

# **ENTERPRISE AND CULTURE COMMITTEE**

Tuesday 28 June 2005

Session 2

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# CONTENTS

Tuesday 28 June 2005

	Col.
INTERESTS.....	2047
BUSINESS GROWTH INQUIRY .....	2048

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## ENTERPRISE AND CULTURE COMMITTEE 16<sup>th</sup> Meeting 2005, Session 2

### CONVENER

\*Alex Neil (Central Scotland) (SNP)

### DEPUTY CONVENER

\*Mike Watson (Glasgow Cathcart) (Lab)

### COMMITTEE MEMBERS

\*Shiona Baird (North East Scotland) (Green)

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

\*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:

Stephen Boyle (Futureskills Scotland)

Iain Duff (Scottish Council for Development and Industry)

Kieron Gavan (Sector Skills Development Agency)

Mary Greene (Financial Services Skills Council)

Graeme Ogilvy (Construction Industry Training Board)

Alan Wilson (Scottish Council for Development and Industry)

### CLERK TO THE COMMITTEE

Stephen Imrie

### SENIOR ASSISTANT CLERK

Douglas Thornton

### ASSISTANT CLERK

Seán Wixted

### LOCATION

Committee room 1



## Scottish Parliament

### Enterprise and Culture Committee

*Tuesday 28 June 2005*

[THE CONVENER *opened the meeting at 14:01*]

#### Interests

**The Convener (Alex Neil):** I welcome everyone to the 16<sup>th</sup> meeting in 2005 of the Enterprise and Culture Committee. I will deal with a few housekeeping points. I ask everyone to switch off their mobile phones. I have received apologies from Michael Matheson and I welcome Shiona Baird, who replaces Chris Ballance as the Scottish Green Party representative on the committee. I am sure that members want me to put on record our gratitude to Chris Ballance for his contribution to the committee.

I invite Shiona Baird to declare any interests.

**Shiona Baird (North East Scotland) (Green):** I have a few interests to declare. I own a business that lets out farm cottages and I own land at Scotston Hill, which is grazed by livestock belonging to the family firm, J S Baird and Sons, of which I am a sleeping partner. I am also a director and company secretary of the Tayside Foundation for the Conservation of Resources, which trades as Tayside Recyclers.

**The Convener:** Thank you. Christine May will also declare an interest.

**Christine May (Central Fife) (Lab):** For the purposes of the meeting, I inform the committee that I am about to register an interest as a member of the management steering group of the sector skills council for the financial services industry.

**The Convener:** I should mention that Richard Baker has said that he will be about 20 minutes late.

## Business Growth Inquiry

14:02

**The Convener:** We will take evidence from three panels of witnesses. Our first witnesses are Alan Wilson, the chief executive of the Scottish Council for Development and Industry; and Iain Duff, who is also from SCDI. The council conducted an inquiry into business growth 43 years ago, which resulted in the publication of the Toothill report. When the committee began its inquiry I telephoned Mr Wilson and asked him for a copy of the Toothill report, but he told me that all copies had been thrown out. However, I subsequently secured three copies, which I can lend him at no charge.

**Alan Wilson (Scottish Council for Development and Industry):** Thank you for the invitation to the committee. I apologise for producing a written submission that is 21 pages long—I did not notice until afterwards that it should have been six pages long. Members may divide the report by three and regard it as three separate reports. Perhaps then they will forgive me

I do not intend to make a long introductory statement. We undertook a Scottish business growth survey in 1994 and I am happy to give the clerk a copy of the report on the survey. Some of the principles that we considered in 1994 are similar to those that the committee is addressing. Two points came out of the survey: if a company wants to grow it must make a positive decision to do so; and if a company is to grow satisfactorily it must attract new blood and new management. I whisper that, because some people think that I have been at SCDI for far too long and that it might be time for SCDI to grow. Positive decisions and new blood are the two factors that enable companies to take off.

The second point that I want to make by way of introduction concerns business rates. In October 2003, we responded to a challenge that Andy Kerr set. He said, "Prove to us that if we freeze or cut business rates, the money won't be squandered, but will be invested in capital, research and development and employment terms." Of course, doing that is difficult; indeed, picking one taxation mechanism and saying what its impacts are can be almost impossible. Anyway, we tackled the impossible and surveyed our members. I have a short report here that summarises 100 responses that indicate that moneys were put back into investment, employment and research and development after the business poundage rate freeze in 2003. I raise that issue because I read in the press recently that the same old challenge was coming from the Scottish Executive. I would like to leave the report with the clerk, if he wants to look at it.

Thirdly, I read John McGlynn's interesting evidence to the committee last week. Members will recall that he talked about the Scotland House concept, and I would like to put a little flesh on what he said. As members know, Brussels has a thriving, multisector Scotland House, which brings together the private sector and the public sector in partnership. The building has been there for a considerable time. John McGlynn told the committee about the Scotland House in Tallinn, which is in its infancy and is driven by the private sector. He also touched on other possible Scotland Houses in Lithuania and Delhi. I know that Scotland Houses in Shanghai, New York, Dubai and Prague are also being talked about, and there are bound to be others.

Such operations are driven by the private sector, but we should ask where the public sector fits in, if at all. Where does Scottish Development International fit in? I imagine that it is not too worried about what is happening in Tallinn, as it is not there. I would be interested to see what happens in Shanghai and Delhi specifically, if proposals go ahead. Perhaps the focus should be on SDI becoming a partner with the private sector in those and other locations.

John McGlynn also mentioned in his evidence that there is doubt about the future of horizontal or mixed-group trade missions, which SCDI has organised for more than 40 years. If that is the case, we have won a stay of execution for one year—we bid for and received funding from UK Trade and Investment via Scottish Enterprise for one year only. I hasten to add that SCDI does not receive the funding—the companies that participate in the trade missions get it. We are worried about the long term, however, from April next year. We will certainly explore the possibility of continuing the programme, which, as I say, we have undertaken for more than 40 years with travel subsidy grants via the SDI system for company participants.

That concludes my opening remarks. I thank the convener for coming to Stirling a few weeks ago to address the SCDI's executive committee on the same subject that we are discussing today. I am conscious that we have yet to give the convener a written report about that, but it is sitting on our desks and will be with him soon. The Scottish Council for Development and Industry has also offered to organise meetings between committee members and our members throughout Scotland—I think that Aberdeen and Inverness have specifically been suggested—and that offer is still on the table, if any member wants to take it up. The issue is important and complex and I do not have a magic wand in my pocket, but we are happy to take questions and we will do our best to answer them.

**Christine May:** I have several questions so I will try to confine myself to asking some of them and hope that other committee members ask the rest. I am particularly interested in the report of the convener's address to the SCDI, just so that we can read what he said. I look forward to that.

The third-last bullet point on page 1 of your submission mentions your proposals for the Executive to reduce the poundage rate

"without increasing council tax or reducing funding to Local Authorities".

How, then, do you suggest that a reduction should be funded?

**Alan Wilson:** It should be borne in mind that there was a business poundage rate freeze in 2003. We estimate that that cost about £35 million. At that time, we asked for a three-year freeze because we started to use the description of realignment rather than recreating the uniform business rate. Let us assume that we are talking about a rough figure of £100 million; I believe that that could be found in the Scottish Executive's budget. I am sure that there will be screams of horror at that suggestion, but if the economy is number 1 on the Government's agenda then I am sure that it could locate £100 million.

**Christine May:** Thank you. I thought that you might say that, so my next question puts the point back to you. If, for example, that money was to come from the current budget for the Enterprise, Transport and Lifelong Learning Department, which element of that department would be best able to bear the loss of that £100 million?

**Alan Wilson:** That is a leading question.

**Christine May:** Yes.

**Alan Wilson:** Should I say that we should suddenly slice £100 million off Scottish Enterprise's budget? Jillian Moffat is behind me and she is already kicking me. I would have to leave that to the appropriate authorities; I do not want to be drawn into being specific.

**Christine May:** Thank you. I will leave that one sticking to the wall. However, the money would have to come from somewhere and you have suggested that it should be from some element of the Executive's budget.

My second question is about a subject that is dear to my heart—gold plating and regulation. You, and industry generally, speak to us quite a lot about regulation and how elements of regulation interact with other regulations to create what is sometimes argued to be an unfair burden. Do you have specific examples of regulations that you would contend have been gold plated? Are there particular spheres of industry in which you think gold plating is more prevalent?

**Iain Duff (Scottish Council for Development and Industry):** The issues that have been raised with us most recently seem to be in the environmental sphere, such as water regulation. Our members have recently talked to us about the burden on them of the duplication of regulation. They talk about new—mainly European—environmental regulations being passed when they are already compliant with existing regulations to a certain degree and how that means a whole new series of forms to fill in and requirements to meet. For example, I was recently talking to a business that employs two people solely to ensure that the company complies with environmental regulation.

That is not to say that regulation is a bad thing; we are not arguing that. Properly and efficiently applied regulation can raise standards and drive forward improvements in industry. However, feedback from our members indicates that where regulation is onerously applied and where existing regulation is built upon so that the hurdles seem to be being raised, the cost of compliance is high. The business I mentioned earlier is employing two people who are not producing what the business produces but who are there solely to ensure that the business complies with regulations, and that does not seem to that business to be particularly productive. From that point of view, it could be made easier to comply with regulation. It is not that our members are against regulation per se—they recognise its importance—but that it seems to be an added burden at a time when they are already going through several hoops in order to try to ensure that their companies are compliant and that they can produce efficiently. Recently, the main area of feedback has been on environmental regulation.

14:15

**Alan Wilson:** If I may, I will add a little to that. The member asked about specific industries. We have had dialogue with the whisky sector, which is particularly concerned that every single abstraction of water has to be recorded. The sector feels that that is over the top. We are not against recording abstractions, but representations from the whisky sector tell us that the ceiling should be raised to a meaningful level.

**Christine May:** Thank you. I have a comment and a quick question, which I hope will lead to a quick answer. My comment is that you will shortly receive a call for evidence from the Subordinate Legislation Committee on its inquiry into the regulatory framework. I hope that you will put that call out to your member organisations. The committee is very interested to hear the views of industry and particularly of those who have examples to give.

My question relates to the section on skills and management issues on page 3 of your submission. You refer to the network of young engineer clubs and suggest that

“Government should match this financial investment to enhance and extend this successful model.”

Did you mean that the model should be enhanced and extended to other areas of industry, or does the point relate specifically to engineering?

