. Banks will not take the risk of supporting companies with small amounts of equity when difficulties come or plans do not work out.

On page 11 I refer to management being “in trouble, not aware” and “in trouble but in control”. I use the same phrases on page 12, which illustrates the need for education in the importance of taking earlier advice. “In trouble, not aware” is equivalent to “ignorance is bliss”. “In trouble, but in control” is the stage at which we as advisers work, as we have more options. When we reach the stages of “lost control” and “lost the business”, I am put in control and act as receiver, liquidator or administrator. In that situation, the only way in which control can be regained is for me to have it. That is fine to some degree, but I would much rather give advice in the top half of the page.

**The Convener:** Page 11 refers to “M/A activity”. I know that all members would like to know what you mean by that.

**Bruce Cartwright:** “M/A” stands for merger and acquisition. It refers to the growth stage. At a certain point, a business looks for more than organic growth. It is acquired or merged into another company, or takes over other businesses.

Page 13 lists some warning signs. I will not dwell on those. Earlier I made the point that we look for

early warning signs and ask management to look for them. Those are signs that we see time and again. If the warning signs are picked up, we provide situational expertise, which is what is required. That is very much about bringing businesses back through the back door. I appreciate that I have been dealing with issues on a micro level. Frank Blin will highlight some macro issues.

**Frank Blin:** We used to say that a fountain in reception was a warning sign of business failure. Scotland had perhaps the ultimate example of that. A few years ago, we had a company whose requirements included a nuclear bomb shelter. Perhaps that was over the top.

On page 14 of the presentation, there is a statement by Gordon Hewitt, a member of Scottish Enterprise’s international advisory board and a distinguished professor of international business and corporate strategy at Michigan University. In order to stimulate some thought, I have highlighted a number of questions. Page 15 asks whether we truly have a level of ambition, by which I mean a national vision that is shared across our key stakeholders—the public sector, major influencers, the key corporates and so on. For example, I do not know whether our economic growth objective in Scotland is clear. Is our aim to catch up with the rest of the UK, or could we reach the growth levels of some of the fastest-growing economies? I am not saying that we will achieve 8 per cent or 9 per cent growth like China, India or Singapore, but I question whether we are happy at 2 per cent. Could we get to 4 per cent or 5 per cent? I am not sure that we have that clarity of ambition.

On page 16 I say that that is about placing bigger bets. If I were sitting in your shoes that would be difficult because it would mean saying no to some things. A country of this size and scale has natural interdependencies, not only with other countries in the UK but internationally and globally. The world competitiveness score board I have here shows some of what countries such as Finland have done. It is interesting to note that Denmark and Iceland—relatively remote nations geographically—are in the top six. There are exciting developments in south Sweden and Queensland. A couple of lessons could be learned from those countries, one of which is greater alignment of public sector and private investment. In Finland, the chair of the innovation organising model is the head of Finland’s Parliament, in other words its Prime Minister. It spends about €400 million on research and development, which is about 3.4 per cent of its gross domestic product. The country steeps its people in the idea that the country is about innovation and creativity. That is not just Nokia.

Dubai has focused on tourism, and has said, “We are going to compete worldwide and we are

going to win that competition.” Does Scotland focus on its natural USPs—unique selling points—such as golf, beautiful countryside and a heritage in the way that Dubai has? Dubai has taken on Spain and it is winning. There are Canada’s experiences of the commercialisation of research in western Ontario, there are Queensland’s SMEs and there are many other examples. I would be happy to provide the addresses of websites where you might find some research in those areas. My question is whether we can place bets on our distinctive assets, which I suggest might include finance, energy or tourism.

I am a consultant, so I go on to ask whether you have any methodologies. Is there a forum to deliver a shared vision and ambition? I do not think that it is enough that it is the Parliament that is carrying out this inquiry. Our stakeholder group has to be wider than that. Is there governance and a framework to prioritise and focus? Do we have delivery mechanisms to ensure joined-up working? An observation I would make from the private sector is that we seem to have so many talking shops and so many people who have a voice—but maybe that is democracy and I ought to be smacked for saying that. Finally, we need benchmarks and measures to see how we compare internationally. It goes back to my question about whether we have clarity about where our performance is. Too many people have got too much vested interest in saying that we are succeeding, and sometimes I challenge whether we have that clarity.

**The Convener:** Excellent. That was very interesting. I will start with Jamie Stone and Susan Deacon, who were squeezed into the end of the previous session.

**Mr Stone:** I have three questions, all of which are relatively short. I recently rejoined the committee, so I am sorry if this is a bit of a daft-laddie question. We can see from your table that Scotland lags behind the UK. What in your opinion is the drag-anchor sector of the Scottish economy that is holding us back?

