

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 14 June 2005

Session 2

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ENTERPRISE AND CULTURE COMMITTEE 14th Meeting 2004, 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 ALSO ATTENDED:

Dr Wolfgang Michalski (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Patricia Ferguson (Minister for Tourism, Culture and Sport)
John Gilmour (Scottish Executive Education Department)
Alec Mackie (Barwell plc)
Peter Shakeshaft (Archangel Informal Investment Ltd)
James Sugden (Scottish Textile Manufacturers Association)
Geoffrey Thomson (Braveheart Ventures Ltd)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Douglas Thornton

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee room 4

Scottish Parliament

Enterprise and Culture Committee

Tuesday 14 June 2005

[THE CONVENER *opened the meeting at 14:00*]

The Convener (Alex Neil): As it is 2 o'clock, we will start the meeting. I welcome everybody to the 14th meeting in 2005 of the Enterprise and Culture Committee.

First, I will make some housekeeping points. With the committee's permission, I have allowed the Parliament's photographer to take photographs for our annual report during the early part of the meeting. I hope that the minister does not mind, although I think that the photographer will mainly photograph the back of her head.

The Minister for Tourism, Culture and Sport (Patricia Ferguson): That is my best feature.

The Convener: I also welcome clerks from the House of Commons who are with us.

I ask everybody to switch off their mobile phones. Apologies have been received from Susan Deacon and Jamie Stone.

Football Inquiry

14:01

The Convener: Agenda item 1 is our inquiry into Scottish football. I welcome the Minister for Tourism, Culture and Sport, Patricia Ferguson MSP, and John Gilmour, who is head of the relevant unit—I will not bother to read out its full name—in the Scottish Executive Education Department. I invite Patricia Ferguson to say something first.

Patricia Ferguson: I welcome the committee's decision to undertake an inquiry into Scottish football, and I congratulate Richard Baker and Brian Adam on the thorough investigation that they have undertaken. I look forward to considering and responding to the committee's full report in due course. Meanwhile, if I may, I will make some general remarks to set in a wider context the written response that I submitted to the committee last week.

To take up a theme that was raised in a previous meeting, the Scottish Executive does not wish to run Scottish football, but we want it to be well run. Neither the Scottish Executive nor the United Kingdom Government is responsible for running Scottish football or for running any other sport. However, that independence does not mean that the public money that is invested in any sport's governing bodies and in sport in general will be made available without appropriate conditions being attached. Public funding—whether from the national lottery or the Exchequer—is subject to conditions that are appropriate to the nature and scale of the individual awards.

I am sure that we all recognise the importance of football to our communities. It is often tempting to want to intervene, especially when financial crises threaten the existence of clubs that have long and proud histories, but—in the final analysis—there must be a sensible limit to the amount of influence that we seek to exert over the administration of individual sports, even our national sport of football. However, we can encourage and assist governing bodies to modernise so that they become fit for purpose and are able to meet the challenges and expectations of the 21st century and provide strong leadership and good governance for their sports. That line of thinking underlay several of my responses to the committee's questions.

Scottish football is not alone in having to adjust to changed market conditions. Clubs throughout Europe have had to cope with the impact of the Bosman ruling and the reduced television revenues that are available to the majority of leagues. Like other businesses, clubs must

operate on the basis of sound business planning and financial management. As well as being a means of encouraging and assisting clubs to adopt best practice, the club licensing scheme that the Scottish Football Association has commendably introduced must have teeth. However, solutions need to allow clubs to be ambitious without being reckless.

We are pleased to have been able to assist in the most thorough independent review of youth football in Scotland ever, and to be a major player in supporting implementation of the action plan that flowed from that review. In the early part of the review process, it became clear that substantial improvements in how youth football is organised and delivered could not be achieved without major changes to the structure and governance of the SFA as the national governing body. I hope that implementation of the action plan will go a long way towards streamlining the SFA's structures and towards providing a stronger voice for the recreational game within the SFA, ensuring that there is a single national strategy for developing youth football and putting in place through the regions a horizontal structure that will make it easier for the national strategy to be delivered locally.

In particular, the new regional structure for youth football, which is now being put in place, might be a model for how the adult game could progress. However, it is clear from our experience with the action plan for youth football that reforming Scottish football is not an easy option. History, tradition and sometimes vested interests mean that reforms that people in football know are necessary are often very difficult to put into practice. One problem that a number of contributors to the review identified is the pyramid structure. The challenge in that respect is to identify and put in place a structure that reassures clubs that a move downwards does not mean oblivion and that the opportunity to climb back up is also an integral part of the system.

Since the lottery started, more than £22 million—more than has been spent on any other sport—of lottery sports fund money has been spent in Scotland specifically on facilities and programmes for football at all levels of the game. Both Exchequer and lottery moneys are being invested in the national and regional sports facilities strategy, of which football will be a major beneficiary.

However, football also benefits from many of the generic programmes and activities that are funded through sportscotland; for example, the active schools programme, our work on club support and development and coach and other volunteer recruitment and training programmes. Football is also one of the core sports at the Scottish Institute

of Sport. The review of youth football and the action plan that flows from it are delivering for the first time a national plan for development of youth football and a facilities strategy that will complement it.

I realise that committee members will want to ask a number of questions, so I shall stop there and allow as much time as I can for those questions.

The Convener: Thank you, that was very helpful. We have circulated the previous paper from the minister.

Richard Baker (North East Scotland) (Lab): I want to concentrate on public sector engagement with football, which is the area over which the Executive can exert most direct influence. At the previous evidence session, David Taylor said that the SFA feels that because money is channelled through sportscotland, the SFA is not trusted with public money. That is a controversial point of view, but if it were true, this question would follow: how is that trust to be gained?

I know that you welcome the proposed reforms to the SFA structure through the youth action plan and today you have welcomed the streamlining of organisations. Do you feel that it would be beneficial to football and to its development in Scotland to see further reform of the SFA so that it genuinely represents not just the current 79 members, but all aspects of the game and all those who are involved in the game?

Patricia Ferguson: At the end of the day, the structure that the SFA puts in place is for the SFA and—if I can call them this—its affiliates to decide. However, they have recognised that that is an area that needs to change. One of the things that we are keen to see is recreational football having more of a say in the operation of the SFA. As I understand it, the junior league, youth football and women's football for that matter, currently each have one vote on the SFA, as does each individual large club, so something like 77 clubs and the affiliates have one vote each. It is important to change that structure; it could be done by adopting a regional model that allows the regions to have their say and to come up to the top of the SFA through an appropriate structure.

Richard Baker: As regards strengthening the regional model, it has been interesting during compilation of the interim report to hear that many people do not feel that they are listened to or heard despite their doing a lot of work and having important roles in football. I know that proposed new organisations such as the independent commission and a new forum to discuss the football strategy in Scotland have not met with approval from other organisations; nor, indeed, were they approved in your submission. I am

interested to hear that you think the regional organisations could go beyond youth football and that they should examine development of all aspects of the game. How would the Executive encourage the SFA to build more on such forums so that they are not just about youth football?

Patricia Ferguson: I hope that such forums would not be just about youth football, but would also be about junior football, women's football and recreational football in the widest possible sense. By encouraging that kind of attitude, we might achieve the end that Richard Baker describes. The SFA is more inclined towards that approach than was previously the case and it should be congratulated on that and encouraged to see it through. I do not underestimate the time that that will take to put into place, but we will give the SFA any encouragement that we can.

Richard Baker: On the encouragement of more public sector engagement with clubs at that level, and development of the game to achieve the cross-cutting benefits that we all want to see, if the partnerships prove effective—they are still at an early stage—do you hope that a wider range of local agencies can become involved in them and support community football? For example, in my area—Aberdeen—a very successful scheme also addresses health and antisocial behaviour. Would the partnerships be a forum in which health boards and police boards could engage to support local football activity and other sports activity that also helps to endorse some of their goals?

Patricia Ferguson: I think that local authorities would have a key role to play, given that they have part of the responsibility for delivering facilities and other programmes. Local authorities would be key partners in such work. The mechanism would ultimately mean that football is more part of the community that it sprang from and that it would reach out in whatever ways were appropriate to that community and have dialogue with it about what is required and what would work. The models that Richard Baker outlined are the kind of things that I hope local authorities would ultimately see their way toward doing.

Richard Baker: We heard again and again throughout the inquiry and from the organisations who last gave evidence that improved facilities are necessary, which is why it is important that the local partnerships take effect quickly, that they have bite and that they are effective. There is a national plan for regional facilities that has £50 million of funding, and there is the impending publication by sportscotland of the audit of local facilities, which are both welcome. Will you encourage and support development of local action plans for improved facilities? Resources are obviously an issue, but better use of existing facilities and resources is also essential. Will there

be a national response to that audit or should the matter be progressed by local partnerships?

Patricia Ferguson: We must wait and see what the audit says before we react to it. We have already recognised that there is a need for more facilities and for facilities in more areas of the country so that there are more local facilities. The new opportunities for physical education and sport fund has already put in place the opportunity for 28 synthetic turf pitches and 58 multigames areas to be built. Such developments are already happening. Much of what will happen through the plan for regional sports facilities will have a big impact on football. We are moving in that direction. We can always do more, but I await with great interest the sportscotland audit, which will give the Scottish Executive and local government food for thought in respect of how we plan to take the matter forward in the future.

Richard Baker: I know that you are monitoring implementation of the youth action plan. Are you ensuring that the partnerships are being built up and are becoming effective organisations so that local decisions are being made and the right kind of progress is being made?

Patricia Ferguson: That is certainly the aim and the intention.

The Convener: Every member wants to ask questions, so I will go round the table, which means that I get to ask the next question.

Lex Gold, the executive chairman of the Scottish Premier League, stressed in both his written and his oral evidence that since devolution nothing much has been done by Parliament or by the Executive for Scottish football and that compared with the money that is spent by the Government south of the border we are very much the poor cousins. On the latter point, he was supported by his colleagues in the SFA and the Scottish Football League. Can you comment on that? Was the picture rosy before devolution? Has devolution killed off any chance of a revival?

Patricia Ferguson: That is not the case. Before devolution, in the late 1980s and 1990s, as of necessity because of what happened at Hillsborough and in other such incidents, a great deal of funding was put into the capital side of football, but not into development of football. The money was put into infrastructure so that football clubs could provide their supporters with safe environments in which to watch football. A great deal of money was spent on that.

Since devolution, the focus has been more on development of the sport, so the funding strategy has been slightly different. A lot of money is still going into football; I suspect that that will continue to be the case indefinitely. We must be aware of, and careful about, what the money is spent on, but

I do not accept at all Mr Gold's rather gloomy predictions. A significant amount of partnership money is going into football, both from the Exchequer—through sportscotland—and from lottery funding. Taken together, that gives us hope for the future of Scottish football.

14:15

The Convener: Would you say that, proportionately, as much money is probably going into football in Scotland through those various sources as is going into football south of the border?

Patricia Ferguson: The situation south of the border is a bit different because some of the money from the Government for football in England is funding that is matched to what the Football Association puts in, which comes from revenues from television coverage. That does not happen here because, to be frank, the clubs cannot afford to put aside such a large amount of money from football coverage. If one were to leave aside the fact that the mechanism is not similar, what is happening in England would probably be more comparable. There is an issue about the element of revenue that comes from television coverage.

The Convener: Would you be able to provide us with comparable figures? Do you have that facility?

Patricia Ferguson: I can certainly give you information about what matched funding goes into the Football Foundation.