**Iain Duff:** The model could be extended to other areas. From the young engineers' point of view, SCDI has been driving the model through for many years—since the 1980s. It has been suggested that the model could be used to encourage others. We need to ensure that there is knowledge at the school and student level of what is available in Scotland. Some industries—perhaps those that are perceived to be less fashionable—could be encouraged to market themselves into schools, as we have done with engineering.

The whole idea behind the young engineer clubs is to ensure that engineering gets a proper place. We have to be careful that we do not dilute the message. We feel that the model works and that is also shown in the audits that we have done. The clubs serve to raise the profile of the industry and highlight the wide range of opportunities that are available in engineering. There is some merit in the idea of spreading the model to other industries.

**Christine May:** Thank you. Perhaps the SCDI could write to us with evidence on the progression of young people from young engineer clubs into engineering disciplines. It would be interesting to have the figures.

**The Convener:** That would be helpful.

**Murdo Fraser (Mid Scotland and Fife) (Con):** I have an observation to make on business rates before I launch into my questioning. Our new Minister for Enterprise and Lifelong Learning is on record as saying that he is in favour of a reduction in business rates. You may get your wish rather sooner than you think—perhaps.

My questions are on the section of your submission in which you address the support network. You say:

“It must be determined whether the array of business support initiatives are necessary and sufficient to support the requirements of Scottish business ... The cost effectiveness of the initiatives should be determined.”

I wonder whether that comment is intended as an implied criticism of Scottish Enterprise. Given the size of the budgets in the enterprise network and the fact that they take up a large part of the Enterprise and Lifelong Learning Department's overall budget, how effective is the network in

helping to drive forward business growth in Scotland?

**Alan Wilson:** The point that we are making is that there are an awful lot of schemes and initiatives that keep an awful lot of people busy in implementing and administering them. In general terms, we think that there could be streamlining. That said, there has been an awful lot of streamlining. I know that Scottish Enterprise and Highlands and Islands Enterprise have been working on reorganisation and refocus in order to ensure that what they spend gives value for money. As we are not privy to those reports, the question is difficult for SCDI to answer. We can only do so through consulting third parties—our members—and relate to the committee what they tell us. There is scope for more streamlining. Efforts have been made to have more services at the coalface and to take administration away from the LEC network and put it in the centre. That is positive but, generally, there could be more streamlining. I start to toil if I am asked to be specific, because we take a general view.

**Iain Duff:** The anecdotal evidence from companies is mixed. Some of them get an incredibly good service from particular initiatives; but others, as we say in our submission, have not been properly briefed on their options. I will give an example. When I was on the manufacturing steering group, I came across many companies that would have been eligible for regional selective assistance had they not fallen outwith a particular geographical area—RSA is a geographical mechanism. Some of those companies were not being properly briefed on other sources of finance. That finance might not have been as substantial as what they would have received through RSA, but it would at least have been something and it would have helped them to invest in what they were trying to do.

There has seemed to be a problem in the marketing of other initiatives. Some of those initiatives were very geographically focused—for example, a local authority might have had a pot of money for business support, but that pot would not have been available in other parts of the country.

We have spoken about the array of initiatives and about accessibility. Companies have felt that they were groping around in the dark. Somebody needed to turn the light on, because the opportunities were there.

We have no evidence to suggest that the existing initiatives are insufficient. As I say, we have heard reports of people getting exactly what they wanted from the support networks. However, in other cases, people were not properly informed about the options available to them.

**Murdo Fraser:** What is your view on the effectiveness of the business gateway, as

opposed to Scottish Enterprise as a whole? For many small and medium-sized companies, the business gateway is the interface with the network.

**Iain Duff:** We do not deal with it every day of the week, but reports suggest that the gateway is useful. Alan Wilson spoke about streamlining and a one-stop shop is the favoured model. The gateway is a one-stop shop at which people should be able to get all the information that they require. However, as I have suggested, individual experiences are mixed. Other than through general anecdotes, it is hard to determine how the gateway is performing. However, we have no evidence to suggest that it is not performing.

**Murdo Fraser:** I want to ask Alan Wilson one final question. A moment ago, you seemed to suggest that you were in favour of slimming down the LECs and centralising things at national level—at Scottish Enterprise level. Did I pick you up correctly?

**Alan Wilson:** I was referring only to administration—just the back-up services. What we require is more work at the coalface.

**Murdo Fraser:** Are you generally happy with the structure of Scottish Enterprise and with the devolving of responsibilities to local areas?

**Alan Wilson:** In recent times, Scottish Enterprise has gone in the right direction in the devolving of responsibilities. I am not sure that I would like to go further than that; I would like to assess where we are first. As you know, Scottish Enterprise and Highlands and Islands Enterprise are in perpetual change. No sooner have they got a structure than they like to change it again. It can be awfully difficult to take a measurement; you have to get out your Polaroid camera and quickly get a picture before it moves.

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** I would like to ask three questions. The first is broadly on education. I would like you to address a couple of points that were not really addressed in your submission.

From anecdotal evidence, the “Determined to Succeed: Enterprise in Education” programme is having a widespread and positive impact at an early stage in youngsters’ lives. It is fostering an entrepreneurial attitude and developing entrepreneurial skills. However, unless I blinked and missed it, you have not commented on that programme in your submission. Will you comment on it? In similar vein, I ask you, as I have asked other witnesses, to comment on the role that Scotland’s business schools might play in future.

**Alan Wilson:** The determined to succeed initiative has an £86 million budget over three years or perhaps longer. Teachers and



practitioners to whom I have spoken say that it is having an impact, but I was not frothing with excitement when it was announced. It was announced as though enterprise education was a new concept, although it has been around much longer than any of us who are sitting round the table. In the 1980s, SCDI undertook the enterprise industry education initiative—EIEIO—which was funded by the Department of Trade and Industry. It was only a little bit of seedcorn funding, but we managed to have more than 20 secondees for two and a half years. Our brief was to find 65,000 work-experience places for young people and 3,000 teacher places in business. We did that with no problem; the problem was the window of opportunity for youngsters going from schools into businesses because of the academic year and the curriculum.

Enterprise education and the creation of curriculum packs have been around for a long time; they are not new inventions. I wondered what on earth the initiative was going to do with £86 million and I am still wondering what it is doing with it. Every local authority has delegated responsibility for the initiative and every school has 0.4 of a teacher involved in it, so it must be making an impact, which I hope will be sustained in the longer term. I welcome what is happening, but I would like to see some proper, deep evaluation of the determined to succeed initiative before I wave too many flags.

On your question about business schools, you might have seen from my curriculum vitae that I spent some time at the Massachusetts Institute of Technology in Boston in the early 1990s. As Frank Blin said in his evidence to you, people who are looking for a mid-career experience probably do not want to go to somewhere on their doorstep in Scotland; they want to go to the US or Europe, for example. From a mid-career management viewpoint, I have encouraged my colleagues to consider doing that, because I found it rewarding. That means that I have not been to a business school in Scotland, so it is hard for me to make a comparison. Iain Duff is a bit closer to the business schools, because he is on their academic boards.

**Iain Duff:** Well, I am involved in the business school at the University of Strathclyde.

Business schools should have an increasing role in training Scottish managers. That potential needs to be tapped. A few years back, some of the financial services companies proposed introducing their own business school to train managers. I do not know whether that suggested that there were deficiencies in the existing business schools, but I remember being quoted in the press as saying that those companies should encourage and engage with what we already have.

There is a role for our business schools in thinking about what type of skills we want our managers to have. They are obviously doing good work. The business schools at the University of Strathclyde and the University of Edinburgh have fairly good reputations that they should build on, as their potential is untapped at present. There is certainly a role for the business schools if we are serious about ensuring that our managers have the right skills. We touch on that in our submission.

We mention the determined to succeed initiative in our submission, but only in passing in paragraph 50, where we say that we should ensure that it engages effectively. We have no involvement in running the programme—I understand that we are not allowed to call it a scheme—so we want to see the effects over the longer term. Obviously, a programme such as the determined to succeed initiative will take time to produce real results, so some sort of on-going audit is necessary to ensure that the initiative engages effectively—a bit like the evidence that we gather on our young engineers clubs—before we get too excited about it.

However, SCDI has put its name to supporting the determined to succeed initiative. I think that Alan Wilson is on some sort of board or grouping that helps to spread the message about it and we have had presentations on it given to our members so that they can engage with it. The initiative is not something that we do not pay any attention to. We would like it to succeed, but we would like to see more evidence of what its impact has been.

14:30

**Susan Deacon:** That is helpful.

I have two more questions on potentially big subjects, so I am simply looking for an indication of your thoughts. My first question is on planning reform. You have correctly identified the importance of planning reform and why it is needed for a number of reasons. Will you elaborate a little on what the planning system should look like and how it should operate, especially given that the Minister for Communities will make an announcement on planning tomorrow? What would you like that announcement to include? I make a plea that you do not simply tell us that you do not want third-party rights of appeal—we will take that as given. I ask you to try to move away from the overpreoccupation with appeal rights and help us to think about how we can move towards a planning system that everyone would welcome and that would operate more effectively than the current system.

**Alan Wilson:** I will comment first—Iain Duff can then comment and elaborate on what I have said. We are looking for more automaticity in the system. I have been told that the white paper will be quite radical; we hope that it will be. We want local authorities to be instructed to keep their structure plans up to date and under revision and to consult their constituents fully about the plans every five years. Vigorous consultation should take place regularly rather than piecemeal. I think that Iain Duff wrote all our papers on planning, so perhaps he will want to comment.

**Iain Duff:** It is right to say that the Scottish Council for Development and Industry has never been against just third-party rights of appeal, although we do not think that they are helpful. The parallel Executive consultation on modernising the system is equally important. To summarise, we took planning advice from experts and concluded that the system as it stands is a barrier to development. Without any changes in legislation, the system has turned itself—almost while nobody was looking—into a barrier to development rather than a supporter of sustainable economic development.

As Alan Wilson said, we must first ensure that local structure plans are up to date and that they are relevant to the economies and areas that they are designed to help to structure. We must also ensure that local debates and other debates are up front early in the process so that all the ins and outs of matters, such as who objects to what, are taken into account. Developments must be viewed as being good for the economy and must not damage the local environment. All the competing views should be considered early so that they can be thrashed out. People can then move forward with the best consensus that can be achieved to develop local plans that are—I hope—based on a national plan. The Executive and others should form such a plan using top-down and bottom-up approaches that meet in the middle so that there is a proper structure and hierarchy of plans that allow as much consensus as possible in every area. Most people should be able to agree with the plans and should understand why decisions have been taken on the issues that have been thrashed out.