**Frank Blin:** I would love to be able to give you a smart answer to that, but I am not so arrogant as to believe that I have the answer. However, I think that it is something to do with our way of working. We are too fragmented and we do not seem to be able to move with agility. I recently listened to an Indian strategy professor at an American university who said that there are two reasons why Europe will never compete. One was its inability to absorb other cultures; the other was its inability to achieve step change at pace. I identify with those points.

16:00

**Mr Stone:** You said that the grant system is a little confusing. I will go into dangerous territory here, but, given that economic development is primarily the responsibility of the local enterprise network and that Scottish local authorities have a non-statutory semi-function, is it time to tidy up the system?

**Frank Blin:** Yes.

**Mr Stone:** Will you elaborate?

**Frank Blin:** It would be too trite to give a methodology. However, we must achieve clarity about who is responsible for what. Scotland is a small nation and we could have greater speed and acceleration on certain matters, such as tourism, if we had clearer accountability for grants and support.

**Mr Stone:** You talked about the not-terribly-clever links between business, tertiary education and R and D in universities. All members accept that some people in academia are not terribly good at communicating with people whom they perceive as getting their hands dirty. Do you have any ideas about how we might get all those people together, even just across the table to start talking?

**Frank Blin:** Some engagement has taken place. For example, two years ago, I witnessed all the university principals in a room with the international advisory board, which was a great achievement. I am not sure that the dialogue was rich, but at least they were in one room. It would be wrong of me not to acknowledge the fantastic achievements of Scottish universities or to acknowledge that Scottish universities are a fantastic export mechanism for learning around the world and that they achieve a hell of a lot. However, if we accept that we should have a pull and a push, there are challenges. By that I mean that a global corporation should be allowed to say, “We need research in the following areas and we want you guys to provide it. We wish to have a commercial relationship and we want you to focus your resources on that area.” The question whether we can get those who hold the purse strings to encourage institutions to do that gets us into the issue of whether that would be right for our seats of learning, which is well beyond my ken. However, from a commercial and hard-headed business perspective, that is what I would like to happen.

**Mr Stone:** Do you agree that graduates who are successful businesspeople are rarely asked to come back to their institution to lecture the first-year economics class or whatever?

**Frank Blin:** Yes.

**Susan Deacon:** Thank you for your helpful and thought-provoking presentation. I will go straight to the end of it, when you dipped your toe in the water of politics and the democratic process. I am glad that you did that, because in our deliberations we must confront the issue of the contribution that politicians and institutions can make, not only by taking the right decisions, but by creating a climate that is consistent with our aspirations for business growth. It struck me that your quote from Gordon Hewitt that

"Traditional assumptions and strategy keep you in the game: the challenge is to change the game"

could apply equally to the business of politics and political parties.

If you feel able to do so, will you say a little more about how we could reshape the game of politics, and perhaps the terms of reference in some of our debates, so that we do a bit more of what we try to do in committees, which is to create a bit of space for grown-up discussion about the challenges and opportunities that we face? I am not convinced that we do that more widely in many other forums. You will be pleased to know that I have a second question that is much more specific, but feel free to comment as openly as you can on that point.

**Frank Blin:** I would like to avoid the question, partly because I do not have sufficient knowledge on the issue. To a degree, the solutions must come from politicians working through the issues, but I do not know whether you have the appropriate frameworks or methodologies or perhaps even sufficient time to do that.

I come back to my simplistic view of the world, which says that the more that I travel, the more that I look at Scotland as a small nation with a small number of key stakeholders and key influencers who can make a difference. To me, that is the fantastic power of Scotland. It is a bit like getting a snowball to the top of the hill: when it starts to roll down, it will gain unbeatable momentum. However, I do not think that there is a shared clarity of thought. If you talk to 10 different people, you will get 10 different answers about where Scotland's priorities should be. The more alignment that we could get around that, the better it would be. That does not answer your question.

On methodologies, I am of the view that you have to decide who is doing what and what you are not going to do. Strategy is all about choices, and it is as much about saying where you are not going to focus your time and effort as it is about saying where you are going to focus your time and effort. As to what you should do, I am happy to take a workshop away and we will work it up. I do not think that I can go much further than that. I am sorry to be a bit wimpish.