The Convener: That would be helpful.

According to your submission, the audit from sportscotland is due "later this year". When will that be, roughly?

Patricia Ferguson: I am not trying to be difficult, but I understand that the audit has been undertaken and is being written up. I do not expect that we will have to wait until the end of the year for the audit to be completed, but I am not sure when it will arrive on my desk.

The Convener: Perhaps sportscotland could give us an indication of when it expects to publish the audit.

Patricia Ferguson: I am not sure that it has a definite publication date yet; if it had, I think that it would have given it to us. As soon as we know, I will inform the committee.

The Convener: It would be helpful if we could get the audit before we complete our inquiry.

Mike Watson (Glasgow Cathcart) (Lab): I had not intended to mention the audit, but I know that sportscotland is in the throes of appointing a new

chair and a new chief executive officer—I am not sure what the proper title is. Has that delayed production of the report to which the convener referred?

Patricia Ferguson: I do not think that that has been a factor at all.

Mike Watson: I want to raise two specific points about the Executive's submission. It is surprising that it does not mention an organisation called the Scottish Football Partnership. When the Scottish Football Association appeared before the committee a few weeks ago, it highlighted the difference between the resources that are being spent on facilities—especially indoor and artificial turf facilities—in England and what is being spent in Scotland. You have made the point that, to some extent and leaving aside the issue of scale, the situations in the two countries are not comparable. I accept that, but David Taylor of the SFA told us in evidence that a considerable amount of money goes into football in England through the Football Foundation, which has largely grown out of the Football Trust. Roughly speaking, the Scottish Football Partnership is the Scottish equivalent of that organisation. What resources does the partnership have at its disposal annually? Do you envisage those resources being increased, as David Taylor suggested?

Patricia Ferguson: I understand that the partnership has about £5 million to £6 million at its disposal.

Mike Watson: Annually?

Patricia Ferguson: No.

Mike Watson: I know from experience that there was a difficulty in that money's being released—there were blockages in the system. Is that money now able to flow as freely as you would like it to flow?

Patricia Ferguson: It will be able to do so very shortly. The legal situation has been clarified in the past two months—I think—and that money will start to flow in the very near future.

Mike Watson: I think that I am right in saying that those funds come largely from the old betting tax levy on the pools. Was there some residue of that in the funding?

Patricia Ferguson: No, that is not my understanding.

Mike Watson: All right. How will the £5 million or £6 million eventually be disbursed? How will it be supplemented in future years via the Scottish Football Partnership?

Patricia Ferguson: There is a partnership in place that I believe is composed of two people from the SFA and two people from sportscotland. They will make the decisions on how that money is

disbursed. I suspect that the youth action plan might well be a priority for them.

Mike Watson: I can see that that might be the case, although David Taylor did not mention that in his evidence to us. He said:

"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"—[*Official Report, Enterprise and Culture Committee*, 31 May 2005; c 1916.]

The issues that he was talking about were artificial pitches and what he calls, rather delicately, "changing pavilions". Do you think that there is a possibility that the Executive might go down the road of putting funds in directly?

Patricia Ferguson: At the moment, our priority is the youth action plan, so I am not sure that I would want to do that at this stage. The partnership board will meet for the first time later this month and we will see what comes out of that meeting. Perhaps the board will come to us with suggestions about other ways in which it can operate or ideas about other money that it might be useful for it to have to disburse for the purposes you are talking about. However, the board has not yet come to us and I do not want to commit it to anything.

Mike Watson: Yes, but my question was whether you would put in any funding at this stage.

Patricia Ferguson: That is the point that I am making. If the board were to come back to us and make a case for us to do so, we would consider it.

Mike Watson: I want to ask you about your response to question 20, which dealt with school sports facilities. You will remember that two weeks ago I raised in a members' business debate the issue of the loss of playing fields. A crucial aspect of that—and of developing youth football and community sports facilities—relates to the need to ensure that such facilities, whether they have been improved or have been built from scratch, are available to the community for as long as possible on any particular day. Your response says:

"it is for the local authorities to set out their requirements relating to all aspects of community use of school facilities ... The details are for agreement between the authority and the PPP service provider".

I accept that, but given that it is ultimately public money that is being invested—the money that does not come from the private company comes from the Executive, even if it goes through local authorities—what can you do, as the minister with responsibility for sport, to ensure that people know that it is unacceptable for a sporting facility to be unavailable to the community outwith school hours for whatever reason, whether it is because the PPP company is not willing to pay for it to be open

or because the local authority will not pay the necessary staff salaries? What can you do to ensure that that blockage is cleared?

Patricia Ferguson: The PPP guidelines that local authorities receive make it clear that it is expected that any such facilities should be available for community use, as other local authority facilities might be available. Recently, there have been meetings to try to thrash out the details surrounding that situation and we are starting to make some progress in relation to the PPP contracts that are being let. The situation will improve in time but, at the moment, we have asked local authorities to be clear about the arrangements and to ensure that a requirement for appropriate access to the facilities is written into the contracts.

Mike Watson: That might emerge in relation to the phase 2 or phase 3 PPP contracts, but the original contracts relate to facilities that have been built and are being maintained by the companies that took part in building the facilities. My question was about those facilities, which are for whatever reason not being made as widely available as possible. How can you encourage the operators of those facilities or the local authorities to ensure that access is maximised?

Patricia Ferguson: It is clear that the Executive intends that local authorities ensure that access is maximised; we have encouraged them to ensure that the facilities are used and operated in that way. If there is anything more that we can do to assist them in that regard, we are more than happy to consider it. However, we are absolutely clear that facilities should be available for community use just as any other local authority facilities might be.

Murdo Fraser (Mid Scotland and Fife) (Con): I have a couple of questions; the first is very general and the second a bit more specific. The first question relates to how football is perceived. We would all accept that Government has little scope for intervention, but football is our national sport and is perceived as such—even if in recent years we have not had the success we might have hoped for. How does the Scottish Executive feel about football as the national sport? Does that status entitle football to enhanced interest and support from the Executive—more than that which is given to other sports—or does the Executive not consider things in those terms?

Patricia Ferguson: The Executive wants to be fair to all sports. All sports have a role in boosting our national confidence when we do well, and in encouraging people to be more active. The latter is a key aim in our health and well-being agenda.

As I said in my opening remarks, we have to be concerned about the use of public money. Public

money that is given to any sport must be used appropriately and suitably, and the governance of the sport must allow that to happen.

More people—boys and girls, men and women—play football than play any other sport. It is therefore inevitable that, even if football is not necessarily favoured, our schemes to increase activity and participation will give a greater spur to football than to smaller or minority sports.

Murdo Fraser: I understand that participation in football is likely to be higher than it is in other sports because your programmes to increase participation in sports will have a greater impact on football. Is that, in essence, the Executive's approach?

Patricia Ferguson: That is probably the case. We want to encourage participation in all sports; people will decide for themselves which sports they want to participate in. However, we acknowledge that football is our national game and we obviously want to encourage it.

Murdo Fraser: You are clear that you do not consider football to be a special case.

Patricia Ferguson: Football is our national sport and we recognise it as such. The importance of sport to many of our communities is there to be seen, and football is our biggest spectator sport. It is not only about running around and kicking a ball about on a Saturday; it is also about the number of people who go along to watch it. If I can speak on behalf of my colleagues, we all watch Scotland's progress with a great deal of interest, every time we play.

Murdo Fraser: In hope and expectation.

Patricia Ferguson: Sometimes they are realised.

Murdo Fraser: Indeed.

Patricia Ferguson: And we are delighted when that happens.

Murdo Fraser: I also wanted to ask a more specific question on a response to the committee's questionnaire. Question 10 was:

"Should there be a 'fit and proper test' for directors of football clubs and those who have a direct influence over their management?"

The Executive replied to that question with a simple, "Yes."

I appreciate that company law is reserved to Westminster but, from memories of my days practising commercial law, I think I am right in saying that the Department of Trade and Industry has the right to disqualify people from company directorships if those people are deemed to be unsuitable for whatever reason. Are you saying that the test for directors of football clubs should

be higher than the test for directors of general companies? If so, what is your rationale for that?

Patricia Ferguson: No—we are not saying that. We are mindful that the vast majority of professional football clubs are private companies, so I am not sure that the test that Murdo Fraser mentioned is one that we would always want to apply.

Football should be aware of the opportunities that are offered by the licensing scheme, although the scheme might be difficult for the SFA to take on board because of the nature of football. However, football has a good reputation in that area so I do not think that there will be huge problems. Were there to be a particular problem, football itself would probably find a solution.

14:30

Murdo Fraser: There may be competition issues with trying to impose higher standards through the licensing scheme.

Patricia Ferguson: I am sure that that is true.

Michael Matheson (Central Scotland) (SNP): I will pick up on a couple of points on Executive policy and on some of the comments that the SPL and SFA made when they gave evidence to us. I am sure that you have had an opportunity to consider the letter addressed to the Chancellor of the Exchequer, a copy of which Lex Gold sent to the committee, about some of the SPL's proposals on the assistance that could be provided to football clubs. One example, which Lex Gold also gave in his evidence to the committee, is a proposal to set aside the money that clubs must pay for policing. Have you considered the points that the SPL made to the chancellor and are you seeking to take any of them forward?

Patricia Ferguson: Obviously, the matters that were raised with the chancellor are matters with which he would have to deal, so they are not areas in which we would necessarily intervene.

Michael Matheson: So you have given no consideration to the points that the SPL raised.

Patricia Ferguson: We have certainly considered them, but the SPL has raised them with the chancellor, so it is for the chancellor to respond to them.

Michael Matheson: Does the Executive have an opinion on them?

Patricia Ferguson: The Executive thinks that they are very interesting proposals.

Michael Matheson: Thank you for your very helpful answer.

Two key issues—youth development and facilities—came out of the evidence that we received from the governing body and the two associated bodies. On youth development, will you clarify how much Exchequer funding is going into the £30 million youth development action plan over its 10 years?

Patricia Ferguson: Over the 10 years, it will be £1.2 million.

Michael Matheson: So that is £1.2 million over 10 years, which works out at roughly £120,000 a year.

Patricia Ferguson: Yes, that is right.

Michael Matheson: How did you arrive at that figure?

Patricia Ferguson: It was determined before I became the Minister for Tourism, Culture and Sport, so I will have to let John Gilmour answer that.

John Gilmour (Scottish Executive Education Department): It was a consolidation of 10 years of the then Exchequer spend, principally on investment in the development plan for women's and girls' football.

Michael Matheson: So it was money that was already available for footballing purposes.

John Gilmour: Yes.

Michael Matheson: I ask because, in her opening comments, the minister referred to the Executive as a major contributor to the youth action plan. Is giving £1,000 a week to youth football development in Scotland a major contribution?

Patricia Ferguson: It is a major contribution when it is added to the lottery funding for youth football, which is also public funding. That funding, added to the Executive's Exchequer contribution, comes to some £12.2 million. The two contributions are fairly significant.

Michael Matheson: Has all the money that is to come from the lottery funding stream been identified now?

Patricia Ferguson: Yes, I believe that it has.

Michael Matheson: When the plan was announced, the Big Lottery Fund was not aware that the money was to be allocated for that purpose.

Patricia Ferguson: It is certainly aware of that now.

Michael Matheson: My third point concerns facilities. How much of the £230 million that is being invested in the national and regional facilities programme is to come from the Exchequer?

Patricia Ferguson: There will be about £50 million of Exchequer funding.