There should be transparency and early discussions and we should ensure that the resultant plans are kept up to date. The process will be on-going. In some instances, structure plans are several decades out of date and have no relevance to the local economies, so resources must be made available to keep them up to date and to ensure that everybody is aware of what they are trying to achieve.

**Susan Deacon:** Thank you very much for that. As I said, I am conscious that we could discuss

the subject for about a day and a half. Have I run out of road or can I ask my third question?

**The Convener:** One quick question.

**Susan Deacon:** Will you comment on the importance of city regions? I was struck by the section of the submission that goes into some depth about what needs to be done about the rural economy, but it does not talk about city regions and how the smart, successful Scotland strategy and other key work has identified how important they are.

**Iain Duff:** We supported the city region concept when it was announced. However, I visited Fife recently and was reminded that it is important that there are cities and regions and that there is some concern in areas that do not have a city—such as Fife—that there may be a hierarchy of priorities. It is very important to consider the regional dimension and to ensure that the plans for the regions have parity of esteem with the plans for the cities.

I do not think that there is any doubt that the cities drive the economy, but the regional aspect and the rural dimension are very important and must be brought into the plans. There seems still to be some doubt about where that sits in the hierarchy of the city regions. More work has to be undertaken to ensure that regions outwith the cities do not feel that they are being left behind and are unprioritised.

**Alan Wilson:** The city region concept is not overly popular in Ayrshire, either.

**Iain Duff:** We are supportive of the concept, but a balance must be struck.

**Christine May:** Although I agree with every word that the witnesses have said, I did not bribe them.

**Dr Wolfgang Michalski (Adviser):** I have one very simple question. There are 39 points in your summary. Some of them are factual statements, such as the first and last points. Some of them do not address the policy makers, such as the third one or the last one on page 3. If you were to consider only the points that you address to policy makers and were asked for your five most important priorities, what would they be?

**Alan Wilson:** I am glad that that was such a simple question.

**Iain Duff:** We did not really think about that, but there are certainly points on which the policy makers could have a short-term impact. I will not put them in any particular order.

Business rates would be one priority because it is within the power of the Scottish Executive to sort that almost immediately. When I was putting our paper together, it was suggested to me that

the issues that are listed towards the end of the paper are the most important and that all the items before that, such as business attitude and the support network, are secondary to the general economic or infrastructure environment that the Executive can provide. We have touched on planning and the transport initiatives that are coming through. There has been much improvement in investment in transport and the Executive has started to progress many of our priority road and rail schemes. The transport network, business rates and planning are three of the areas.

I suppose that there could be more support for the fresh talent initiative to address economic migration, and for ensuring that we have appropriately resourced education so that we get the skills that the economy needs. There is a tie-up in that respect with what we will hear from Futureskills Scotland later. There is important work to be done on where the Scottish economy is going and the skills that we need in order to achieve our goals and visions. I think that I have given you five points.

**Alan Wilson:** We also have to produce, whether through higher education or further education, young people who are entrepreneurial and who have a grasp of enterprise. That goes back to Susan Deacon's questioning on "Determined to Succeed". Young people leave university or college and look for jobs; they do not seek to create their own jobs, but their doing so is the sea change that we want recent investment in the education system to achieve.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** I might be getting into slightly controversial territory, but I want to return to Murdo Fraser's line of questioning because I am genuinely interested in it.

I want to press the witnesses on two points. You talked about streamlining backroom functions. Murdo Fraser and I both have an interest in the enterprise network in the Highlands and Islands—Murdo hails from Inverness. Many backroom functions such as payroll management could be unified. You spoke about the coalface, but could there be savings in bureaucracy charges if the local enterprise companies were more co-ordinated? I am not necessarily advocating that, but I would be interested to know your opinion. *[Interruption.]*

Christine May may laugh, but I will turn to my second question. When the Conservatives changed the enterprise network in the early 1990s, they did so because they wanted to introduce more of an enterprise ethos into the network. Hence the creation of LEC boards and the Highlands and Islands Enterprise board, which involved businessmen. If I were to suggest that a

LEC board does not operate in quite the same way as the board of a private limited company—either in the method of appointing directors or in the work that directors do—would you agree that the philosophy of the early 1990s is now redundant? Should we move away from the hybrid beasts that are LEC boards?

**Alan Wilson:** When Tom McCabe addressed a recent Convention of Scottish Local Authorities conference, he dropped hints about streamlining, co-operation and partnership working, which put a few local authorities into defensive mode. However, that type of co-operation and partnership—considering critical mass and savings in overheads—will have to be looked into. That is true in every sphere, not only for local authorities; I use local authorities as an example simply because there was some recent coverage of such issues.

Why should HIE have a separate administrative system from Scottish Enterprise? I do not know. They provide certain services and I would need some convincing as to whether they require one backroom set-up or two. I welcome the fact that the LECs have had to reshape, because having so many backroom set-ups for the LEC network was ridiculous.

Jamie Stone asked about the LECs' structures. I am not all that close to the LECs, but the key is to get local businesspeople involved. The LECs have to be accountable and local involvement is as good a method as I can think of. That should continue because it is no bad thing. What was your second question?

**Mr Stone:** The structure of LEC boards was intended to emulate what was then perceived to be the structure of boards of private companies. Businessmen would come in and act as company directors to a certain extent. Some evidence suggests that the structure might not be working quite as was intended. I am thinking not only of the method of appointing directors, but of directors' responsibilities. It could be argued that the day-to-day running of a LEC falls on the shoulders of the chief executive and his team rather than on the shoulders of the board; although the opposite could also be argued. Notwithstanding what you said about local involvement, is the present model redundant?

**Alan Wilson:** I am not close enough to LECs to advise on their structures, but the principle of local involvement should stand. I am not one who gets greatly excited about structures. What organisations do is far more important.

**Shiona Baird:** I have just read my first set of papers for the Enterprise and Culture Committee, which I have found really interesting. The SCDI submission was quite challenging—I liked your

reference to the rural economy and how it can be neglected to a certain extent. You mention an enforceable protocol from farm gate to plate. Can you elaborate on that?

14:45

**Iain Duff:** The SCDI is a broad kirk. The farmers, the NFU Scotland in particular, are strong members of the SCDI and such a protocol is certainly an issue for them. Such a mechanism would support the rural communities in that at each stage in the supply chain sufficient profit could be made to ensure that businesses are sustainable in the longer term. The structure of the industry seems to squeeze costs out of the system right down the chain. The consumer is the beneficiary of that process, but quality could suffer because of the squeeze on costs at each part of the supply chain.

**Alan Wilson:** I could see a few of our supermarket members resigning right at this minute. I know that it is a free market and all that, but the point was made that ultimately the people in the supply chain are at the beck and call of the big, powerful supermarkets. The issue is how to establish a more equitable supply chain. An enforceable protocol is one of the suggestions that have been made. As Iain Duff said, the suggestion was driven to some extent by NFU Scotland, but it was supported by other members of our broad constituency. They feel that the matter requires attention because it is so important to rural economies.

**Iain Duff:** Quality is one of the aspects that helps to insulate against a focus only on reductions in price. Farmers and other people who are part of the rural economy must be aware of how to market their produce and ensure that quality is as high as it can be so that there can be a price premium. They can thereby ensure that they do not compete on the basis of price alone. It is a hard battle—there is obviously a global market for food and other commodities.

**Shiona Baird:** Most people would accept fair trade across the board.

I have another couple of points to make. I note that paragraph 69 on page 22 of the SCDI submission states that

“development and the environment are”

not “mutually exclusive”. We advocate that view. How do you get the message across that energy efficiency and waste minimisation are a cost benefit to businesses?

**Alan Wilson:** We work with various organisations, such as the Scottish Executive Enterprise and Lifelong Learning Department at Meridian Court. It has an energy efficiency unit

and we have recently had a series of seminars throughout the countryside with people from the unit. We are also working with Envirowise to encourage our members to take Envirowise consultants in and to minimise waste, which will be to everybody's benefit. It is not a hard message to get over—people are extremely aware, especially in the current climate of rising energy costs, that their being indulgent will backfire, not only on businesses but on the community.

**Shiona Baird:** There is the usual story in that smaller businesses perceive that it will take more time to address those issues because bigger businesses can employ energy efficiency officers to address the issues.

I was interested to note your point that gross domestic product has its limits. How did you arrive at that conclusion and what indicators would you like to see included?

**Iain Duff:** We touch on what we call quality of life measures. Our sister organisation, the Scottish Council Foundation, has done quite a bit of work over the years on trying to broaden out the measures. It is about trying to articulate assets, such as a certain type of environment that represents a benefit. The question is whether a measure can be applied to that, which could be included in the core GDP so that the indicator can be widened to show where, in comparison with other countries, we sit in respect of assets that should be counted but are not included under the pure GDP figure. Measures can be taken; for example, greening of the national accounts, which the Office for National Statistics does in order to try to include such matters. However, we are trying to find ways of measuring the benefits of Scotland as a clean and green place, as I describe it in our submission. There are ways to do that, but they are not widely used because it can be difficult to find comparators between countries and areas.

GDP is a well recognised and relatively well-understood measure of economic progress, but there would be benefits to acknowledging that what it tells us is limited. The economic community is aware of that, but the question is how we move to another measure of economic progress that is as well understood and for which the data are relatively easily constructed. We talk about quality-of-life measures—for example, the benefits to Scotland of the wilderness in the Highlands. In showing the progress that Scotland has made, can we include the fact that, year after year, that wilderness is still there and is untouched and relatively pristine? Such measures should at least be considered; GDP is not the be-all and end-all.

**The Convener:** When we took evidence last week from the Science Foundation Ireland, it was clearly suggested that one of the four key drivers of the business growth rate in Ireland is

international marketing of Ireland in exports, inward investment and technology. You are primarily in the export business rather than inward investment, and you make the point in your submission that a company that is growing is most likely to be a company that is exporting. Is Scotland realising its export potential?

**Alan Wilson:** That is another simple question. As you know, the European and External Relations Committee has just held an inquiry into promoting Scotland worldwide. Its report on that is to be commended, although I am not too impressed by the Scottish Executive's response, apart from a few boxes that it ticks. An enormous effort went into that committee's inquiry. The answer to your question—which I also gave in written evidence to the European and External Relations Committee—is that, if we are being kind, we would say that we do not know whether Scotland is realising its export potential, but the real answer is that it is not. We could harness far more activity in the international arena, especially in the small and medium-sized enterprise sector. A sales job needs to be done on some of the organisations and companies in that sector, but the market potential definitely exists. The problem is usually the resource implications. A company might be too busy because it has a big contract to deliver to England, and does not plan for three to five years down the line, which it should do. Enlargement of the European Union is upon us. We have advocated getting SMEs into countries that have similar populations to Scotland. Some of the companies that have done that are doing extremely well as a consequence.