**The Convener:** That workshop would be at no charge, of course.

**Frank Blin:** Facilitators work themselves out of a job.

**Bruce Cartwright:** There is a key point in the business model. Right at the top is Singapore, which brings us back to Mr Stone's question. Singapore is a very focused nation without resource; therefore, it is focused on technology and intellect, which is the real resource that it has. To come back to the drag factor, what Singapore does not suffer from is some aging and old industries that cannot compete any more. We cannot get away from the fact that, although we have a very good legacy, the paper mills that were built 100-odd years ago are just not competitive with those that are being established in the far east now. To some degree, that is part of the drag factor. I wonder what the Singapore Parliament talks about when it talks about business.

**Susan Deacon:** Indeed. It would be interesting to find out. If we take you up on your offer of having a wee workshop outside the public gaze, that might be useful. It might be helpful to us, as politicians, to have that opportunity.

On the world competitiveness scoreboard that you have given us, some of the places to which it has been suggested that we should make fact-finding visits have a political context and a tenor of political discussion that are very different from what we have here. That is a criterion that we should consider; however, I will not press you to say anything further on the public record just now.

I have a detailed question for Frank Blin. I could not help noticing, in looking at your CV, that you have had a particularly broad range of experiences with a variety of business schools and places. Last week, when the enterprise agencies appeared before us, we explored the area of leadership development and management education. I know that that goes much wider than what goes on in our business schools; however, my question is specifically about our business schools. You have sat on the advisory board of Strathclyde business school. What are your observations and thoughts about how our business schools can best contribute to Scotland and our strategy for growth?

**Frank Blin:** They cannot be optimal, otherwise why would Fred Goodwin seek to create his own business school at the Royal Bank of Scotland? That world-class excellence should be provided in Scotland; not only should be—it is a must. Scotland's education heritage has been a source of great pride and respect throughout the world. That should go from elementary right through to the top end of business school. The harsh reality is that it does not.

There are areas in which we are unclear about how we are going to compete, focus and be the

best. It is about learning and education to develop quality of leadership and leadership skills. If you asked most of the top corporates that I have worked with in Scotland where their people went for their big personal development, you would find that it was not Scotland. There is an absence of equipping ourselves to be the best. I am not saying that the talent is not necessarily here or that there are not Scottish individuals around the world—such as Gordon Hewitt—who are world-class in themselves; however, they do not practice here.

**Christine May:** Good afternoon, gentlemen. I apologise for missing the beginning of your presentation, but I was at a meeting with the European Commissioner for Science and Research, who was most complimentary about various aspects of what Scotland does.

I go back to the question on page 17 of your submission:

"Is there a ... Forum to deliver a shared vision and ambition"?

Your throwaway comment was it that should not just be the Parliament.

Susan Deacon and Jamie Stone talked about recognising when sectors are past their sell-by date and deciding on which areas we should focus. Page 6 of your submission states:

"Change the rules on RSA – make them more appropriate to a knowledge economy".

What other talking shop would you want to address those points, if not the Scottish Parliament? You said that not many people are the key influencers. You seem to be saying that we should not have more talking shops, but by the way we need to create another one to do the high-level stuff. Can you sort out that problem for me?

**Frank Blin:** I am saying that we should rationalise the number. There should be an audit so that there are one or two such bodies that are focused and accountable.

**Christine May:** Are there particular Scottish decision makers who are not involved?

**Frank Blin:** In my personal opinion, the Parliament has shown itself to be tremendous at reaching out and listening. It is fantastic from the point of view of a democratic process that there has been so much effort to connect to so many parts of Scotland. However, there comes a point where action has to follow. I do not know that the exclusion of certain stakeholders or groups has taken place—indeed, quite the opposite. The Parliament has gone overboard in hearing from all manner in all quarters, which, as I said, is tremendous. However, I do not know that the process has been taken to the next stage.

**Christine May:** Do ministers collectively do enough thinking and discussing?

**Frank Blin:** That is really leading with the chin.

**Christine May:** If we are going to make recommendations, we need to know what the business community and folk such as you think.

**Mr Stone:** Convener, he is retiring shortly, so he can say what he wants.

**Frank Blin:** Am I?

**Mr Stone:** No, I meant the minister.

**Christine May:** To be fair, I do not just mean the Minister for Enterprise and Lifelong Learning; I mean ministers across the board.

**Frank Blin:** We have to move from the superficial and from ambition statements to hard-edged, businesslike conversations, such as, "We will invest £X to get that return in Y sector or industry to achieve Z growth."

**Chris Ballance (South of Scotland) (Green):** I have a question for Bruce Cartwright. From your CV, you are clearly one of the great experts on business failure in Scotland, which is how you were introduced. Why do businesses fail? From your presentation, your answer seems to be that 90 per cent fail because of management failures and mistakes. Is that the case? Furthermore, do you agree with one of our advisers, who suggested that business failures are a good thing and that it is healthy to weed out businesses, particularly less effective businesses in certain sectors?