Michael Matheson: Is that Exchequer funding or does it include lottery funding?

Patricia Ferguson: I am sorry; apparently, it is a combination of lottery and Exchequer funding.

Michael Matheson: How much of it will be Executive funding?

Patricia Ferguson: More than £28 million of it—just under £30 million.

Michael Matheson: Which of the national and regional sports facilities that have been identified for funding through the programme are specifically football related?

Patricia Ferguson: There will be indoor football facilities in Falkirk, in the east of Scotland at Hunters Hall, in Grampian, at Toryglen in Glasgow and at Ravenscraig in Lanarkshire.

Michael Matheson: I notice that a couple of the projects have gone to review. Local authorities are concerned about the amount of money that they will have to contribute to the facility programmes. Will you comment on that? I notice that the Hunters Hall project has gone to review because of concerns from City of Edinburgh Council about whether it can come up with the finance that it must find.

Patricia Ferguson: My understanding—no doubt John Gilmour will correct me if I am wrong—is that it was always understood that when local authorities bid for the pots of money, they would have to say what their contribution would be. That has always been clear. If there is a problem now, local authorities will have to address it. We are happy to discuss that with them to see how best to proceed.

Michael Matheson: You are confident that the timescales that were set for the projects that were football related will be kept to.

Patricia Ferguson: I am conscious that in at least one of the projects there is a planning issue, which is outwith anything that we can do—indeed, two of the projects might have a problem in relation to planning, which we cannot deal with. Other than that, all the projects are progressing well.

Christine May (Central Fife) (Lab): One good thing about coming last is that most of the questions have been asked, so I will return to what is fast becoming our second national sport—making unfair comparisons between what happens here and what happens south of the border.

Minister, you have explained why there are key differences in funding. Lex Gold and, to some

extent, David Taylor talked about the controls over the public element of funding that apply in Scotland but, allegedly, do not apply in England—the hoops to be gone through. Have you had any discussion with the SFA or any of the other football bodies about those concerns? Have they raised them with you? Do you accept that those controls are either inappropriate or too stringent and could be relaxed?

Patricia Ferguson: They have not raised those concerns with me directly. I do not know whether they have raised them with the department. They have been discussed in the implementation steering group. We must be careful about what we do with public money. We have many calls on money from a great number of organisations and sporting governing bodies, so it is important that when money is allocated we are confident that it can be used for the purpose for which the bid was made. I do not think that our processes are unnecessarily complicated or that there are too many hoops. The processes that we have are fair and transparent, which is the most important thing. I really do not accept that criticism.

Christine May: If the bodies were to come to you with suggestions about how their governance arrangements might be improved or altered would you be prepared to consider whether there is scope to review the controls?

Patricia Ferguson: I am always happy to talk to governing bodies about issues concerning their sport, whether to do with governance, funding, facilities or anything else. Since I have been in post, I have made a point of speaking to as many of the governing bodies as I can. There are a great many in Scotland, so I am still getting round them.

Christine May: Thank you. I am sure that Mr Gold and Mr Taylor will be reassured by that offer from the minister.

Patricia Ferguson: I might want to be proactive and to discuss some of the points raised in evidence from the organisations to see whether there is a problem or a misunderstanding that we can help them with.

The Convener: That is helpful. Are you planning to bid for any future championships, with or without the Irish?

Patricia Ferguson: I could not say at this point. I am sure that the convener has heard me say this before, but we genuinely want to establish Scotland as a country that can stage major events. We are always looking for events that it would be appropriate and possible for us to stage here, and where possible we will work with the governing bodies of sports to try to encourage such events in Scotland.

The Convener: Before we finish this session, I hand over to Mike Watson, who will record a declaration of interests.

Mike Watson: I am glad that you did not ask me about Euro 2008. I will not express an opinion on that.

I should have declared an interest at the start of the session, as I have done in previous sessions: I am a director of Dundee United Football Club. I would like to say that that will have an influence on the next item, on business growth, as well, but as the club has gone four places down the table in the past year, I cannot do that.

The Convener: We should probably congratulate Eddie Thompson, the chairman of Dundee United, on his appearance in the birthday honours list.

Mike Watson: I will pass that on.

The Convener: I thank the minister and John Gilmour for their written evidence and for their oral evidence, which was extremely helpful.

14:41

Meeting suspended.

14:43

On resuming—

Business Growth Inquiry

The Convener: For agenda item 2, I welcome Alec Mackie from Barwell plc, Peter Shakeshaft from Archangel Informal Investment Ltd and Geoffrey Thomson from Braveheart Ventures Ltd.

Thank you for coming along. The stage is yours if you would like to say a few words about venture capital in Scotland, its contribution to business growth and where we go from here.

Geoffrey Thomson (Braveheart Ventures Ltd): We are interested in the creation in Scotland of sustainable businesses that have global potential, and there are four main ingredients in achieving that goal. The first is the creation and maintenance of an innovative culture. We have such a culture to some degree, but more can be done.

Secondly, we need to work closely with our science base. Most of our global businesses have come, and most of our potential global businesses will come, from our science base—that is, the Scottish universities. We need to work particularly closely with them to ensure that we have good ideas.

The next ingredient that we need in order to create sustainable businesses is money. That is where we come in. We provide venture capital money to young businesses. There is public sector intervention in the form of the Scottish co-investment fund and the enterprise capital funds that are being discussed at Westminster. There is also support from the private sector through initiatives such as the enterprise investment scheme, so there are tax-efficient means for the private sector to put money into young businesses.

The fourth aspect is the need to mentor businesses. That is another area in which business angels are important. The money that we put into young companies goes very quickly; in six months' time, there will be another round of funding. The academics and others whom we put into companies to help entrepreneurs to grow their businesses are fundamental.

14:45

Alec Mackie (Barwell plc): I do not have a rehearsed speech for members, but I will pick up on one or two points and make a couple of additional ones, particularly on the quality, depth and training of management.

We are asked to consider young businesses and to assess their prospects for survival as well as

growth, but that survival and growth will not happen unless the management has a driving ambition and, preferably, some experience. One of the problems is that there has not been a cultural background that encourages people to go out and have a go, which is what we are there to support. The result is that successes have been sporadic. As investors, we have seen a huge number of propositions that have had to be turned away, not necessarily because the widget is at fault but because in our view—it is only a personal opinion—the people do not have the capability to run the business and make a success of it. Those personal qualities are more important than anything else.

I am aware that the University of Edinburgh has started a course in entrepreneurship with the backing of a link with Stanford University. By way of anecdotal evidence, I can say that my meeting with the students on that course was the first time that I did not have to do the running to talk to people. As I discovered afterwards, part of the syllabus teaches the students how to press themselves on willing or unwilling victims and make their point. That push and willingness to get up and go are critical. I am sorry to say that people from academic backgrounds often have an idea and love the product, but do not have the love of business because they have not had the chance to gain experience. That is a major issue, which relates to education and the creation of a smarter Scotland.

Peter Shakeshaft (Archangel Informal Investment Ltd): You will hear much the same story from each of us. Scotland has a rich history of invention but, unfortunately, it has been unable to commercialise that and get the benefit out of it. We invented penicillin, anaesthetics, antibiotics, television, the telephone and pneumatic tyres but, right up to Dolly the sheep, little benefit has been retained in Scotland for Scottish economic wealth creation. We continue to have a world-class academic base and an inventive nature, but the challenge is for us to capture those inventions, to commercialise them into global businesses and to grow businesses of scale that will stay in Scotland.

We have a number of positive features in Scotland. We have a strong business angel community—only a part of which the committee is seeing today—that in many ways is the envy of Europe. It offers smart, patient, first-stage risk investment, which helps companies on their way. We have the positive attitude of the Scottish Executive and Scottish Enterprise, which created the Scottish co-investment fund, the business growth fund and the investor-ready programmes. Most of those initiatives are working extremely well and they give Scotland a slight edge. They are good things to have. There is recognition that we need to grow the small companies that we have

into companies of scale. We are still waiting to see how the new Scottish investment fund turns out, but it could well be an important initiative that will help the process.

Company formation is not about the number of small companies that are formed or how many VAT registrations there are every year; it is about forming companies that have global application and that can achieve real growth and bring economic benefit to Scotland. It is not a game of statistics; it is about growing major companies.

Of course, we need a good infrastructure in Scotland, and we need to be able to provide long-term, adequate funding that is both smart and patient. We need the ability to attract key, senior and good people into our industries and to retain and motivate them. We need to work on Scotland's business profile abroad, to ensure that we have an edge in Scotland and that the world acknowledges Scotland's importance.

Finally, a small matter that we come across constantly is the need to encourage the Scottish public sector to start buying from our small, growing companies and to try out their innovations and risk products. The business is more important to us than are grants; we want reference points for where the business works.

Christine May: The witnesses' opening statements might have been unrehearsed, but they were interesting. I found it instructive that none of them mentioned the intermediary technology institutes. The ITIs are only 20 months down the line, but what is the witnesses' perception of their activity? Are they valuable?

Peter Shakeshaft: We have had some involvement with the ITIs, particularly with ITI Life Sciences, which has been helpful to two or three of our companies in providing funding for applied research alongside other units, in Scotland and elsewhere. The ITIs have a big budget and I suspect that the jury is still out on how that is being used, because it is early days, as you say. However, the initial backing that we received from ITI Life Sciences was very positive for two or three of our companies.

Alec Mackie: Peter Shakeshaft's group is strong in the life sciences, so I am not surprised that a link with ITI Life Sciences has been made. Our only opportunity for a link was through a couple of investments in the oil industry in Aberdeen. We spoke to people at ITI Energy but by the end of my conversations, I was struggling to reconcile the creation through public sector funding of publicly-owned intellectual property, which I understand can be accessed by a number of companies so that the technologies can be brought into use sooner rather than later, with the needs of the small company that I was backing,

which was trying to come up with clever ideas and steal a march on the rest of the marketplace. I question whether some of the work that the ITIs do will help small businesses in their early stages, unless those businesses are in the research business.

Peter Shakeshaft: So far, so good.

Christine May: Alec Mackie's comments raise the question of whether the sort of activity in which his business wants to invest is much further down the road than the activity that the ITIs consider.

Alec Mackie: That is an issue. Are the ITIs looking too far ahead in relation to the development of technology? In theory at least, we invest over a five or seven-year period, so if it will be four years before a technology can have a practical application, it is not much use—our company will have thrived or died by then.

Christine May: Perhaps we could have some e-mail correspondence on the matter. The committee can be made aware of that.

Peter Shakeshaft talked about public procurement, which I think all members have considered individually and in the committee. There are quite a lot of opportunities in public-private partnerships. Do opportunities for local and Scotland-based businesses arise when PPP contracts are scoped, rather than further down the line?

Peter Shakeshaft: That is an interesting point because, by definition, some of the companies are very young. If someone enters the public procurement process, they tend to be asked for three years accounts, their trading history and everything else. Frankly, many of the companies are not at that stage, so they find it difficult—indeed, almost impossible—to get on to European tender lists and so on.

I understand the situation; there are rules that govern public procurement. However, just occasionally, it would be super for us to say, "Let us have a trot at that. It looks like a really good innovation." For example, although a couple of our medical companies are doing extremely well at selling in the United States of America, they cannot sell to the national health service because the system is backed up against them.

We have had many conversations and done much lobbying on the subject, which is difficult. We have our own power in Scotland: why cannot we use it a little bit more widely?