I could go on for another hour on the subject, although I am sure that you do not want me to. If you will allow me to leave another piece of paper with the clerks, I will leave evidence that we gave to the European and External Relations Committee. It is a speech that I gave on the subject some months ago.

**The Convener:** If we are not realising our potential, what can the public policy formulators do apart from get more companies to export and get some of the existing exporters to diversify into new export markets? Is SDI the right agency to be given primary responsibility for export promotion or would it be better done by an organisation such as the SCDI or a private sector-driven organisation such as those that John McGlynn mentioned?

**Alan Wilson:** The inevitable answer is that a partnership exists. We will get nowhere if individuals plough their own furrows; a partnership approach must be taken. We should bear it in mind that SDI had a budget of £18 million, which I think has risen to £20 million. It had 40 overseas representatives in 22 countries: that representation will just about double. Great

investments are being made in Scotland's representation internationally but, as I have said to SDI officers, that is still a secret because people do not understand the network that is available. If they did, they would make inquiries. There are different ways to spend the £18 million.

**The Convener:** If marketing at home is not very good, does that suggest that it ain't very hot abroad, either?

**Alan Wilson:** The answer that SDI gives is that marketing is targeted. It would be best to ask SDI about that.

My next point is about a principle. VisitScotland is anxious to start working outwith the umbrella of VisitBritain. It should be encouraged to do that, but it should be encouraged to do so in tandem with SDI. The last thing we want—I am not saying that it will happen tomorrow—is for VisitScotland to open offices to replicate the wide network that we already have. Joint investments should be made for Scotland.

**The Convener:** A network of embassies.

**Alan Wilson:** No—those are your words. We should leave such work for Scotland Houses.

**The Convener:** We have covered our questions and we have run out of time. The written material was extremely helpful and members will see the additional material that you have supplied. I thank both witnesses for their helpful evidence.

The second and third panels will focus on the skills agenda. Papers from the Financial Services Skills Council, CITB-ConstructionSkills and the Sector Skills Development Agency have been circulated.

I welcome Mary Greene, who is the business development and research director of the Financial Services Skills Council; Graeme Ogilvy, who is the Scottish manager of CITB-ConstructionSkills; and Kieron Gavan, who is the director of employer engagement at the Sector Skills Development Agency. The panel will discuss people and skills issues. Thank you for your submissions. Will you say a few words of introduction?

**Kieron Gavan (Sector Skills Development Agency):** I thank the committee for the opportunity to appear, which is much appreciated. As members will gather from our purpose, we are totally committed to the skills agenda and to what skills can do to grow the economy in Scotland, improve GDP and do the best for individual life chances. The economic purpose and the social agenda are connected.

We have enjoyed much support in Scotland and our relationship with the Scottish Executive could not be better. If I leave the committee with nothing

else, I would like to leave it with the thought that we are grateful for the welcome reception that we have had in Scotland.

15:00

**Mary Greene (Financial Services Skills Council):** I will focus on three main aspects of the Financial Services Skills Council: our role in Scotland; why there is such a need for sustainable business growth in financial services in Scotland; and the way forward. I will speak for just a few minutes, if that is okay.

I will give a brief background to the council. Our main brief is to provide strategic direction and leadership on workforce development, education and training. We want to improve productivity and business performance. We want to ensure that we have the right people in the right place at the right time. At the Financial Services Skills Council, we act as a bridge between employers and the Government. We do that well because we have such good reach into the financial services community. We are keen to ensure that we address the skills gaps in the next five years and help the industry to be in a good position for the next 10 to 15 years so that we get the good, sustainable growth that we need.

We also act as a catalyst. We group together all the different strands in financial services—the colleges, the institutes, the training providers and so on. That is important, because the industry tends to be quite fragmented. As we state in our submission, we cover a cross-section; we deal with the Royal Bank of Scotland, Standard Life and HBOS, but we also deal with the SMEs, which represent 98 per cent of the financial services market. We do that work through our national manager, Paul Devoy, who is based in Edinburgh and is here today. We have set up a steering group to ensure that we capture and communicate the views of the large companies and the SMEs.

The financial services industry in Scotland is a true success story. It is no secret that Scotland is a leading financial centre in Europe. Four of the top five companies in Scotland are financial services companies, and without financial services Scotland could have been in recession in the past five years. The story has been great so far, but there are danger signs ahead. I highlight three challenges. First, we have more vacancies at a high level than any other sector in the country. Secondly, regulation is moving from one subsector to another in the industry. As we heard earlier, that brings additional costs and the need for extra staff.

The third and most worrying area of concern is offshoring. Increasingly, companies are being put under a great deal of pressure to transfer jobs overseas. When we question why they do that, we

find that it is not always done to save costs. Sometimes it is due to skills shortages in areas such as communication, information technology and customer services. We want to stem the flow of jobs that has hit the industry in England, with banks and insurance companies transferring jobs overseas. We do not want that to happen here in Scotland, but we can ensure that it does not happen only by growing our own talent pool. If anything, we want to see particular roles coming into Scotland. I take the point that we should examine the marketing side of the industry.

Frankly, financial services have been their own worst enemy. The industry has made a lot of investment in training, but it has never asked for any investment or help from outside. If we are to grow financial services in the future in the way that we want, we will need assistance. The industry cannot go it alone.

I will give a brief outline of the next steps. The committee might have come across the sector skills agreement. That involves a complete skills audit in the industry, which will consider what the skills issues are, how skills are provided and where the gaps are. An action plan will then be developed. However, that costs money. The financial services industry invests £300 million per year in learning and development but, frankly, with the costs of regulation, outside competition and globalisation the industry is not in a position to continue to invest money at that rate. Bearing in mind the contribution that the industry makes to the economy, we hope that the committee will think kindly and consider helping with investment for the future.

**Graeme Ogilvy (Construction Industry Training Board):** First, I apologise for not providing a written submission; I was not back in the office before the deadline. Would you like me to give a five-minute oral presentation?

**The Convener:** Yes.

**Graeme Ogilvy:** I start with some statistics from the Scottish construction skills survey, which was carried out in conjunction with Futureskills Scotland. There are some 9,500 construction workplaces in Scotland, 55 per cent of which have fewer than five staff. Employers with more than 50 staff account for 42 per cent of employment. The survey reported that there were 3,300 vacancies—2,300 were hard to fill and, of those, 1,400 were due to skills shortages.

Now for the good news. Last year, we enrolled 2,219 modern apprentices; given that Scotland accounts for 9 per cent of the UK's population, that represents a very successful 25 per cent of the UK total. That success story is due in part to the excellent work of our education team, which aims to impact on 20 per cent of Scotland's schools in

an 18-month period. Construction is becoming a career of choice. Last year, 10,000 youngsters applied for our modern apprenticeships. In addition, the universities are continuing to produce built-environment graduates—Glasgow Caledonian University is the largest provider in the UK.

The survey showed that 51 per cent of Scotland's construction companies train. You may think that that figure is not too good, but compared with the English figure of 25 per cent it shows the willingness of Scotland's employers to train for future skills needs. Recently we targeted employers who do not train and we hope this year, with Scottish Enterprise's help, to raise the figure for those who train to 65 per cent.

As 57 per cent of employers use subcontractors, the way to grow the construction industry is through the supply chain. That requires long-term commitment from main contractors to sell it to the supply chain, which requires long-term procurement agreements from public sector clients. For example, under South Lanarkshire Council's framework agreement, the council secured funding for its primary schools renewal programme. That allowed it to look for a partner to design and build the schools, to fund their development and to maintain the assets once they have been handed over. Two companies—Mowlem and Bovis—have 10 schools each.

That programme works, and the supply chain has bought into it, because the chain's members were briefed by the contractor and the client to demonstrate the commitment to the community. The duration of the framework was five years, so they were able to look at what they could do for the local long-term unemployed and local apprentices. Members of the supply chain understood the commitment from the client and the contractor and are beginning to take on local people at a high rate. Not only does that develop local employment initiatives, but it allows the 55 per cent of companies with fewer than five staff to have the confidence to grow and perhaps become the major employers of the future. That is also evidenced by Glasgow Housing Association's five-year refurbishment programme, which was announced yesterday; it has been stated that 799 jobs will be created and 129 apprentices will be started.

That situation works in the central belt, where access to training and colleges is relatively easy. In the Highlands and Islands, we are about to pilot mobile training rigs to address the geographical problems. We have developed a virtual learning platform, which is embedded with learndirect Scotland and has the collaborative support of learndirect Scotland and the Scottish Qualifications Authority within our sector skills

agreement. It will be used as a learning tool and a careers tool. We have developed a health and safety package and are looking to develop a hazard warning package, which will attempt to address Scotland's deplorable health and safety record. The platform, which has been developed in Scotland, is about to be rolled out throughout the UK. It will enable the health and safety testing of European Union workers prior to their coming to this country.

ConstructionSkills considers that, if the supply chain's concerns about a long-term commitment are addressed and a flexible approach to learning, which considers geographical restrictions, is taken, sustainable business growth can be achieved in the construction industry in Scotland.

**The Convener:** Our agenda states that you are from CIBT-Construction Skills. For clarification, should that be CITB?

**Graeme Ogilvy:** Yes.

**The Convener:** And you are one and the same thing?

**Graeme Ogilvy:** ConstructionSkills is a sectoral skills council, but I am also from the CITB, which is the old training organisation.

**The Convener:** But are they two separate organisations?

**Graeme Ogilvy:** No, they are one and the same.

**Mr Stone:** I was interested in what Mary Greene said about the financial services industry in Scotland being crucial. I would like to probe you on the issue of critical mass. Back in the 1980s and 1990s, we saw many London-based firms being swallowed up; for example Morgan Grenfell was acquired by Deutsche Bank. That went right through the City of London.

Let the good Lord be thankit that the Royal Bank of Scotland is as big a player as it is. However, even an important and top-quality company such as Baillie Gifford is quite small in the scheme of things. Notwithstanding what you say about investment, training and developing the skills pool, what can safeguard our locally based high-quality smaller operators, such as Baillie Gifford, against being swallowed up and offshored in a far more worrying way to Tokyo, Berlin or New York?