16:15

**Bruce Cartwright:** I will start with why businesses fail. It is difficult to make a generic point. Some businesses fail simply because the market moves on. I will return to a specific example, but, in the majority of cases, business failure tends to be blamed on management, because management are responsible for controlling the business and making decisions. In one case, I was told that, because the euro was at a particular rate and pulp was coming in from the United States at a certain price, there was absolutely nothing that management could do. If that is the case, management might as well resign. That is like saying that you do not know where the ship is going when you are being paid to drive it.

I want to pick up on an issue to which Frank Blin alluded. About 18 months ago, I was really bothered by a case involving a Scottish legal entity that was a division of an American parent company. The entity was in the market for supplying packaging for computer equipment and the metal frameworks around computer hardware. As sales became tougher in the US, the US



company withdrew its sales team to the States and gave the Scottish division six months to develop its own. There was no salesman in the entire entity. It is not uncommon for foreign businesses to take advantage of short-term opportunities to develop in Europe but not to have a sales force here, because the issue is not sales but cheap delivery. When a downturn comes, it is easy to cut off such an entity. In this case, the parent company cut off divisions in Scotland and Mexico. I do not blame it—that was a good business decision. However, the Scottish business was able to stand alone for only six months. It could not create sales, because it had never had to do that before.

You asked whether business failure is a good thing. Some business failure should be a good thing, because it is a case of survival of the fittest. At the corporate live end, we see about 70 receivership administrations a year. A hundred legal entities are probably affected, but some are part of groups. There are probably 600 liquidations. The Enterprise Act 2002 helps, because where there is failure we can normally salvage the best bits of the business, which can re-emerge in a new entity. We can do that if we are involved early enough.

Business failure need not be a bad event. A couple of years ago, we dealt with the failure of James Thin Booksellers, of which there were branches up the road. The name has gone, but the academic side of the business was taken up strongly by Blackwell's and the retail side went with Ottakar's. Both are still very much in existence and most of the jobs were preserved. We closed one or two stores in England, which were high street shops past their sell-by date, but the best bits of James Thin still exist and can be seen on George Street.

**Chris Ballance:** I want to move on to an entirely separate question. On page 4 of your presentation, there is a table showing the shape of Scotland's corporate base. From the notes, I am not sure what the table shows. The profits that it shows are not available for the sector with the smallest turnover, which probably has the largest number of employees. For all sectors, the number of employees includes employees in the rest of the UK and overseas, so the table does not give a clear sign of where Scottish jobs are located. It also does not give a clear overview of where profits are located. How much of the £15 billion in profits earned by the largest companies stays in Scotland? What does the table really show?

**Frank Blin:** I wholly accept your challenges. It would take me an hour to provide a detailed analysis of economic value added. The table is endeavouring to show a trend line and to indicate where the focus is. From experience, I believe that

there are arguments to support the claim that, proportionately, larger corporates have significantly greater impact on gross domestic product and employment and generate significantly greater profit than smaller entities do.

You raised the issue of whether profit is retained. Profit is not retained in any geographic ownership. Let me turn the matter around. Let us suppose that Fred Goodwin at the Royal Bank of Scotland retires, that Larry Fish, who is based in the US, becomes chief executive officer, that the board becomes 80 per cent United States and 20 per cent United Kingdom and that the company seeks to invest its profits in China and to develop in other parts of Asia. Would we see a significant economic impact on Scotland? I argue that we would. That is another complexity around the issue of scale and size that would not be apparent from ownership and direction.

The purpose of the table was simply to say that there is a stark concentration of numbers. We could pick holes in the accuracy of each of the segments, but the trend line shows the importance of large corporates and of having them in the family of Scottish businesses.

**Chris Ballance:** Would it also be possible to argue that it shows that the large corporates make more profit out of each of their employees than the smaller organisations do? We do not know whether those profits stay in Scotland, get invested abroad, get reinvested in the business or go to shareholders. All we know from those figures is that the biggest profit per employee is made by a large corporate.

**Frank Blin:** That is true, but quality investment, which has greater economic impact, usually stays closer to head office and usually covers areas such as research and development and investment in new products—for example, new manufacturing processes. All those decisions tend to be taken closer to home as a matter of course and so have an impact in the locale in which the ownership of the company remains.

**The Convener:** The new management at VisitScotland has set a target of 50 per cent growth in the tourism industry in Scotland between now and 2015. Do we need a similar target for overall economic growth that gives the nation a purpose à la Singapore?