Mike Watson: Thank you and welcome, gentlemen. I will pick up on a couple of points that have emerged so far. The first is a general question about company start-ups in this country. I think that Alec Mackie said that because we do not have a culture of encouraging people to go out

and have a go, we have a relatively low level of start-ups and a relatively poor level of sustainability.

Why is the start-up rate in Scotland lower than in England? The difference between Scotland and the US or Japan might be understandable, but what is the difference between Scotland and England? Are we loth to take a risk or do we have a fear of failure? What do you put our lower start-up rate down to, if it can be put down to anything?

Alec Mackie: Again, the answer is anecdotal, but I guess that any evidence that you get from us will be anecdotal to some extent. I have four children, all of whom I encouraged to move south or to Europe to expand their horizons and opportunities. Perhaps we are losing some of our best talent to larger marketplaces, but I am not sure that an awful lot can be done about that. After all, we are only 5 million people, so even England is a magnet. A large marketplace and opportunities exist, particularly in the south-east of England. We need to be specialist and find niche markets to create market leaders on our own patch. That is not the whole answer, but the young need to be encouraged to stay and the infrastructure that lets them get experience somewhere before they go off on their own needs to be in place. There is not that much experience to be had.

Mike Watson: Please tell me if I am wrong, but you seem to be saying that the issue is not a lack of will, drive or ambition but, where those exist, a tendency for them to be developed outwith Scotland rather than locally.

Alec Mackie: In many cases, it is.

Peter Shakeshaft: Interestingly, the idea of the global Scot initiative that Scottish Enterprise has been talking about is to bring some of those people back to Scotland. I am sure that quite a lot of them want to come back in one form or another once they have the experience. Such initiatives could be expanded and made more accessible. If I want to find a global Scot to come and help a company, it is difficult to get my hands on one through the current system. I am not pointing the finger at anyone; I am simply saying that, although the global Scot idea is a good one, it is not easy to plug into that sort of network.

Mike Watson: That is interesting. Colleagues might want to take something more from the point. I will move on to a comment that Peter Shakeshaft made. You said that the business angel community in Scotland is the envy of Europe because it is so strong. There seems to be a contrast between that comment and the level of business development. Is a lot of your business done for people or companies outwith Scotland?

15:00

Peter Shakeshaft: Quite the opposite. We invest only in Scotland and in Scottish companies. Our syndicate is probably more active and makes more investments than any other angel syndicate in Europe. I say that we are the envy of Europe because both Geoffrey Thomson and I have been in Europe and talked to our European counterparts, so we know that they are jealous of what we have got—they are jealous of the tax incentives and so on that help private investment in the UK as a whole.

Your point perhaps links in with your previous slightly negative comment about how Scotland's business start-up rates compare with England's. I believe that the position is changing. We are catching up and we may, in a sense, be overtaking England. This is not a statistics game, as I am talking about not all new businesses but real businesses that are created. Given the growing strength of Scotland's business angel community by comparison with that of Europe, I think that business angels are now beginning to help the whole entrepreneurial status in Scotland. I believe that statistics of real company growth are improving quite a lot.

Twenty years ago, starting one's own business and taking the risks that today's entrepreneurs take was not the thing to do. If we contrast the situation twenty years ago with that of today, we can see a sea change. I believe that the line on that graph is going up. The whole thing is beginning to come together and to improve and the angel community is helping in that.

Mike Watson: You seem quite positive about the trend.

Peter Shakeshaft: I am.

Geoffrey Thomson: I agree entirely with Peter Shakeshaft that there are many positives. Many foreign students now come to study in Scotland. An interesting fact is that, of the 12 university spin-outs that we have backed in the past 12 months, five have been fronted by foreign nationals who came to Scotland to do post-doctoral work and stayed to form their own business. That is one difference today, which I think is fantastic. It is not necessarily always easy to get work visas for those people, but we have some very clever guys who are coming to Scotland for higher education.

Mike Watson: Ultimately, creating that kind of base is about having companies with headquarters in Scotland.

Geoffrey Thomson: Absolutely. We do not allow them to go back. They have to stay in Scotland.

Mike Watson: You chain them to their desks.

In the business pages of *The Herald* last week, David Sibbald—who built Atlantech, which he sold recently—was quoted as saying that public sector investment in research and development, and investment in development generally, puts too much emphasis on innovation and not enough emphasis on developing existing products. Do you have a view on that? How does that equate with your experience with start-up companies?

Geoffrey Thomson: We are extremely focused on getting products to market and on revenue. There is no question about that. A company might have a whole IP platform, but it needs to get its first products out there and to build a proper business before it can start developing the rest. From our perspective, when we put money into a business, our focus is very much on developing the first product and on getting a revenue stream. We can then develop the rest of the IP portfolio.

Peter Shakeshaft: Absolutely. I have a lot of respect for David Sibbald, but he has his own views. Elements of the public sector spend, such as the small firms merit award for research and technology and the proof of concept fund, are aimed at innovation and at the invention bit. That is fine. However, by the time something comes to being a proper spin-out—when it is a real business in which people will like us will invest—I agree with Geoffrey Thomson that the need is to get the product out into the commercial market as much as possible. We do not back pure invention. Sometimes, we might stop the inventor and say, “That is fine. It will do. It will go to market. It has enough bells and whistles on it.”

Murdo Fraser: I have a couple of questions about the availability of venture capital, which all members of the panel should feel free to answer. When we took evidence from Scottish Enterprise two weeks ago, we heard that the overall level of venture capital in Scotland is decreasing. Is that your perception? If so, can you explain why that is happening?

Peter Shakeshaft: I am not sure whether Geoffrey Thomson is a venture capitalist or a business angel these days.

Geoffrey Thomson: I am both.

Peter Shakeshaft: I will answer for the angels, so that Geoffrey does not get into a conflict.

Without doubt, the position both in Scotland and globally is that venture capitalists have moved up the chain. They have tended to forget what the word “venture” means and, indeed, what the word “equity” means. They have moved up into companies that are at a further stage, such as post-revenue companies that have already proven their ability to achieve sales and to make profits.

Very rarely are they interested in financings of less than £5 million, so they miss the whole stage of growing companies.

That is not just a Scottish problem. I referred to the proposed new Scottish investment fund, which is to be aimed particularly at the £2 million to £5 million investment gap. The venture capitalists used to fill that gap but they have now left and the angels find it a little difficult to get that high. I do not want to name names, but some big venture capitalists have left Scotland. Part of our job is to attract some of them and some overseas funds back. If we create a good enough seed base, we will attract them back.

Murdo Fraser: Do you believe that those venture capitalists are moving up the value chain—as you said—to reduce risk?

Peter Shakeshaft: Yes.

Alec Mackie: They do that also to reduce transaction costs. Given that it is as much effort to make a £100,000 investment as it is to make a £2 million investment, it is inevitable that companies will move up the scale, although risk comes into it, too. There is a lot of money about that is looking for a home, but because it is safer for a venture capitalist to back a large management buy-in or buy-out of an established company, that is now seen firmly as a venture capital activity, which is not really what we are about as angels. The big venture capitalists do not deal with start-ups or with the bolstering of management teams, which is part of our function.

Geoffrey Thomson: I agree completely with Peter Shakeshaft that the important point is to have a pipeline of money from a company's early stage right through to listing. There is no question but that the big VCs have gone up to investments of £5 million plus, which means that there is a gap in the £2 million to £5 million bracket. Investments of below £2 million are covered, but those of £2 million to £5 million are difficult, because one cannot get the big VCs to provide them. We recently did a deal with an Italian VC in which we partnered 50:50, but that was difficult because there is a different mentality there.

Another factor is that, if venture capital money is not available in the £2 million to £5 million bracket, some young companies will list too early on the alternative investment market. One company with which we have dealt has just listed before it has revenue and before it is ready mentally to become a public company. That gets companies into reporting issues, profit warnings and all sorts of problems. Unless there is enough venture capital at the level of investment above what we provide—whether it is from the Scottish investment fund or whatever—companies will list too early, which will cause problems. It will not

help anybody if companies in Scotland list, but then go backwards and retreat quickly.

Murdo Fraser: That is helpful and leads neatly on to my second question, which is whose job it is, given that we have identified the problem, to fill the hole and to encourage venture capitalists. Is it for Government to provide incentives, or how else can we do that? Some committee members were in Dundee last week and heard from people who are in the equity and venture capital field. We heard a degree of criticism of what they saw as the conservatism—with a small c, I should say—of Scottish financial institutions when it comes to lending. Is that your perception, too?

Geoffrey Thomson: We are in a cyclical market. If we go back to the days of the internet company boom, so much money was available that it was just everywhere. A lot of the big VCs got burned, as a result of which their appetite for risk has changed a lot. Because of market forces, we are struggling now because more money is not coming back in. We need the £100 million Scottish investment fund—that is the target—to plug the gap. However, apart from putting in public money to try to lever in private money, I do not know what else can be done. A healthy listing market—the initial public offering market—is crucial, because it gives us the exits through which we can recycle capital and so drives demand at the lower end.

Peter Shakeshaft: If I can be so brave, I will suggest that the matter is largely the responsibility of the private sector, but we need public sector support. A good model is the Scottish co-investment fund, which is a superbly crafted idea and a brave and good initiative that has given Scotland a bit of an edge. The fund relies on the private sector to do the work and to make decisions, but it is backed up by financial and other support from the public sector. Investment financing is a capitalist element and it should be largely left to the private sector, but supported by the public sector.

Geoffrey Thomson: Getting money out of the big pension funds is extremely difficult. First of all, they say, “We don’t like investing only in Scotland.” Their attitude to risk has changed enormously over the past five years.

Murdo Fraser: Even the ones with “Scottish” in their names?

Geoffrey Thomson: Yes, particularly those.

Peter Shakeshaft: That is fair enough, because although those companies may have “Scottish” in their names, they are global players. They are taking global finance from all over the place and they are expected to invest it globally. To put into Scotland what one might call the Boston model—to say that one wants X per cent out of the finance sector—does not work as a rule of thumb.

However, there are a number of specific opportunities in the Scottish financial sector that I think could be promoted, although that cannot simply be done across the board. We cannot say, “Because we have umpteen billion under management, some of that should find its way into private equity in Scotland.” That is not a workable formula.

Dr Wolfgang Michalski (Adviser): There is evidence that most start-ups—or many of them, at least—do not fail because of lack of finance. You spoke mainly about investment, funding and financing, but I would like to know how you see the role of coaching. Do you feel that you, as a business angel, should be involved? If you should not be involved, who else should be involved? Lack of coaching might be one of the main reasons for failure.

Peter Shakeshaft: That is our job. We may start off talking to the company about its investment needs, but that is not the package that we offer. The package that we offer is proper angeling; we are hugely involved with the businesses in which we invest. That is why I said that the provision of money is not just about patient money but about smart money. We support all our companies through our network; we have about 80 or so of Scotland’s business great and good helping us and helping those small companies in a quite remarkable way.

If you take a basket of 10 of our investments at any one time, you will find that they are all super when we make the investment to begin with, but that three or four of those investments will fail. They will fail not because of lack of money or lack of management support or advice, but because the science does not work, because the market has moved on or because of other commercial reasons. That is because we are right at the front end of risk in applying money. I often say that to potential investors.

Out of that same basket of 10 investments, three or four will get a bit muddy. They will never fulfil the promise of the early business plan and will never quite do what they said that they would do. They need a lot of guidance, help and redirection to make them into proper companies that will eventually make money effectively. Only a couple of investments will be the shooting stars that make multiples of money and have fantastic global results.