**Mary Greene:** The experience that I have had, having been in financial services since the early 1970s, is that once a company has its own client base, a good reputation and a niche market it can hold its own much better than can other types of adviser, whose products customers could access via the internet. It is hard for the customers of any specialist company that has gone into a particular field of expertise and provides specialist advice to

find other ways to market. There will always be the danger of mergers and acquisitions, and we have seen many good high street names, even going back five or 10 years, that no longer exist. There is no guarantee that that would never happen. All that we can do is to ensure that companies specialise and that they have the necessary skills; we will help them in any way we can to stay where they are.

**Mr Stone:** Can a small company with local, specialist knowledge compete against a big company that is based somewhere else, despite the fact that the big company might have four times as many analysts, four times as many computers and four times as many ways of looking at the Wood Mackenzie index?

**Mary Greene:** It can, because 98 per cent of the financial services market is made up of SMEs with anything from one to 99 employees. It seems remarkable that we can, at times, listen to and almost be seduced by the large companies and believe that it is a cash-rich market. In reality, however, that represents only 2 per cent of financial services, so we still have 98 per cent of companies that are SMEs.

**Mike Watson (Glasgow Cathcart) (Lab):** I am particularly interested in the two individual sectors that we are dealing with. In his introductory remarks, Graeme Ogilvy talked about the number of modern apprenticeships in Scotland; I think he said that we have 25 per cent of the number for the whole of the UK. That is a phenomenal rate compared with Scotland's proportion of the population. To what extent can that number fill the current skills gaps, and to what extent, if it is projected forward, will it be able to fulfil likely skills gaps in the future?

I live in Glasgow, where there always seems to be a lot of building work going on. It is well known—Scottish Enterprise Glasgow will tell you—that there are difficulties in getting enough skilled people in Glasgow to undertake that building work. As a result, a lot of the benefits of that work flow out of the city. In the longer term, for Scotland as a whole and not just for Glasgow, will those apprenticeships ensure that the skills gaps will be filled in the generation ahead?

**Graeme Ogilvy:** First, I should say that Scottish Enterprise Glasgow is the lead LEC for construction; it has £30-odd million to spend over the next few years. With the help of Scottish Enterprise Glasgow, we have addressed the training plan route and tried to get into companies that did not train before. I gave the figure of 2,219, which was last year's figure. This year's figure looks as if it will be anywhere between 10 and 20 per cent up on that.

You asked whether that addresses the skills shortages, and the answer is yes and no. It

depends on how many people are dropping off the top end. I suspect that, out of a workforce of 110,000 in Scotland, we are probably losing about 1,600. We are eating into the shortfall, but we will not get rid of it in three or four years. It will take longer than that, but it depends what Government does. We have had a meeting with the minister who is responsible for construction, Allan Wilson, looking at the procurement route and the requirement to employ a qualified workforce and to train people. If that comes into being, there will be a lot more training and we could be another 1,000 apprentices up, which would have a direct effect on the situation.

15:15

**Mike Watson:** Can your sector cope with the additional training? If, as you say, you are losing 1,600 people a year, what effect will that have on business growth, particularly in the smaller companies? I think that you said that 55 per cent of workplaces have fewer than five people working in them. To what extent is the need for additional skills likely to be a factor in driving up the size of those construction companies so that they can contribute further to business growth?

**Graeme Ogilvy:** We are told by the industry and by the big companies—the Bovises of this world—that it is not just the big companies that gain from public procurement contracts of five years' duration or longer, but the smaller companies down the supply chain. We have to look at the specialist company—the one-or-two-person band. That sort of company will take on an apprentice or more employees only when they have some security or workload. If they are to grow beyond the 50-worker company size, I agree that they will need other skills, including management skills. We are addressing that issue.

**Mike Watson:** Is there a difference between indigenous Scottish companies and those that are not headquartered in Scotland but which happen to do quite a bit of work in this country in terms of their propensity to take on apprentices or to train existing workforces to refresh and modernise skills?

**Graeme Ogilvy:** It has always been a tradition in Scotland that Scottish companies—whether they are indigenous or have branch offices here—train their workers. Something in the Scottish culture must make that happen. We have not noticed any great difference between the two sorts of company. One concern is that, if 25 per cent of the UK total workforce is trained in Scotland, we could see the usual story of people being educated in Scotland and exported elsewhere. That is the big worry.

**Mike Watson:** Mary Greene's submission contains some interesting facts on skills



shortages. You say that, largely because of skills shortages, the financial services sector

"has the highest Vacancy Rate ... of any sector in Scotland".

Where are those skills shortages? Where are we not up to the mark in that respect?

**Mary Greene:** The shortages tend to be in the softer skills. Communication, team-building and problem-solving skills tend to be needed more in call centres. The people who go into call centres tend to be those in the younger generation for whom some of the more robust communication skills that we develop as we get older are not in place. If young people are not taught those skills at school, it becomes more difficult to get them into that sort of call centre.

Young people can find that call centre jobs are not particularly stretching, which can lead to high staff turnover, particularly in financial services call centres. Any information that call centre staff give over the telephone is regulated. Call centre staff may move from a financial services call centre, where they have had to be very careful about what they say in terms of giving financial advice, to another type of call centre across the road that may not even be regulated. The person may even get a higher salary level in the second call centre and find that the regulatory requirements are not quite so demanding.

**Mike Watson:** When you talk about core skills, are you talking about the skills with which young people emerge from school or even college or university?

**Mary Greene:** It is a combination of both. Young people coming out of school can have issues with numeracy or literacy. Sometimes they do not even make it on to the short list for financial services jobs. Recently, we conducted a core skills survey. When the consultant visited the financial services companies, it was clear that the companies had not identified the problem and yet, when they visited the recruitment agencies, they were told an entirely different story. It became apparent that the agencies were doing quite a lot of the filtering. Frankly, we are talking about a combination of basic core skills and people skills such as communication, IT and customer services skills. Work needs to be done on those areas.

**Mike Watson:** Another customer service issue arises from the choice by several companies in the financial sector to indulge in what you describe as offshoring. If companies can do that and ship jobs to India, because they pay much less in basic salaries there, what is the incentive to train people in Scotland, far less the UK, in the skills to fill the gaps that you have identified?

**Mary Greene:** The aim is to create higher skilled jobs. Any time that we consider training people in

basic core skills for transferable jobs, a danger can arise. The way forward is to train people for highly skilled jobs in financial services that are difficult to transfer to the other side of the world, because even if that is done, a contingency plan must be in place to ensure that if anything happens to the function overseas, another function can slot in quickly. The way forward is to start creating for youngsters highly skilled roles that cannot be transferred overseas.

**Mike Watson:** That impacts on the point that was made in one submission that if an employer provides training, it has a greater chance of retaining employees.

Your submission says:

"Employment in Financial Services in Scotland has grown by 22 per cent over the last 10 years compared to 1.5 per cent employment growth for Scotland as a whole."

That means that the financial services sector makes a disproportionate contribution to Scotland's economy, which is still growing, although today's figures show that the growth rate is slightly less than that of the UK as a whole. Is the skills training that the sector must provide in London—that is not a typical part of the UK, obviously, so perhaps one of the English regions would be a better example—different from that in Scotland, because Scotland's growth rate lags slightly behind that of other parts of the UK?

**Mary Greene:** I do not believe so. Everyone in financial services wants to be more competitive, so whether people do well or not as well, they want to keep at the leading edge, so they always look to develop their communication skills, technical knowledge and regulatory knowledge. Knowledge is not needed more in one pocket than in another, because regulation from the Financial Services Authority hits the whole UK.

**Mike Watson:** You also make the point that

"The qualifications that small firms must undertake to comply with FSA regulation do not attract any Government Funding".

Has the sector made representations to the Government to try to change that?

**Mary Greene:** As I said, the financial services sector has always tended to be self-sufficient and to regard itself as a private sector. It has never sought funding. However, the cost of compliance with regulation is hitting the market and it is not too far from the mark where the sector would ask for assistance.

**Christine May:** In the interests of good socialism, I have one question for each witness. My first question is for Kieron Gavan and is largely about what Mike Watson just asked about. Futureskills Scotland's submission contains a table of figures on skills that are lacking among

employees with skills gaps. The table confirms what Graeme Ogilvy and Mary Greene suggested were the skills gaps. The report that we will consider later from our adviser, Dr Michalski, says:

“the life cycle of acquired knowledge is increasingly shortening”.

It also says that more emphasis should be placed on horizontal capabilities, which are the cross-cutting elements. What are you doing to ensure that appropriate emphasis is placed on cross-cutting skills, which would help to address some skills gaps?

**Kieron Gavan:** As well as taking a sector-based approach to the establishment of skills councils—when all 25 councils are in place, we will cover 85 per cent of the UK workforce—we have a series of initiatives and strategies, including the IT user strategy and a management skills strategy, that cut across every sector. The skills councils are responsible for the IT industry; however, even though MSPs, for example, do not work in that industry, you still have to use IT equipment. As a result, we work in the sectors—our efforts can be seen mostly in skills agreements and in the work of our colleagues in the skills councils—and are also addressing the issue of cross-cutting skills that are useful across the board.

Mary Greene was asked about customer service skills and how we can stop the offshoring of call centres. Of course, such developments cannot be stopped, because they are based on commercial decisions. However, if your call centre closes down or moves to Mumbai, having generic customer service and communication skills will dramatically improve your general employability. As far as that part of the agenda is concerned, we are more concerned about employability, re-employability and the contribution that skills can make to GDP than we are about a particular sector of the industry. As I have said, we recognise that those cross-cutting themes are particularly important for GDP and individual employability.

**Christine May:** To what extent does Mary Greene agree that the financial services industry has contributed to its own recruiting difficulties because of the relentless pressure to keep down overheads and to ensure that the workforce is flexible? Have you to some extent created a very casual working environment that people do not find attractive?

**Mary Greene:** I think that the problem emerges a step before that. Some students are not even aware of the financial services industry; it is not their first-choice profession, because they do not think that it offers a career pathway. They know that they can enter the industry with various levels of qualification, but there appears to be no

complete career route map that shows what people with, for example, mathematics or arts degrees can become. We need to address the question of how students develop a chosen career in the industry.

On the question of what happens to students who enter the financial services industry, it all depends on the particular function that they choose. It is true that, if they are in sales or a call centre, they will be under a lot of pressure. After all, they will have to answer calls and produce results within a certain time. However, the people who gravitate towards sales generally tend to be extrovert and like to work under pressure. Frankly, such work only represents one or two of the whole range of financial service functions.