**Frank Blin:** Yes.

**The Convener:** You mentioned some options. It would be fair to say that we all regard the countries that are achieving 8 per cent or 9 per cent growth as coming from an underdeveloped base, but the average Organisation for Economic Co-operation and Development growth rate for a modern developed economy in recent years is about 4 per cent. You hint that about 4 per cent is the right target for Scotland.

**Frank Blin:** An accountant speaking to an economist should be a little careful in responding to what the right benchmark would be, but my guess is that 4 per cent or 5 per cent would be a pretty big stretch from where we are today.

**The Convener:** My next question is about how we can achieve that rate. One of the most fundamental statistics relates to the lack of private spend in Scotland on research and development. On the public side, we get more than our fair share of UK research councils funding as a result of the quality of our universities and their research, but we fall down on the overall spend on R and D. The latest estimate, from two years ago, was that as a country we spent about £600 million on private sector R and D, which is less than Nokia spends on its R and D in any one year. The Scottish Executive's estimate is that to get to the OECD average—let alone the targets for 2014—we would need to spend an additional £750 million.

You are a member of the board of Scottish Enterprise, which has a budget this year of roughly £530 million. Should we not—again, à la Singapore—say, “Look, instead of Scottish Enterprise trying to spread the jam right across the board on start-ups, and on little innovations here and food parks there, should we not get the eye on the ball a lot more and focus in?” We know that every pound that Scottish Enterprise puts into R and D generates £3 of private spend on R and D. If we are agreed that R and D is important, is it not time that we focused much more on it and cut out a lot of the peripheral stuff?

**Frank Blin:** I will not get into saying what Scottish Enterprise should or should not do, but I agree with you about focus. I return to the example of Finland: Tekes, which is a public sector organisation, stimulates R and D focus in all sectors of the economy in Finland. It spends €400 million on R and D alone.

**The Convener:** Does that generate about three times as much private investment?

**Frank Blin:** I do not know what the multiple is, but I think that it might even be more than that.

**The Convener:** I suggested to a previous enterprise minister that, given that six agencies—including the funding councils, Scottish Enterprise, Highlands and Islands Enterprise and the then Scottish Tourist Board—spent 85 per cent of his budget, he should bring the chairmen and chief executives of those agencies together and form an economic cabinet to provide the kind of leadership about which you are talking. He lost his seat at the previous election and was no longer the minister, which was unfortunate, as we need that kind of focus.

My final point concerns offshoring. I think that you are saying that we could turn the tables and

make Scotland a location for offshoring. What would be required for us to do that? Is an Irish level of corporation tax a necessity to achieve it? Could we achieve it with the devolved powers that we have?

**Frank Blin:** I think that we could. Companies are going through different learning experiences with outsourcing and offshoring. We have all been at the end of a telephone with somebody in some far-off land struggling to engage with us—notwithstanding the speed at which others are trying to teach them to understand the language, dialects and local nuances—and a number of major entities that want to spend money on outsourcing are committing more to keeping their offshoring or outsourcing operations closer to home.

Scotland has some experience in that sector and a semi-skilled workforce for it. In addition, the great thing about bringing more women into work is having flexibility—as sources of work, offshoring and outsourcing offer that flexibility. We need to have greater centres of excellence and agree what our differentiating elements are, rather than have different parts of Scotland—such as the Highlands and Islands and parts of the central belt—competing with one another to create different centres of offshoring operation.

**The Convener:** One of the issues that you mentioned is the availability of skills, which is a prerequisite to success. You also mentioned the re-engineering of RSA to reflect modern reality. An attempt was made to do that two or three years ago, but perhaps it was not enough. What else do we need to do to exploit the offshoring opportunity?

**Frank Blin:** Infrastructure and technology are aspects of it. I do not know whether I would go as far as to say that a tax incentive is needed. It might be fantastic for competing with Ireland if tax were dropped by 3p in the pound.

**The Convener:** That is a good hint.

Your presentation was excellent. It contained many issues that we want to pursue. We will have some workshops later in the inquiry and I hope that you will both be able to participate in one or two of them, because your presentation provided a lot of meat for the committee to consider. In a public meeting such as this, it is not always possible to explore some of the issues as deeply as we would like, but we might be able to explore them in more depth in the workshops without having to worry about being reported.

**Frank Blin:** I suspect that I have already got all my partners into trouble or got myself into trouble with them.

**The Convener:** Can you supply us with some additional information on the Finnish innovation agency? That would be extremely helpful.

**Frank Blin:** Sure.

**The Convener:** Thank you very much indeed. That was a very worthwhile evidence-taking session.

I suspend the meeting for five minutes before we go into private for item 3.

16:30

*Meeting suspended until 16:38 and thereafter continued in private until 17:01.*



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