We take a whole-basket approach to investment. It is very high risk, but we are very hands on. We are all businessmen. We have all been around the block a few times—we have bought a few tee-shirts—and we have the bruises and scars to show for it. We bring that experience back into the companies.

Alec Mackie: Wolfgang Michalski used the word "coaching". Peter Shakeshaft has the advantage of being able to draw on a large group of people who have a number of skills. We do not have that, so I find myself looking for an address book, if you like, where I can find people who can mentor or come in as non-executive directors and contribute significantly to the development of the company, if it is particularly weak in sales and marketing or in some other area.

Coaching is not very common in the Scottish marketplace. I am aware of one coaching company, which is probably quite good, although I have still to find a suitable victim for it. I believe that that area should be encouraged. We obviously try to do it ourselves but, as an investor, we face the dilemma that, if we thrust a non-executive director or coach into the operation, there is often a chemistry issue. In a young start-up company, the guy who has had the idea often sees that as an affront to his abilities, so a bit of diplomacy is involved, as well as a fundamental need. Some things can go wrong before that works. We have had that experience. Consultants have been thrown back out at us when we have got the chemistry wrong. The issue is not simple, but the need exists.

15:15

Geoffrey Thomson: We run internal training days for non-executive directors. Like Peter Shakeshaft, we have guys who have been out in business and have usually done very well, but being a non-executive director of a FTSE 100 company is different from being a non-executive director of a little spin-out company that is just getting going. We sit them down and explain to them what we expect from them and what their fiscal responsibilities are. That is important, because they become very involved in the companies. Sometimes, they become too involved and cease to be non-executive directors.

Dr Michalski: Peter, you said that you did much lobbying for Government procurement. Do you lobby for linking start-ups to bigger companies?

Peter Shakeshaft: We have done a bit of that. I had a pop at public procurement just because I am sitting in this forum, but that is not the only concern. To be honest, it is difficult for small companies to sell to big companies, for some—but not all—of the same reasons. Often, we try to tie up our smaller companies with bigger companies for distribution in some marketplaces, because it is much easier and more relevant to undertake distribution through a larger company. I return to life sciences. Our involvement with big pharmaceutical companies globally is good. We call on all those to help when we can.

Chris Ballance (South of Scotland) (Green): I thank you for your interesting opening statements. You have all talked about backing not widgets—to use Alec Mackie's word—but people. You see that as your primary role. Do you widen that to backing people rather than focusing on sectors? Is it important for an enterprise network to work with individuals and to identify key people rather than to focus on key sectors?

Peter Shakeshaft: I would always rather have a class A management team and a class B product than a class A product and a class B management team. The management team and the people who develop it are extremely important. My response to your question is that concentrating on developing people is an important element, but it cannot be achieved without ideas, so both are needed.

Alec Mackie: I will comment more on ideas. I have talked about management, but I give some credit to the idea that expertise can be developed in a local enterprise area in life sciences, computer software or whatever. The fairly clear evidence from places such as Cambridge, where a core of expertise has been developed, is that if enough of a climate and a grouping are created to allow people to move about and to spin off and do their own thing, people learn from one another and a pool of labour exists. In that sense, an area can do something to make itself specialist. However, management is ultimately needed on top.

Geoffrey Thomson: Clustering is a good idea. It worked well in Cambridge and is working particularly well in Dundee. To a lesser extent, it is working in the Livingston area, where we have some good semiconductor-type companies. It is hard spending much time and effort on finding the entrepreneur. The entrepreneur will emerge; the trick is recognising one when we see one.

Alec Mackie's point is valid. A cluster of life science companies will attract to that area people who work in such an environment. Clustering is a good way forward. A cluster of businesses will bring specialist funds into an area.

Chris Ballance: How do you identify the ideas that will be attractive to you and your members? What are your key criteria? I realise that I am asking you to give away all your secrets.

Geoffrey Thomson: I am not a technologist. My job is to spot a market opportunity and say whether we can make a success of it, build a business out of it and make money out of it. I will send a technologist in to tell me whether the science works. I need to be able to look at the market and determine whether a product fits in the market at the right cycle and whether the people behind the business are good enough to deliver the business plan. That is the judgment call.

Alec Mackie: Barwell probably works on a slightly smaller scale, so we do not have such a nice list of consultants. The simple rule that I have always applied is that, if the management cannot explain in simple terms to an accountant—which is what I am—what their business is about, what the product is and what it is going to do out there in the marketplace, they probably have not got a hope anyway and I will not spend too much time in looking at them. That is a crude but effective test.

Peter Shakeshaft: I agree with both of the above.

Chris Ballance: We got on to a rather despondent note at one point, with talk of venture capital and the future generation of best talent leaving Scotland. You three have all decided to live, work and invest in Scotland. Why? What brings you in? What are the positives?

Peter Shakeshaft: I happen to be chief executive and gatekeeper of Archangel Informal Investment; I am not one of the big investors, although we have 80-odd people who are. We are there to make money, which is why we invest. That is our prime motivation. However, virtually to a man and a girl, we all want to put something back into Scotland plc. We have all been successful and have had lives of moderate success—to a greater or lesser degree—from Scotland and have benefited. There is a real desire to put something back into Scotland plc, to help companies to develop and to see something emerge. There is a pride in the whole thing as well but, for God's sake, do not call us altruistic.

Chris Ballance: I would not dream of it.

Alec Mackie: Again, Barwell is in a slightly different position, as we are not restricted to investing in Scotland. We are backed by one man who sees his home as being in the Highlands and who is interested in ensuring that there is a return to the Scottish economy, which he regards as being a function of wealth. I am the hired hand, if you like. Having worked as an accountant in Glasgow, I have a network of contacts and, almost inevitably, the companies that are introduced to me are more often than not Scottish. However, two of our directors are resident in England and they are producing investment opportunities there, too. We do not have the same restriction. However, I want to live in Scotland. I trained in Scotland and have enjoyed living here, so I am not rushing to get away.

Geoffrey Thomson: We, too, invest in English companies, although we invest principally in Scottish companies. About 25 per cent of our investors come from south of the border and are, effectively, bringing money into Scotland. I am an investor. I am the chief executive but I also invest my own money in the companies. We expect a

decent return on our cash, as it is high-risk capital. There is a desire to put something back—there is no question about that. Most high-net-worth individuals who have been born and raised in Scotland and have made money here would like to put something back. What we do is also much more interesting than investing in listed companies—most of our people put only a small proportion of their money into unquoted stock, as that is a high-risk venture, but it is much more fun.

The Convener: I have a couple of questions to wind up with. We often hear from venture capitalists that there is loads of money swimming around looking for projects but that there just are not enough projects. Is that the case?

Peter Shakeshaft: Absolutely not. That is usually the rationalisation of a venture capitalist who is leaving the country because his overheads have got too high to support his offices—not that I can think of anybody who has done that. The reality is that a whole host of opportunities is emerging in Scotland. I look at 250 business opportunities in a year, most of which are in the central belt of Scotland. Most of them are good opportunities that are well worth looking at. In our portfolio of 30 or so companies are four or five that are considering listing on the stock market and becoming major companies. There are a huge number of opportunities in Scotland. I have heard the argument that you have put forward and I absolutely reject it.

The Convener: I have an automatic follow-up to that answer. Are we losing a lot of good projects because there are not enough companies like yours or is there not enough money chasing the good projects?

Peter Shakeshaft: As has been mentioned, the gap between investments of £2 million and £5 million is quite difficult, although that changes a bit during economic cycles. As Geoffrey Thomson said, the sub-£2 million investment level is probably catered for, given our strong base of business angels, the Scottish co-investment fund and several other factors. The £5 million-plus level is catered for by venture capitalists who are resident in Scotland or who will come in from outside to consider good opportunities. However, the gap in the middle, which used to be the preserve of the venture capitalist, is now the difficult area. We have to watch that we get that bit right, otherwise we will not see the saplings through to maturity.

The Convener: So the new fund that Jim Wallace is proposing is the right thing for the Executive to do.

Peter Shakeshaft: It is the right thing if it is properly organised, as I am sure it will be.

The Convener: I was going to ask whether you were hinting at something.

Peter Shakeshaft: As you are probably well aware, the Executive has been through a consultation process and we are waiting for the results. I suspect that most of us have had our say. Again, I will use the parallel of the co-investment fund. That was a clever and brave initiative and if the new fund takes a similar approach to innovation—although it should perhaps not be similar in structure—we could get a good answer.

The Convener: To be successful and fill that gap, what should the main features of the new fund be?

Peter Shakeshaft: Smart and patient money, and the ability to leverage in a significant amount of private money with it.

The Convener: I take it that our other two panellists agree with that.

Geoffrey Thomson: The venture capital trusts will be the guys who say that there are tons of money swilling around and they cannot find anywhere to invest it. They are looking for a mix of debt and equity and are not in the early-stage technology sector at all. They want to invest in nursing homes and the port authority, which is not where we are at all, although they have extra cash and the market is very competitive. It is important to distinguish between global opportunity companies and a nursing home. They are different types of business and have a different type of risk profile.

On the Scottish co-investment fund, I agree completely with Peter Shakeshaft. The question is about getting the money into the hands of the right people, not about giving the money to big fund managers who have no real interest in investing in such businesses and are doing so for a straight fee. That is important.

The Convener: You said that investments of less than £2 million would already be taken care of. However, having been a business consultant before I came into my current job, I know that many people who want to set up reasonably sized businesses—I am not talking about window cleaners or taxi drivers—and who might need £50,000 or £75,000 find it difficult to raise that kind of money. My impression is that, if someone is trying to raise between £250,000 and £2 million, that is okay in Scotland, but it is still pretty difficult to raise £50,000 or £75,000. Is that fair to say?

Peter Shakeshaft: That depends on the business opportunities. We are professional investors and will put money in with people who are looking for a return. We know that there is a high risk and we might lose all our money, but we

want a company eventually to be built up into a size that can give a return that reflects the risks that we took in the first instance.

The company that is looking for an investment of the order of £25,000 to £75,000 is more likely to be a lifestyle kind of company than a company that will make a world-beating widget, because making a world-beating widget needs more than a £50,000 investment. We have to consider the type of business and investor. I do not think that companies such as ours would be involved at that level; the investment would more likely come from a bank, friends and family or the business growth fund.

15:30

The Convener: But if I am making a new super-duper widget and I need £75,000—

Peter Shakeshaft: Fine—you should come to me immediately. That would be good. Geoffrey Thomson and I have made investments of £25,000 and £2 million. We will invest as long as the business's style and potential are good.

The Convener: So there is not really a gap at that level.

Peter Shakeshaft: I do not think so.

Alec Mackie: I would say that we are selective at that level. I return to transaction costs. Lawyers keep telling me that they will charge me the same fee, whether the figure is £75,000 or £225,000, which obviously has an influence. People are made to be more selective when they are looking at a smaller sum of money.

Peter Shakeshaft is absolutely right about lifestyle businesses. A huge number of propositions that I have seen at the request level of £50,000 to £75,000 concern what are in effect lifestyle businesses, which we do not invest in. We would leave that much more to the clearing banks. The small firms loan guarantee scheme and other more conventional ways exist to raise such money. It is also worth mentioning that people who are looking to attract such a sum may not be at all willing to give away a reasonable slice of their business's equity, which is the trade-off that we will obviously always look for. The business may still be highly proprietorial and a clash of cultures can come into play at that level.