Perhaps we should consider that matter from a marketing perspective, because people seem to feel that our industry attracts only those with finance or maths degrees. However, very creative people can go into marketing, and those who are good at customer services and meeting people can choose from many different functions. I have to say that some of the media attention that we receive does not always make people want to gravitate to the financial services industry for a profession.

**Christine May:** I take it that you do not accept my premise that you have contributed to your own difficulties.

**Mary Greene:** In what way?

**Christine May:** By the relentless pressure to keep costs down and to ensure that the workforce is flexible. After all, employees have no job security and can be hired and fired at will.

**Mary Greene:** That brings us back to earlier comments about regulation. I do not think that regulation is a bad thing because, as a colleague said earlier, it raises standards and provides a framework. However, the costs of having to employ extra staff to ensure that they keep on top of the paperwork mean thinner margins and the need for cost savings. In that sense, you are right.

**Christine May:** I think that that is a no.

My question for Graeme Ogilvy is on construction skills. Some time ago, it was suggested to the cross-party group on construction, of which the convener and I are both members, that apprenticeships might be made available in skills that are in high demand, such as in building kitchen carcasses, as well as in the full range of joinery skills. What further discussion has taken place on that proposal? If people are to be trained only in elements of traditional crafts, how will it be ensured that they are able to practise those elements to the highest possible standards?

15:30

**Graeme Ogilvy:** The honest answer is that the proposal is still being considered. We need to be careful that we do not end up going down the route of multiskilling. The idea is fine if we are talking about training people to build only kitchens, which is the route that has been taken down south, where some people have been trained only in the construction of things such as kitchens and bathrooms. In Scotland, as one might imagine, the construction industry has very much held on to the biblical trades. To move away from that slightly, we need to take with us not only the industry federations but the unions. Discussion is ongoing—it is not just a talking shop—on how to find a meaningful way through on that issue. We recognise that the industry has specialist areas for which specialist skills might be obtained through a separate qualification, but such specialists are not recognised at the moment. However, I think that they will be.

**Susan Deacon:** As recently as this morning, during a three and a half hour marathon session, the Parliament's Audit Committee returned once again to a subject that has also been considered by this committee. In taking evidence from the Scottish funding councils for further and higher education, the Audit Committee considered whether decisions on public sector funding could, or should, be linked to identified skills needs in specific parts of the country or in specific sectors. This committee has also previously dipped into that issue, albeit from a different vantage point. Will the panel comment on the matter? None of us would advocate some great central-planning model, but we need somehow to become better, faster and sharper at ensuring that the funding decisions that are taken year in, year out are married more effectively with the analysis that the panel has shared with us today.

**Graeme Ogilvy:** At a meeting on 7 June, Allan Wilson accepted that the existing statutory requirement that colleges provide industry-approved courses to address the industry's needs should be properly fulfilled. I should point out that, as construction courses in colleges were pretty full last year, I wrote to the principals of the colleges with which we are involved. Their response was very positive, as they said that their colleges would take extra students and work with us to ensure that college provision causes no problems. Through the sector skills agreement, the funding council has also said that it will help to facilitate any meetings that we require with colleges. It has already done that up in the Highlands and Islands, where it even offered extra money to sort out some facilities here and there. Thus, there is a willingness to attack the problem.

**Kieron Gavan:** Scotland is further advanced than some other countries in the UK in

establishing equivalence between vocational and academic qualifications. We know that providing people with the opportunity to learn things that are directly linked to jobs and employability produces a pay-off in terms of GDP growth and a reduced skills gap between the UK—or, in this case, Scotland—and the rest of Europe. That is a big pay-off. The more that we can do to raise in the minds of customers—in this case, students—the value of vocational training, the bigger that pay-off will be.

I will pepper that thought with one statistic: the skills gap between the UK and France—which we always look at—is more than 22.5 per cent. That means that, if we had the productivity of the French, we could all work a four-day week, have a real-terms 20 per cent pay rise or take that benefit in some other way.

I welcome the fact that Scotland is already at the point of establishing policy equivalence. I ask you to maintain that commitment and to drive it right through your system, because we are geared up to work with that policy to ensure that there is demand for vocational and work-based training. It is our job to make that happen. Working together, we can get a big pay-off.

**Susan Deacon:** Conceptually and aspirationally we have no difficulty with that. The issue that we often grapple with is the how-to question, particularly on the supply side. How much should supply-side decisions and the use of public sector funding be driven by the needs that have been identified? Are we searching for some kind of holy grail? The chief executive of the Scottish funding councils for further and higher education this morning told us about the latest work that is being done to examine supply and demand. Essentially, he said that it is proving difficult to see how those issues marry with funding allocation decisions. Are we talking about a holy grail or is there a methodology that we can apply and get better at? If there is, can we just get on and do it? Mary, you have not commented yet. You might like to have the last word.

**Mary Greene:** I was just thinking about the employer forums that we run at the Financial Services Skills Council. The first one that I ran was a bit like finding the holy grail. When we broke up the various institutes, colleges, universities and large and small employers into workshops, it was fantastic—the colleges began to realise why there was such a low uptake of some of their courses, which was because the courses were not relevant to some of the employers. The employers tried to help by suggesting courses that would be of interest. In turn, the students were interested, because they want to do courses that will get them on to a shortlist and get them a job. In particular, students want to know that jobs will be available in areas in which they have qualified.

As I mentioned, one of the great things that we do in the skills council is to pull the different strands together. The industry has been disjointed and fragmented, but it can only be for the best if we join strands together and create courses that employers and students want and that enable students to get jobs.

**Susan Deacon:** I am conscious that each of you has spoken largely in Scotland-wide terms. However, of the examples that we have touched on today, financial services is perhaps the one that best illustrates—I do not want to get hung up on language here—the regional concentration in Scotland, as that sector is concentrated in Edinburgh. To what extent should we be developing our thinking and, in turn, our policy at a local level, rather than Scotland-wide, particularly in sectors where there is a regional concentration?

**Mary Greene:** Which particular locations are you thinking about?

**Susan Deacon:** Financial services illustrate the point, because they are so heavily concentrated in Edinburgh. I am conscious that you have continually talked about what we need to do in Scotland. We can take your field as an example, but we can extend the analysis elsewhere. I wonder how much we need to localise our solutions, our thinking, our effort and our investment in order to reflect the regional or local dimensions that exist in different parts of Scotland. Issues around financial services are particularly relevant to Edinburgh—but not exclusively, I hasten to add.

**Mary Greene:** You are talking about how we can do things regionally and through the whole—

**Susan Deacon:** Yes.

**Mary Greene:** The essence lies in sector skills agreements, which we were discussing earlier. We need to do a massive piece of work over the next year to 18 months. If we do not do that, we will end up concentrating on certain pockets and certain sub-sectors. We have probably done that for long enough, to be honest.

We need to drill down into all the various sub-sectors, regions and localities, to find out exactly what the issues are, to establish what the current provision is, to identify where the gaps are and to put together an action plan involving measurables, so that we can see what difference we make. Unless we do that major piece of work, we will end up having the same conversation in five or six years' time. We have never before got all the different strands of different sectors working together to try to get to the root of the problem.

**Murdo Fraser:** I have a general question, which I think I should direct to Kieron Gavan. It draws on much of what we have heard and on some of the details in his written submission.

We have a challenge in Scotland. On the one hand, we have skills gaps in particular areas, especially in the unskilled part of the economy. In Mid Scotland and Fife, the area that I represent, and certainly in east Perthshire, where I live, a huge number of people are now coming from overseas to work in that economy. Many of them have come from Portugal, although in recent years more have been coming from the new entrant countries in the European Union—they have been coming in to do low-skilled jobs in food production and tourism.

At the same time, we have a relatively high number of young people who are not in education, employment or training—a much higher level than applies in the UK as a whole. How do we try to square that circle? How do we encourage our own youngsters to take up jobs that people coming from other economies seem to be quite happy to do? Our own youngsters do not seem to want to do them.

**Kieron Gavan:** That is a big question. It is partly about showing a clear link between going down a particular educational training route and there being employability at the end of that. The piece of magic that makes what we are trying to do achievable this time round is the skills agreement process. Essentially, we identify demand, as defined by what employers want. In fact, we have a high degree of certainty about what employers want. We know that, if certain skills are provided, there are jobs at the end of that. It is important that that is tested out as part of the partnership process. It is not about Bloggs and Bloggs Industries simply listing what it thinks that it needs. It is a rigorous, research-based and evidence-based process, by which we get partnerships of employers to agree on which skills are required for a particular sector and on where they are required.

We have a clearly identified demand side—there is employability. If we are then able to provide the right skills through the supply side, the youngsters who are coming through will have a high level of certainty. They will know that, if they do certain courses and take part in training, a commitment has been made to employ them, as long as they meet the standards.

That represents a huge shift, which it will be difficult for the institutions to manage. It is always difficult to manage change. Institutions throughout the UK tend to say that they are customer driven or demand driven. By that, they tend to mean that they are student led. We are talking about something quite different from that: an employer-led approach.

Once such an approach has been adopted and the process is up and running, it is harder for youngsters to sustain the argument that there is no point. Those of us who know youngsters in

deprived areas hear that argument every day; they say, "What is the point in me going to school and getting qualifications?" The currency of legitimacy that the skills agreement process gives enables us to say that there is a point. We can tell them about the employers in the area who are saying, "If you can do these things, there are jobs for you." Obviously, there will be cynicism at first, particularly with youngsters.

If a training provider says that they do not know why they are providing a course, the same currency of legitimacy enables us to say, "Your courses are genuinely demand led." We can tell them to provide certain courses because that training leads to jobs, which in turn provide GDP growth, regeneration and individual life-enhancing opportunities. We can deliver a compelling message to youngsters in deprived areas.

15:45

**Murdo Fraser:** That was an interesting response. I take issue with one point only, which is that it might be difficult to persuade employers to invest the time and effort in the partnership approach about which you spoke. In my experience, employers—burdened as they all are with regulation and everything else that ties them down—tend to go for the relatively simple option.

As for access to an available labour pool, the people in food production to whom I have spoken say that they would rather take on someone from Poland or elsewhere in eastern Europe to do a job than take on a youngster from Dundee—I mean no disrespect to any Dundonian present. They say that because the work ethic of the person from eastern Europe is superior. How will you persuade employers to make the extra investment in people in this country who are disengaged from the workforce? How will you stop employers taking the relatively simple option of saying, "Let's have someone from eastern Europe"?

**Kieron Gavan:** It is all about persuasion. A core part of my job is to crack that problem and to get employers to engage with the issue. Different arguments work with different people. Some employers are very enlightened: as you will know, a lot of employers in Scotland see themselves as part of the community and take their wider responsibilities seriously. Those employers will be compelled by the sort of arguments that I have put today.

We can attract others through arguments that appeal to their enlightened self-interest. To import people into the country from Poland or wherever is just to use a sticking plaster. We need to demonstrate to employers that, if they continue to operate as they have typically done over the past 100 to 200 years, we will run out of people. We

cannot grow GDP simply by having more people. The birth rate and population are declining, even with immigration.

Employers have to use the people who are available to them better. I agree that to some extent people can expand their workforce by bringing people into the country. However, stripping out the skilled workforces of the new EU countries and countries further afield raises moral issues. Although the moral argument might not bother some employers, the economic argument should do, particularly if they are considering bringing in people from Europe. Those people come, do the job, earn their money and then go home. We tend to attract the more entrepreneurial person, who might not do an entrepreneurial job in this country but will go home and do so.

Bringing people into this country is not a permanent fix. Although it is possible to offshore some things, we cannot do that with all things. Interestingly, other countries are facing exactly the same problems that we are facing. I recently had a meeting with some Korean civil servants and people who did the equivalent job to ours in Korea. Funnily enough, they said that they have exactly the same problem that we have—they are running out of skilled people.

If someone wants longer-term security for their business, they need to work with the people whom they have. They are not going to be able to import people. If they export their work, they are probably exporting their job along with everybody else's—for example, if they are in management, their job may physically go where everybody else is. Moreover, we know that if the purchasing power of an economy is stripped out through moving all the work away, people's ability to buy products is reduced.

We do not just have social arguments. We have compelling economic and demographic arguments that will get the employers onside. That process is working. We have a high level of employer engagement, particularly with small and medium-sized enterprises, and we have strategies in place to improve that engagement.

**Mary Greene:** Can I mention—

**The Convener:** We are running out of time and I want to get another couple of questioners in.

**Shiona Baird:** I return to Kieron Gavan's point about school leavers. Something like 30 per cent of 16 to 19-year-olds are not in long-term employment or training. How effective is the school careers service? My children all left school a few years ago, but the career options that they were offered were limited.

**Kieron Gavan:** We have identified that we need to improve career information and guidance. In

saying that, I am not criticising what already exists. The process that we are putting in place aims to raise the bar. I cannot tell you what the solutions will be, but we know that we need to fix the problem. We are engaged in dialogue in Scotland, Wales and England to find out what the solutions need to look like.

**Graeme Ogilvy:** I mentioned the aim to impact on 20 per cent of Scotland's schools in an 18-month period. We run seminars for careers guidance teachers—50 per cent of the attendees come from Careers Scotland. We focus on different groups. We have just come to the end of our women in construction period. In this very committee room, we had the final of our debating competition and, last week, we had a women in construction conference, at which Michelle Mone gave the keynote speech.

We are heavily involved with schools. I referred to the fact that 10,000 people applied to be apprentices. Construction is now becoming a career of choice, which is what we seek to achieve. Do not forget that, once those youngsters become apprentices, they have an employer. The courses that they take at college are industry approved, so they will come out with the skills that industry needs.

**The Convener:** I have a couple of questions. First, what is the SSDA budget in Scotland?

**Kieron Gavan:** That depends on how you want to calculate it. We do not split our budgets by countries and regions. We have UK-wide money, which we spend UK-wide. The individual skills councils will spend their budgets according to where their activities need to be. The simple fact is that we do not have as much money as we need to do our work as well as we would like. That is a UK-wide issue, but it is also a Scottish issue. However, we are grateful that we were recently given some money by the Scottish Executive to help to fund the skills agreement process, which will help to improve what we do.

**The Convener:** So in pounds, shillings and pence, what is your UK budget?

**Kieron Gavan:** It is about £70 million.

**The Convener:** So you spend roughly £7 million across the board in Scotland.

**Kieron Gavan:** It does not work quite like that. Our budget is split in such a way that we retain a small amount—about 10 per cent—for our running costs as an agency and we parcel out the rest of the money to the skills councils to distribute.

**The Convener:** Presumably, some skills councils will spend proportionately more in Scotland and some will spend less.

**Kieron Gavan:** Exactly.

**The Convener:** For these purposes, how much did the Scottish Executive give you?

**Kieron Gavan:** The Scottish Executive is giving us £50,000 per skills agreement.

**The Convener:** And you are hoping to have 25 skills agreements.

**Kieron Gavan:** Yes.

**The Convener:** My reason for asking is that the Organisation for Economic Co-operation and Development has identified the shortage of intermediate skills as the single biggest reason for the productivity gap between Scotland and the UK and between the UK and its competitors. This year in Scotland, we will spend nearly £500 million on colleges through the Scottish funding councils for further and higher education and about £250 million through the enterprise network and other bodies such as the sector skills councils. Therefore, about £750 million of public money is being spent on training a year in Scotland. Barely a penny of that money goes through employers, as most of it goes through managing agents for skillseekers and modern apprenticeships or through the colleges and so on.

Mary Greene's mention of the need for a great big survey took me back 30 years to the days of the Manpower Services Commission. At that time, we had surveys coming out of our ears, but they did nothing for the problem, because the nature of the challenge had moved on by the time that the survey had been completed and analysed.

Would it not make more sense to channel at least a reasonable chunk of that money through employers by empowering them to buy in the skills that they require to train up people? Would it not make more sense to go directly to employers and SMEs that want to take people on but cannot afford to train them? Should we not offer employers £X for every trainee whom they take on and offer them a bonus if they take trainees through to the completion of an apprenticeship? Would that not make much more sense than the huge bureaucracy of which the skills sector in Scotland is full?

In Scotland, we have the SSDA, 25 skills councils and Scottish Enterprise and its 13 local enterprise companies. All of those have agreements with managing agents, which are sometimes at a second remove. We also have the enterprise network in the Highlands and Islands. Given the cost of the bureaucracy involved in delivering all of that, is it not time for a complete overhaul and re-engineering of the way in which we deal with skills in Scotland?

**Kieron Gavan:** That depends on whether you believe that you need to own things in order to influence them. Let me give a conditional answer

to the question. If you believe that we can accurately identify the skills needs and skills gaps in Scotland by sector and by cross-cutting element, that we can get a commitment from employers to buy into the process so that jobs are available for people with those skills, that we can effectively translate such commitments through the skills agreement process into what in the private sector we might call a clearly articulated commercial requirement, that the supply side is able to respond to that requirement and is committed to doing so by delivering the training and skills capabilities to match, then, no, you do not need to channel the money directly. However, if you believe that one of those things will fail, it would clearly be quicker and neater to channel all the money through employers. However, something else is always lost when such changes are made. I have faith in the current set-up, but time will tell.

16:00

**The Convener:** Let us consider the example of the construction industry. According to the Scottish Executive's official figures, we require to recruit 25,000 people between now and 2007 if we are going to meet the requirements of the construction industry in Scotland. If we take Graeme Ogilvy's figures, the net number that we are contributing each year is currently 1,500. It will take us one hell of a long time to fill the gap that has opened up. Indeed, in a meeting with the cross-party group on construction the other night, the minister recognised that the gap would be very difficult to fill. We are not even at the races when it comes to filling that gap. The current systems are not working, despite the fact that we are putting £750 million a year into creating the required skills. If it ain't working, something needs to be fixed.

**Graeme Ogilvy:** The construction industry puts £125 million into training UK-wide. It is one of the few sectors of the economy that does that. Employers get a grant for the first two years of apprenticeships. We are now coming to a different question. Where are we losing construction workers? There has been a problem in the past of workers not completing the third or fourth year of their apprenticeship and instead going into the black economy. To stop that, we must ensure that only a qualified, card-carrying workforce works on construction sites. That would address that problem. People would have to get qualified. We would be able to have a double dunt at the problem if that sort of requirement was introduced.

**The Convener:** According to the International Labour Organisation count and definition, we have more or less 150,000 people unemployed in Scotland, 90,000 of whom are claimants, while the other 60,000 are available for work and

unemployed. I know the director of a major construction company based in Scotland who had recently returned from Poland, where his company had gone to recruit workers. Glasgow has just recruited 100 bus drivers from eastern Europe. Apparently, the companies cannot get the bus drivers here. There is something fundamentally wrong with the labour market at that level in Scotland. Nothing that I have heard today has convinced me that the solution lies in anything that you have said.

**Graeme Ogilvy:** Is it for commercial reasons that those people have been brought in, or is it because the skills are not available here? There are 200 Polish workers going to London every day at the moment.

**The Convener:** The company is giving the Polish workers exactly the same pay, terms and conditions as it is giving to the Scottish workers. Like you, my first question was whether those people represent a source of cheap labour. The answer to that was no—the Polish workers are getting exactly the same wages, terms and conditions. The reason is that the company cannot recruit the required workers in Scotland.

One of the problems in the construction sector in Scotland is the caravaning of people down to the south-east and the London market, where those people can command higher wages. We have a fundamental labour market problem in Scotland. We still have a relatively large pool of unemployed people—150,000, according to the official figures—side by side with skills shortages. That is despite the fact that we are spending £750 million a year on skills. That does not add up.

**Christine May:** I think that you are positing two conflicting views, convener. You started by saying that the situation had developed because work was not being channelled in through the private sector.

**The Convener:** No, I did not. I asked a question.

**Christine May:** Okay, but your inference was that you considered—

**The Convener:** No, I was not inferring anything.

**Christine May:** That is not how I heard it. Anyway, the CITB is an industry-led body and always has been. The Sector Skills Development Agency is also an industry-led body. It channels all the funding that comes through Government and from employers directly into training. Perhaps the question to our panel and to our next witness should be whether that balance between the private and public sectors is right.

**The Convener:** Absolutely.

**Christine May:** Is there some tweaking that we can do? The issue is not quite as simple as saying that the funding should all go through the private sector, or indeed that it should all come through the public sector.

**The Convener:** I am not saying that it should all go through the private sector. I am asking whether we have got the balance entirely wrong. For a public sector investment of £750 million a year, we have some fairly intractable problems, which have now been with us for a long time. We do not seem to be making any progress. We need to ask ourselves some hard questions about why that is.

**Christine May:** Including questions about that element of the funding that is channelled through the private sector.

**The Convener:** Absolutely. As Graeme Ogilvy knows, there are people in the construction industry who think that one of the reasons for the problems in the sector is that the CITB serves the people who pay the levy rather than the industry as a whole. That is not the CITB's fault, by the way, but perhaps there is an issue that needs to be addressed.