The Convener: In recent years, banks in Scotland have looked for belts, braces, straps and everything else. Is their role wide open to fair criticism?

Peter Shakeshaft: No. By definition, banks are not necessarily risk takers. The DTI has the small firms loan guarantee scheme, which caters for propositions for which the risk element or the asset base is inadequate to secure the bank's

help. It is not terribly fair to say to banks, "You're not doing a job because you're not taking risks." That is not the banks' job.

Alec Mackie: It could be said, as people have done, that the small firms loan guarantee scheme is not being used enough, but it is there.

Geoffrey Thomson: That is not equity, however. Banks lend money against security—they are not equity players and they never have been. Investment banks are a different kettle of fish. The small firms loan guarantee scheme is being used in a sort of quasi-equity way, which is wrong. Banks should lend only against revenue or for working capital purposes rather than for development capital purposes.

Peter Shakeshaft is absolutely right. We will not finance a person who is looking to set up a window-cleaning business. If it is an expensive window-cleaning business, it will struggle. However, we usually get technology companies funded. We have a set-up through which we will put £50,000 into young technology companies. We have done so for eight of those, but it must be accepted that that is not cost effective.

The Convener: Before Christine May comes in for a final question, I want to ask you about your experience of the business gateway. Do you deal with it much? Have you found it to be a professional organisation? Is it very bureaucratic? Have you found that it has improved a lot in recent years? Have you found it at all?

Geoffrey Thomson: I think that I have dealt with it once, when I gave a presentation to a load of people who came to a meeting. Apart from then, I have never dealt with it.

Alec Mackie: I do not deal with it either.

Peter Shakeshaft: Neither do I. I have experience on the other side, as my daughter asked it for advice and was well catered for. If a company should really come to us, the business gateway tends to pass it on to a local enterprise company. We get very little from the business gateway.

The Convener: What is your experience of dealing with the LECs?

Peter Shakeshaft: Some of them are very good.

The Convener: Out of the 13 LECs, how many come into that category?

Peter Shakeshaft: I am not sure. As with everything, quality varies.

Alec Mackie: I will hedge my bets as much as Peter Shakeshaft has done by saying that we have not dealt with many LECs and our experience has been mixed.

Geoffrey Thomson: Ditto.

Christine May: I want to return to something that Alec Mackie said back at the beginning about encouraging his children to leave Scotland. Will you encourage them to come back once their rounded edges have been sharpened up a bit?

Alec Mackie: Yes, if they can find a position.

Christine May: Would others similarly encourage people to get out and see the world and then come back?

Peter Shakeshaft: My son is in Canada and I hope that he will come back. I think that that experience will have done him good. I had nothing to say on that—it was his decision.

Christine May: Finally, what is your view of something purely practical that the public sector and universities tend to do, which is to offer small incubator business units, with a space, a phone and some management training? How valuable have they been to any of the companies that you have helped?

Peter Shakeshaft: They have their place, although some of them can be a bit precious about what they offer and how much they charge. You have just come back from Dundee, where a small business incubator has been set up. However, those running it are finding it difficult to attract companies, because they are asking them to pay a rent that is twice what they might have to pay commercially. It is horses for courses. Incubators are valuable in principle.

Geoffrey Thomson: There are only two incubators in Scotland that are working: one is out at Hillington and the other is the Alba Centre. Those are well run and we have financed a number of companies that have come out of them. However, the rest of them are pretty expensive. It is a bit of a struggle.

Alec Mackie: The idea of incubators has a long history and—with one or two notable exceptions—has not really achieved much. We have never invested in a company that is in an incubator, although we have spoken to one or two. Peter Shakeshaft used the word "precious", which was quite right in some ways. Incubators are a bit inexperienced.

The Convener: That was excellent. Thank you. I have just checked with the clerk whether you have all been issued with an invitation to the business in the Parliament conference on 8 and 9 September; if you have not been invited, you will be. There is a special section on access to finance, which is one of the key issues to be addressed in the business growth agenda. The input from the three of you would be extremely useful at that session.

While we change over witnesses I intimate to committee members that the commission for economic and social policy of the Committee of the Regions intends to hold a conference and seminar on 28 November in the Scottish Parliament on restructuring and employment, which would be relevant to our next planned inquiry on employment and employability. More details will come to the committee, and it will be an agenda item next week, by which time we should know whether the Scottish Parliamentary Corporate Body has given its approval.

Christine May: I hope that everybody will take the opportunity to read the material that has been circulated by the clerk on the content of the conference. If anyone has any influence with the corporate body and they think that the conference is a good idea, they might wish to pass that message along to their representative.

The Convener: I welcome James Sugden from the Scottish Textile Manufacturers Association. Our inquiry is into business growth, but we do not want to give the impression that we are interested only in electronics or high-tech industries; we are also concerned about the future of long-standing industries in Scotland such as textiles and the issues that such an industry faces. It is important that we address those issues, as well as issues relating to the newer industries.

James Sugden (Scottish Textile Manufacturers Association): The Scottish Textile Manufacturers Association covers the broad spectrum of textile manufacturing in Scotland. It was interesting to come in on the end of the previous discussions about finance and business growth, because it could be said that our industry is and always will be a bit of a Cinderella, in that we have been around for a long time. My company is 200 years old although, as I regularly say to people, 200 years is impressive but it guarantees nothing.

The textiles sector in Scotland breaks down into four sectors that are represented by my association. The sectors have had different fortunes in recent years. Some of the reasons are historical. We are in a changing world; the watchword in the industry is change and there is a need to adapt to the new circumstances. My company is involved in three of the four sectors.

The first of the four sectors is clothing and apparel. The sector has probably had the worst experience over the past five or ten years. There has been a lot of pain and a great many jobs have been lost as bulk manufacturing of clothing in Scotland has moved offshore to China, India or even eastern Europe.

One of the other sectors that is still around is the knitwear industry; I have just come from Hawick,

where we have a factory. The Borders knitwear industry and knitting companies elsewhere in Scotland—some are on the west coast—have reached a plateau in activity. The decline has been halted and—dare I say it—there is some growth now as the industry has moved towards higher added value products, particularly cashmere. A number of significant new initiatives in the industry promote the products overseas. There has been great support from the Scottish textiles team in that endeavour. I am sure that the committee knows about some of the activities of the Scottish Cashmere Club over the past three or four years.

Another sector, which is largely based on the east coast, is technical textiles. The sector is high-tech precision synthetic textile manufacturing and it is doing very well. It is very much smaller than it was; the old jute industry has declined and the products have changed.

The final sector is weaving and apparel fabrics, which traditionally might have been known as tweed, cashmere tweed and fabrics for outerwear. Again, although that sector of the industry has got smaller, it has now reached a size that is sustainable and the companies that are left in it are still profitable.

In each sector the endeavour has been to go for smaller niche markets and to distance ourselves from the price competition that abounds in the world. That has not been an easy task for many people, but the industry has never run cap in hand to Government for support.

Some of the problems in the industry have emanated from ownership. Our peer group within Europe is in Italy. Most Italian companies are privately owned. There was a period in the 1960s and 1970s when rationalisation took place in Scotland and large public limited companies took over. That sort of ownership was perhaps relevant to a period of growth when the industries were bigger and there was a bigger critical mass, but now the most successful companies are largely those that are owner driven.

I listened to the three business angels talk about risk. Profit is the reward of risk and textiles are at the cutting edge of risk. In fashion, if someone gets it right, they can do very well, but if they get it wrong, it is very sad. The secret is to get it right. Scotland has always had a pre-eminent place in design and has been able to go out into the world with its products. We are the envy of some other European countries. The industry still employs more than 23,000 people in Scotland. We have a turnover of £1.4 billion and export almost £500 million-worth.

We meet regularly to discuss the state of business across the sectors. Business is okay, but

there is more pain to come, as there is always pain in change. The industry faces many dangers. I have talked about overseas competition. The industry is now much smaller than it was, so the critical mass within the industry is dangerously low. That does not apply only in Scotland; it applies also in England. In some cases we are finding it extremely difficult to justify doing things independently.

15:45

Clusters were mentioned. In the past, clusters have worked by allowing groups of people to share common facilities and by justifying investments in machinery and new technology that single firms operating on their own would not have been able to make, because they did not have the necessary throughput. Throughout the sectors, there is constant investment. I go to China a great deal to buy raw materials and I have watched that country develop very fast over the past 20 years. It has now come up alongside us and is buying the same sort of tackle that we use.

We are at the coalface of manufacturing. As I have said, we tend to perceive ourselves as being a Cinderella industry as far as the Government is concerned, but we are still here and we provide good employment. Although the return on capital that the industry provides is not as high as some of the investment gurus would like it to be, it is not bad if one takes it over the piece, and it justifies further investment in the industry.

Another pitfall of the present size of the industry is that it makes it difficult to recruit people. The difficulty that my company experiences is not because we are in Scotland, although we find that up in Elgin, where my head office is, we are the last of the Mohicans, as the firm in Peterhead recently went into receivership. It is extremely hard to attract the right calibre of managers and technicians up to that neck of the woods. I spend a great deal of my time attempting to do that.

We are constantly looking to recruit younger people into the industry, which has had a pretty bad press over the years. I have been in the industry for 35 years and I have not seen too much short-time working. That said, the industry must come to terms with the need to give long-term commitments to employees and to provide careers that are worth while and are rewarded accordingly. The industry is working hard on recruitment and training and the many initiatives are beginning to pay dividends.

To return to the theme of ownership, many of the investment decisions that are taken in the industry are acts of faith. Good business plans can be produced, but it is necessary to have a vision for where the company and the products will be.

Making investment decisions on new machinery is a big part of what we do, but those decisions are often based on an instinctive belief in what we do. It is probably best that such decisions are taken by owners of companies rather than business angels, who must be approached cap in hand and who, in light of what they perceive as excessive risk, might want to take a bigger slice of the action than we or any individual company would want to give them.

Finance is always a problem in the industry because, at times, the rate of return can be much lower. There are definite cycles in the industry, such as the fashion cycle and the economic cycle. In spite of all that and the pain that has been suffered over the past five to 10 years, during which there has been decline and an exodus of companies and some products from the industry, I genuinely believe that we are now in a better position. We are leaner and much more focused on what the industry is doing. Although there are many problems, the people in the industry who belong to our association are reasonably upbeat at the moment.

Although there are many problems in the overseas markets—we export a great deal—our home market has been strong for most of the companies that are involved in it. The UK economy has been quite good, but we are suffering a bit because of the weakness of the dollar. Although the European market is flat, the industry is still doing good business in France. The market has also been flat in the far east—I am talking about Japan—with which Scotland has done a huge amount of business. In Japan, changes are taking place in the buying of textiles and the country's proximity to China is such that it has been almost swamped with Chinese products at much lower prices.

China represents both a huge threat and a possible opportunity. We are considering selling back into China at the top end of our industry. China has its problems; I assure the committee that the situation there is not all beer and skittles. Even buying raw materials in China is difficult. There is little rule of law and contractual law is non-existent. That said, the Chinese are making progress at a great pace.

This year alone, the cost of clothing coming into the UK has fallen by 30 per cent, which is great if you want to buy a pair of Y-fronts in Marks and Spencer. However, as far as the perception of textiles is concerned, such a situation does nothing for the increased price of higher added value products. Our industry does not compete with China, but the premium that our customers will pay us for the privilege of buying products marked "Made in Scotland", which is nevertheless still important, has a ceiling. The whole industry is aware that, in the present deflationary world

conditions, with other costs going up, we can achieve stable prices only by increasing productivity.

That is a summary of the current position.

The Convener: That was very helpful.

It appears that with the ending of the multifibre agreement, the World Trade Organisation's reduction of tariffs and the price threat from China and other countries in the far east, most of the industry is trying to move up the value chain and create niche markets. Although I accept that, as an industry, you cannot go cap in hand to Government, how can Government assist the industry in facing its current challenges, particularly with regard to international competition?

James Sugden: When someone asked me that question recently, I replied, "By having less government." However, that might be a glib answer. Notwithstanding the sincerity of your question, I believe that individual companies have to make their own salvation in the market. The withdrawal of the multifibre agreement has been flagged up for many years; we all knew that it would happen. However, it is always a shock when reality hits. Whatever preparations you might make, it is a bit like preparing for a flood: when it happens, it is worse than you thought it was going to be. The issue still causes a lot of pain.

On the question of what Government can do for the industry, we want a level playing field in Europe. Indeed, we have worked on that very matter. I find it interesting that, within weeks of the expected and allowable flood of imports, the Italians, who are our real competitors in Europe, went cap in hand to their Government to seek limits on growth in quota allowances. I do not know what Peter Mandelson has said about that, but the Italians have negotiated a slightly reduced increase in quotas. However, it is meaningless in effect, because this is reality. As private individuals who believe in competition, we accept that this is simply the market at work.

As for asking Government to give us less regulation, there has been much talk about the working time directive. However, we do not subscribe to that. Most of my staff want to work as many hours as they can and are very happy for the overtime. I should also point out that, up to now, the minimum wage requirement has not been a big problem. We have accepted the increases, because we realise that we need to attract people back into the industry. We do not want to be a low-pay industry; indeed, we want to pay as much as we can, but there is a limit to the speed at which we can implement such measures without devastating our profit and loss balance sheet. These things take time.

We need time. The matters that I have outlined cannot be addressed quickly.

Christine May: You highlighted four areas, including technical textiles, which you said were doing very well. I do not know anything about such products. Can you describe some of them?

James Sugden: I was talking about filter cloths, heart valves, airline seat covers and so on. Technical textiles are not my particular field; however, I can tell you that they are high-tech, high added value products and are not conventional textiles in any sense of the word.

Christine May: Can the Government encourage that side of the textiles industry to sustain its current market position and perhaps to access growth where it might be available?

James Sugden: Are you talking about Government procurement?

Christine May: Not necessarily. I am talking about a range of activities. After all, in an industry in which, at best, we are keeping our heads above water, we should perhaps focus effort on its successful aspects.

James Sugden: I regularly hear colleagues at meetings comment on the cost of research and development. That applies to all of us; we all put a huge amount of time, money and resource into product development, whether we are involved in the fashion end or the technical end of the textiles industry. In the technical textiles field, the cost of developing a product is much higher and there is a much longer lead time between an idea and a product. If the product is aimed at the medical or precision engineering fields, development takes a long, long time. There has been lengthy discussion about whether co-operation between universities and business could be developed. Universities have resources that could be made over to help the flow and the timing needed to get technical textiles on to the market.

Christine May: Perhaps one of your colleagues in the technical textiles field could write to the committee. That might help us.

James Sugden: Certainly.

The Convener: That would be helpful.

Chris Ballance: My question neatly ties in with James Sugden's final comment. Given the importance of being at the cutting edge of the fashion and design market, which you stressed, what links do you have with Scottish textile and design colleges, such as the Glasgow School of Art?

James Sugden: There are huge links. I am not talking about companies in the technical textiles field, because product development in that field is different and requires qualified scientists and

technicians. However, all companies in Scotland that are involved in fashion, clothing and apparel take on graduates from Gray's school of art, the school of textiles and design at Heriot-Watt University, and the Duncan of Jordanstone College of Art and Design in Dundee. My company takes on one graduate per year and we have eight full-time designers in two factories. Scottish designers have a reputation and more are coming on to the market than the industry can absorb, so there is a threat that some might go offshore to China. The direct connections between senior lecturers and individual companies are strong and we use that resource well.

Chris Ballance: The colleges are a useful resource.

James Sugden: Absolutely. We fought hard to keep the school at Heriot-Watt University going, because there was a big question mark over it. It would have been madness to have lost the school, which is the last centre of excellence for design. There is virtually no technical training in Scotland now. I know a young girl of 21 who is a dyer, who will have to do part-time courses in Bolton to complete her course in colour chemistry. Those are the problems that we face; we are geographically isolated and the situation is tricky. However, we have great confidence in what the colleges are producing on the design front and we fight hard to keep that work going.

Christine May: It is difficult to find courses, not just for the textiles industry but for the paper industry. As the industry contracts, there are fewer suppliers in the machinery supply end of the business, fewer services for machines and fewer courses. What can Government and the industry do to expand and innovate in areas in which there is potential for growth?

James Sugden: That is a vexed question, because the much smaller numbers affect the economics of running lots of different courses. I speak to people in Leicester, Manchester, Leeds and Belfast who face the same problems. The owners of a well-known French company sent their son to Heriot-Watt University to study, so the problem of where we send people is Europe-wide. We will have to concentrate courses in areas where there is a critical mass—a course might have to be in Toulouse rather than Bolton. We can help to fund the costs and the local enterprise companies are, on the whole, prepared to help us with that, but other than that it is a matter for individual companies.

Dr Michalski: Your opening statement was interesting and I appreciated the fact that you did not ask for Government aid or further protection for the Scottish textiles industry, which means that you are willing to adapt in the future—you have had to adapt in the past. You said that the industry

employs 23,000 people. How are those employees shared across the four sectors that you mentioned?

James Sugden: It is something like 20 per cent in apparel, 30 per cent in knitwear, 20 per cent in technical textiles and 20 per cent—does that come to 100 per cent?—in the other sector.

16:00

Dr Michalski: My next questions are related. What is the prospect for converting traditional textiles companies into new fields such as technical textiles? Are the technical textiles producers companies that have come into the business, rather than companies that have been converted or adapted to the new business environment?

My second question is on the internal conversion of the sector. I read about the Danish textiles industry, which has not asked the European Commission for protection. It has diversified in that companies take care of design and marketing in Europe and production is done in China. Have you developed that kind of international division of labour in your activities?

James Sugden: Your first question was what transfer of resources there can be between the fashion—in its broad sense—and technical textiles fields. They are different fields requiring different skills; the type of technician that is needed in one is different from the type of technician that is needed in the other. There is commonality of business problems, but the three areas of clothing are separate from the other area. A lot of the textiles have completely different uses and use completely different fibres. The majority of fibres used in the three clothing sectors are natural fibres. That is a difficult question.

Your question on sourcing is a good one. Do we focus on job retention here, being realistic about the cost of sourcing and knowing that the cost of bringing some goods in is much lower? We have considered that. A number of companies are retaining design and development functions in Scotland and outsourcing volume production. That is a way for a company to stay viable. My company has not done that. We are tempted on occasion but we have tended to try to make a virtue out of necessity. That is becoming more difficult, because the gap in cost is widening. The cost of running the business is going up. As the Chinese increase production and are reducing prices—bizarrely—our costs are going up and it is difficult to command the premium in the market.

A number of companies in my association have done exactly what you have said. There are job losses, but the companies retain product development, design and distribution back here and employ people in sourcing. We have formed a

group that helps people source and use the Chinese facilities. The picture is not black and white. My company recently had a visit from Chanel—a well-known French couturier—which was going round the industry looking at suppliers, not just in Scotland but in Italy and France. Its concern was whether it could get a source of luxury goods from Scotland or leather from Italy and whether there was enough critical mass left. The chairman of the company, which has a huge investment in luxury goods, was concerned about the decimation of the luxury industry and its ability to remain viable. One of the reasons why such companies are worried is that the culture in China is of a command economy. It is a Communist country and there is not a rule of law. There is no protection on IP, so although someone might have invested a huge amount of money in their brand, they have only to go to the street markets of China to see the counterfeiting that is going on, not just in textiles but in every other product from compact discs to electronics. It is not all beer and skittles. Some companies, including mine at the moment, do not want to get involved in that situation. However, things are changing and we will see what happens. China is in the WTO now and we must expect that it will abide by the club rules, but that could be a long time in coming.

The Convener: That completes our questioning. I thank you for your evidence, which was helpful indeed. It would also be extremely helpful if you could provide us with the follow-on information that was mentioned. We will make sure that you get an invitation to the business in the Parliament conference, because we want to ensure that manufacturing is properly represented.

We now move on to agenda item 3, which is an oral report from committee members on the recent visit to Dundee that was undertaken as part of the business growth inquiry.

Chris Ballance: Before we get on to that, I will make a request. We are taking evidence from quite a few witnesses who have not submitted written evidence in advance, and I think that we could get much more benefit out of them if we had a curriculum vitae for each witness. For example, knowing that a witness is Alec Mackie of Barwell plc tells us nothing about who he is, why he is coming or what we are getting from him for the inquiry.

The Convener: We have asked each witness not only for a CV but for a written submission, although we cannot, of course, force witnesses to give us written submissions. The witnesses are selected because they are particularly high up in their fields.

Chris Ballance: Indeed, but I presume that someone knows why we selected them and it would be useful to see that information.

The Convener: In general, your point is correct and we will try to emphasise it even more.

Chris Ballance: It would be helpful if the clerk or whoever selects the witnesses could give us a little background material before we take evidence from them.

The Convener: Item 3 is an oral report on the visit to Dundee. The clerks are preparing a full minute of the visit, which will be circulated, so it is probably not necessary to give a full report.

We had four separate sessions. The first one was at the University of Dundee, where first-class work is being done. Then we visited Cyclacel and saw the work that it is doing. That emphasised the benefit of the cluster: academia is on one side and the private sector—in this case, a spin-off—is on the other, working together with public agencies. In the afternoon, we visited the ITI Life Sciences, where we were given a full presentation on the role of the ITIs and the work that they are already doing. We wound up with a round-table discussion on how to improve business spend on research and development in Scotland. Quite a number of people—from venture capitalists to scientists and university staff—were involved in the discussion.

I will bring in other members to add to my comments. There are two Mikes: Michael Matheson and Mike Watson. I ask them and Murdo Fraser to give us their brief impressions of the day. I found it extremely helpful and productive but the turnout of committee members was disappointing, as only four of the committee's nine members were on the visit. I understand that all members have busy diaries, but we went on to a fortnightly schedule of committee meetings to provide time for committee members to make such visits. I appeal to committee members—

Richard Baker: Convener—

The Convener: I am not asking for reasons or excuses, because I know that it is not possible for all committee members to attend every meeting. However, in general and given that we have more or less moved to a fortnightly cycle of formal committee meetings, we need to consider our attendance at such visits.

Richard Baker: There is a material point in that I have another committee meeting on a Tuesday, so a whole-day visit is difficult for me. If it had been a half-day visit, I would certainly have attended.

The Convener: We will bear that in mind in future. I do not want to get into a debate about why committee members were not able to turn up, but I make the general point that attendance at such visits is important, as is attendance at formal committee meetings.

Mike Watson: I echo the comment that the day was useful. I pay tribute to the clerks for organising the meetings, which did not just happen or fall into place; they had to be organised.

The introductory session at the life sciences department of Dundee university was valuable. We heard about the history of the development of the department and were able to benefit from the experience of the senior people who were there. It was also interesting to visit the spin-out company. Again, the detail will come out in the report, but it is interesting to note that the company has been going for six years and has not yet made a profit.

The Convener: It is not expected to do so for another couple of years.

Mike Watson: Yes, yet it is being supported because it will develop what are important products—presumably drugs.

Although the afternoon session was helpful, it was a little bit heavy, given that we had six presentations.

The Convener: Actually, we had seven presentations.

Mike Watson: I did not count the introductory one from the overall head.

Nonetheless, the afternoon session was thorough and, as none of us had any experience of ITIs before, it was useful. I do not know whether there will be a written version of the information that we were given. We did not get anything in writing apart from the packs, but other members might be able to get something. The discussion in the afternoon involved a broad range of people who are involved in research and development, financing innovation and so on.

The day was useful and is a good example of what the committee can do by visiting places that are within striking distance of the Parliament. The day was reminiscent of the sort of day that we have when we go abroad and showed that we can do such things in this country and get a great deal out of them.

Murdo Fraser: I agree with most of what has been said. The visit was valuable. I could not attend the first session, as I had a meeting elsewhere, but the three sessions that I attended were useful. Interestingly, one issue that came out of both the morning meeting and the ITI meeting was the apparent consensus on the major need for an animal research facility in Scotland. It will be interesting to see whose manifesto for the 2007 elections contains that.

The best session of all was the final one, which was a round-table discussion with a collection of people who are involved in funding companies. At one stage, the conversation got fairly heated,

which shows that there is not necessarily a consensus in that regard.

Mike Watson: We should say that we were spectators.

Murdo Fraser: Yes, I should say that it was not we who were getting heated; we were trying to keep the peace. In any case, the session was valuable, even if there was no agreement about what needs to be done.

The Convener: When we asked a question about tax incentives, we found that there was no universal agreement about the best way to provide them. I do not know whether your party's policy beat ours, Murdo, but there was certainly a diversion of opinion.

Michael Matheson: I found the day useful and interesting. I was particularly interested in the dependency between the various sectors, such as higher education, spin-out companies and venture capitalists, and in the role that ITIs play in developing sectors, particularly the life sciences sector.

I was reassured that Scotland has the skills, knowledge and ability to develop further within the sector. The challenge is to ensure that we have in place the right components to allow the sector to continue to develop.

The Convener: A full minute of the day's sessions will be circulated to all members, with back-up material. The day was certainly worth while.

I take Richard Baker's point about how we organise such visits. It just so happened that, this way, we were able to squeeze a lot into one day.

Mike Watson: I might have missed this information as I missed a committee meeting two weeks ago, but has the visit to Lancashire been cancelled or postponed?

The Convener: I was the only member who was going to go.

Mike Watson: Has the meeting been rescheduled?

The Convener: No, because we have discovered that Scottish Enterprise runs a similar scheme that none of us knew about. It will supply us with material on that. Basically, because what is being done in Lancashire is being done in a slightly different way in Scotland, we did not think that visiting Lancashire would be the best use of our time.

Football Inquiry

16:15

The Convener: The agenda says that, under this item, we will consider issues arising in respect of our report into Scottish football. I will take guidance on this but my gut feeling is that we have not heard a proper cross-section of oral evidence and so we are not yet able to identify many of the issues. In particular, we have not heard from supporters. We should invite club supporters, representatives of the tartan army and people from Supporters Direct to give evidence. I have also had an informal offer from Frank McAveety, who was motivated by the evidence from the Scottish Football Association and others, to come and give his views on the matter, as a former minister and Patricia Ferguson's immediate predecessor. I feel that we should take that additional evidence before we agree on the key issues for our report, but I am entirely in the hands of the committee.

Richard Baker: It would be useful to have the evidence that the convener mentioned before we finalise our report. I am conscious that we could go on taking evidence on the matter for eternity, but I agree that the groups that the convener mentioned are key ones. However, we should still conclude the report before the summer recess, given that the inquiry has been on-going for a considerable time. We have received a wealth of written evidence to back up the oral evidence. There are clear areas on which broad agreement can be found in the evidence and on which we can make recommendations. My main concern is about the timetable.

Mike Watson: I agree with the convener: we should invite the Scottish Federation of Football Supporters Clubs and Supporters Direct to give evidence. I am not sure to what extent the tartan army is constituted—I do not even know whether it has a committee or whether if somebody buys a scarf and a ticket for an away game, they automatically become a member. Seriously, I do not know whether there is a formal body but, if there is, it would be fine to invite it to give evidence.

Members may feel that my next suggestion would get us into the matter too deeply, but I would like to hear from the Scottish Junior Football Association—which, despite its name, is not for under-16s but for non-league semi-professional clubs—because of the pyramid system that it has tried. The day after the SFA gave evidence two weeks ago, its annual general meeting voted decisively not to allow any change and not to allow the first brick in building a pyramid. I would like to hear what the SJFA has to say on that specific issue. We could keep the session narrow and

restrict it to how the SJFA fits into the pyramid system. It is disappointing that, after that first chink of light came through the door, the first step to opening it was not taken. I would like the issue to be explored.

Michael Matheson: The Scottish Football League has also voted to introduce re-election to the third division, which means that if a club finishes bottom of the third division for two consecutive years, it will go to associate membership and could drop out into no league whatever. That, too, goes against the idea of a pyramid system, despite the fact that the three football bodies that gave evidence to us said that they were in favour of a pyramid system.

I have concerns about where the inquiry is going; I feel that it lacks focus. We have covered a range of issues to do with the structure of the SFA in which we and the Executive have no policy locus. We now have a good opportunity to focus on some of the key issues that have materialised in the evidence, particularly those in which there is a public policy interest, so that, in taking any further evidence, we can develop those aspects in more detail, rather than take the broad-brush approach that we have taken to date.

Christine May: I do not disagree, but, to some extent, the committee has been fairly clear about where the inquiry is going—we are considering the aspects of organised football with which the public sector interacts and to which it gives money. We should maintain that focus, because that is the only issue in which we have any locus. However, that gives us the rationale to talk about governance issues, such as structures, youth development and development of facilities, which, for me, are the key issues anyway.

Murdo Fraser: I have some sympathy with what Michael Matheson said. In the evidence that we took from the Executive, an awful lot of the responses in effect were, "That is a matter for the game rather than for us." I agree with the suggestion that we should narrow our focus to areas in which public policy has a role.

I also have a concern about timing. I recognise that the inquiry is Richard Baker's baby, so he is keen for it to be born before it grows too old in the womb, but the summer recess is in only two weeks' time. We still have a lot to do before we are at the stage of being able to publish a report.

Richard Baker: I accept that point. I also accept that it is time to consider focusing more on some issues. To be honest, I would love us to be able to make recommendations on the finances of SPL clubs, but we just cannot do that. I realise that we will not be able to do that, so we can perhaps focus on that issue less.

To some extent I disagree about the committee's role in governance issues. Although our role is not to make detailed recommendations about the SFA's governance arrangements, members will recall that we raised some broad questions about the Scottish Rugby Union's governance because that impacted on the way in which public money was spent. That is why governance issues were part of the youth action plan that was agreed with the Executive. Therefore, we are entitled to include broad issues of governance in our report. I will continue to argue that point.

I agree with the consensus that has developed among members that we should focus on issues that affect public sector involvement, such as infrastructure and the building up of partnerships with local agencies. We should also consider accountability issues. That would bring in Supporters Direct, which would be bound to highlight the issue of the direction of professional clubs, but we can be quite clear about our role in considering accountability issues.

If we accept that we will be unable to complete our report before the summer recess, we should have another shot at setting a clear timescale, given that our original commitments for the inquiry were made months ago.

The Convener: There is broad consensus about the need to take additional oral evidence. We will not necessarily take evidence from the specific organisations that Mike Watson suggested, but we will hear from a number of sectors, including a cross-section of supporters, the Scottish Junior Football Association and so on. Do members agree?

Members indicated agreement.

The Convener: We will take the bulk of that evidence after the summer recess, as the chances of our getting things organised for next week or the following week are not great.

That brings me to my second point, which is that we need a timetable for the inquiry, as Richard Baker rightly pointed out. We need to be clear of the inquiry by the autumn if for no other reason than because we will be required then to consider the bankruptcy bill, which will take up a lot of time. We must also finish off our business growth inquiry and start our employability inquiry. I suggest that we work towards completing our final report on the football inquiry before the October recess at the very latest. Is that agreed?

Members indicated agreement.

The Convener: That will allow us to work to a definite and reasonable timetable.

In the light of the written and oral comments that we have received from various bodies, I believe

that it is more important that we get our report right than that we publish it quickly. We need to be clear about what we want to say when we come to write the report. Therefore, once we have organised the additional evidence sessions—the bulk of which will probably be in early September—we should set aside a session in mid-September or so in which we can discuss what issues we want to highlight in our report and what we want the report to focus on. After that, we can ask the clerks to prepare a draft report. Is that agreed?

Members indicated agreement.

The Convener: I think that everybody is happy with that. Excellent.

St Andrew's Day Bank Holiday (Scotland) Bill

16:24

The Convener: Agenda item 5 concerns the St Andrew's Day Bank Holiday (Scotland) Bill, which has been introduced by Dennis Canavan. As members will know, the committee has been allocated responsibility for the bill. Our purpose today is not to deliberate on the bill itself but to agree an outline timetable for dealing with the bill. The proposed timetable has been discussed with the office of the Minister for Parliamentary Business and with Dennis Canavan, so I suggest that it is reasonable.

Because of procedural changes to how members' bills are dealt with, the bill has now been out to consultation twice. I would not expect to take an awful lot of oral evidence, but we will have to provide an opportunity for written evidence to be submitted before we produce our stage 1 report. Is everybody happy with the proposed timescale?

Mike Watson: I am curious about why the word "Scotland" needs to be in brackets.

The Convener: We do that in all bills. We'll no need it after independence.

Murdo Fraser: I confess that I sat and read all the papers for the first time only last week. The bill is an incredibly modest proposal. It does not create a public holiday; all it does is to provide the opportunity for banks, if they want to have a holiday on that day, to carry their business on to the next day. Therefore, it is hard to see that it will create any controversy.

The Convener: Some organisations—the Confederation of British Industry for example—are opposed to it.

Murdo Fraser: I wonder whether they have read the bill and understand its scope, because its scope is incredibly limited.

The Convener: I do not expect the bill to take up much committee time.

Christine May: I have discussed what I am about to say with the convener, so it will come as no surprise. I have great sympathy for having an additional public holiday in Scotland to celebrate Scotland, but I have real difficulty with having it on 30 November. I would like to test opinion on that during evidence.

The Convener: That is fair.

Murdo Fraser: With respect, the bill does not do that.

Christine May: If you read that bill, you will see that it does, because it suggests that we have a public holiday for St Andrew's day. What it does not say is, "Thou must have St Andrew's day off." Nevertheless, there is a debate to be had there.

The Convener: That debate is for another day. We are only agreeing to a timescale today. Is everybody happy with the proposed timescale for the St Andrew's Day Bank Holiday (Scotland) Bill?

Members indicated agreement.

The Convener: I remind members that we meet again next week and the following week so that we can clear as much as possible before the recess. At the meeting on 28 June, we will have an opportunity to take stock of where we are with the business growth inquiry, so that we can be clear before the recess about what we plan to do after the recess by way of completion of the inquiry. By then we should know the outcome of our application to the authorities in the Parliament for the three foreign trips that have been proposed.

Meeting closed at 16:27.

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