**Graeme Ogilvy:** There is an even bigger problem at the moment with the long-term unemployed and unemployed youngsters. Many youngsters think about the debt that they might incur at the end of university. They could have gone to university, but many now do a modern apprenticeship, which makes the situation for the unemployed whom you are talking about even worse.

**The Convener:** The problem with the modern apprenticeship programme is that the accreditation will be only a Scottish vocational qualification and that some of the more traditional accreditations in the construction industry are not allowed under it. To be fair to the minister, he has given a commitment to consider that matter and he hopes to make changes. The restriction seems to me to be totally unnecessary and an artificial barrier to progress.

**Graeme Ogilvy:** The modern apprenticeship framework document is reviewed every year, so that matter can be considered.

**The Convener:** Yes, but you get the point. We have a long way to go. I recognise that the sector skills councils and the SSDA are fairly new bodies, but there are fundamental policy issues to do with business growth that we need to address.

**Christine May:** For our report.

**The Convener:** Absolutely.

I thank the witnesses for their written material and oral presentation, which were helpful. We will take a five-minute break, as it is hot in the room.

16:06

*Meeting suspended.*

16:12

*On resuming—*

**The Convener:** The next witness is Stephen Boyle, who is director of Futureskills Scotland, which is part of Scottish Enterprise and Highlands and Islands Enterprise. He has already circulated a paper and will give us a short, five-minute presentation. We will then ask him what I hope will be tough questions.

**Stephen Boyle (Futureskills Scotland):** I thank the committee for inviting me to the meeting.

The big question that the committee is trying to answer is what needs to be done to increase the level of sustainable business growth in Scotland over the next 10 years. I will present evidence that is based largely on work that Futureskills Scotland has undertaken on the quality of Scotland's labour force and the extent to which it supports or constrains business growth.

The picture is, in general, positive. The quality of Scotland's labour force stands favourable comparison with the quality of labour forces in other countries and generally meets the needs of Scotland's employers. However, there are exceptions to those general conclusions, which I will say something about. I will also say a bit about management and leadership.

I do not want to be complacent or dewy-eyed, but the quality of our labour force is a Scottish success story. Its quality is good partly because we are reaping the benefits of sustained investment in education and training. For more than 30 years, expenditure on education and training per pupil or student in Scotland has exceeded that in England by at least 18 per cent. That investment puts us in the top half of the OECD league table on a range of indicators for labour quality and investment in human capital. We also have a much better-qualified workforce than the rest of the UK has—it is not slightly better but significantly better qualified. That was reflected in our 19,000-plus interviews with employers in Scotland, which show that, in general, skills-shortage rates and long-term skills gaps are low.

However, there are clearly identifiable exceptions in that generally positive account: certain types of firm, such as growing firms and very small firms; and certain types of people, such as some school leavers who go straight into work and some people who are in generally low-skilled jobs. Finally, I have a general concern about the quality of softer skills, which others have mentioned this afternoon. I will say something briefly about each of those issues.



16:15

As one might expect, growing firms have markedly higher rates of vacancies, but they also have disproportionately high rates of hard-to-fill and skills-shortage vacancies. They also have much higher labour turnover rates, not just because they hire more people but because they have higher leaver rates. My interpretation of that is that a disproportionately high number of growing firms struggle with recruitment and retention. It is also important to note in passing that growing firms are markedly more likely to train their staff than other firms are. People who work in a growing firm are much more likely to be trained than those who do not.

We see a similar pattern for very small firms, by which I mean those that employ fewer than five people. Again, the rates of vacancies, including hard-to-fill and skills-shortage vacancies, are high, as are rates of staff turnover, which suggests that such firms struggle with recruitment and retention. It is easy to understand that that might be the case partly because small firms recruit less frequently and have less experience of doing so and partly because they do not have professional human resources functions to back them up. Therefore, the generally positive story does not hold for some firms—the learning and labour markets do not work as well for them. However, even among very small firms and growing firms, the majority of firms do not confront significant problems.

More than eight out of 10 Scottish employers who have recruited someone from a Scottish college or university say that the recruits are well prepared for work, but a markedly lower proportion say that recruits who come directly from school are well prepared for work. It is important to remember that that is not just grumpy old men complaining in a saloon bar; they are people who have recruited school leavers. Moreover, three out of four employers say that school leavers do not understand the world of work and six out of 10 say that school leavers do not have a positive attitude to work. We have done follow-up work with employers to try to get to the root of the matter. They tell us that the problem is not a lack of technical skills or basic skills such as literacy and numeracy but young people's attitude, behaviour and understanding of what it means to be at work.

Where skills gaps exist, employers most frequently say that their employees lack the softer skills such as the ability to get on with colleagues in a team, to work with customers and to communicate with people. A corollary of that is that the education and training system appears to be relatively successful at imparting the technical skills that people need to do their jobs.

Other witnesses have raised the issues of management, leadership and ambition, in which

the committee is interested. There is a vast welter of evidence about those matters, much of which is partial and extremely thin, but it suggests that the supply of management skills in Scotland is generally fit for its current purpose. There are indications that managers in Scotland tend to focus more on internal issues such as cost control and less on issues such as technical innovation, marketing and new product development. Other evidence shows that having the right skills to sustain growth may be a challenge for a number of firms, but I cannot be any firmer than that in my conclusions. The issue of leadership and ambition is separate from that of management skills. I do not know a great deal about the matter, but I know from psychologists that if lack of ambition is a problem, it cannot be either taught or learned, so a skills training intervention is not likely to succeed in such cases.

To sum up, in general, the supply side of the education and training system and the labour market work well for employers but, in Scotland, demand for labour does not stretch supply adequately in terms of either volume or quality. Small and growing firms struggle disproportionately. Our work raises questions about the preparation that school gives people for work and about the development of soft skills for work and for later life.

**The Convener:** That was interesting, as was your written submission.

**Christine May:** I take you back to the little debate that the convener and I had, just before you took your seat to give evidence, on the balance between the funding for skills training that is channelled through the public sector and what comes through industry. What is your take on that balance? Is it right? Is the funding correctly targeted, or should it be more on one side or the other?

**Stephen Boyle:** First of all, I do not think that any of us can know what the appropriate amount of training should be, nor can we know with any degree of precision how that should be split between the public and private sectors. None of us can answer that question. However, I would say that, by and large, the evidence tells us that the system that is in place and the contributions that are made by both public and private sectors are delivering us a quality of labour force that is at least fit for purpose.

We do not know a great deal about how much employers spend on training. Nobody knows and I do not think that we could ever find out reliably, but we know that about two out of three employers train their workforce every year and we know that about four out of 10 people get trained every year. We also know that the proportion of people in Scotland who get trained while they are working

compares favourably with that in countries in the rest of the EU. I do not know the answer to your question about the appropriate balance, but I do not think that we fare poorly on training over the piece.

**Christine May:** I am puzzled, because what you are saying is in direct contradiction to what we heard from earlier witnesses. To some extent, their evidence is borne out by some of the growth figures that caused us to hold the inquiry. Why are there two diametrically opposing views?

**Stephen Boyle:** There will be two parts to my answer. If I forget to give you the second part, about growth and the contribution of skills, please bring me back to that.

There is a difference between what I am saying and what others might have said this afternoon. I take what we say about the matter very seriously indeed. As the convener said, a lot of money is spent on the type of work that we do to survey employers and so on, and we have a duty to do the work as robustly as we can. As I mentioned, we have interviewed 19,000 employers in the past three years and I think that we have a substantial and robust evidence base on which to found our conclusions. I am not familiar with the evidence base that other witnesses have been quoting.

We have devoted a considerable amount of time to benchmarking the labour-market and labour-quality performance of Scotland against that of the rest of the UK, the rest of the EU's regions and nations, and the nations of the OECD. It is a difficult thing to do and I do not want to be glib in speaking about the conclusions, but I think that that is a fairly robust piece of work. It is on that basis that I have arrived at the conclusions that I have put to the committee, and I am confident about those conclusions.

I turn now to the second part of my answer, on the link between skills quality and growth, which is what you asked about. Scotland's long-term rate of GDP growth is between 1.7 and 1.9 per cent a year—by definition, over a long period of time. As I mentioned, compared with other parts of the UK, we have spent heavily on education and training over an equally long period of time. I find it difficult to believe that the reason why we lag behind the rest of the UK on economic performance is that we have not spent enough on education and training or that the quality of our labour force is not sufficiently good. I think that the greater challenges to boosting economic growth lie elsewhere, beyond the skills arena. Skills will be important in sustaining economic growth, but I do not think that they are a first-order constraint on growth.

**Christine May:** I will let others pick up on the other points.

**Mike Watson:** That is one of the parts of your submission that I noticed. I found your concluding remarks, which you have just repeated, interesting, as I did the fact that public spending on education and skills has been 18 per cent higher in Scotland than in England over the past 30 years—I think that you said 30 years.

**Stephen Boyle:** I think that the period was from about 1970 to within the past few years.

**Mike Watson:** You would expect that benefit to be apparent, so the fact that business start-up and sustainability rates are lower in Scotland than in England would not seem to be related to skills. However, we keep coming back to the point about soft skills. You showed us employers' views on the employability of school leavers, which seems to be a major issue. If we are spending additional resources on that, we have to address the issue. We cannot just continue to say, "We're spending more and more." I do not know what English employers say about English school leavers, but in Scotland the standard of school student who is emerging into the world of work seems to be falling. We need to address that before we answer the wider question of the general and sectoral work skills that are needed. Do you agree?

**Stephen Boyle:** One of the benefits of our work is that it allows us to identify where the priorities for additional effort might lie. One of the priorities for additional effort is that cohort of young people who leave school and go directly to work—it is a small minority—who do not display the right attributes from the employer's perspective. Why do some of those young people not demonstrate those attributes and behaviours? I have no interest in blaming schools, parents or anyone else. However, at what point do those skills start to be formed? I do not know the answer, because I am not an educationist, but the economic evidence is that those skills start to be formed at a young age, before the education and training system gets hold of people. If we are serious about tackling that problem, we need to develop the early-intervention work that is already taking place in Scotland, while not losing sight of the need to harness, boost and develop the skills of young people who are already in the education system.

**Mike Watson:** I do not want to go over the ground that you covered in your presentation. However, although I understand your point that

"vacancies are markedly higher among growing firms than non-growing firms",

presumably because they need staff, I do not understand your point that

"growing firms are less likely to retain staff".

Why is a growing firm, which is more likely to invest in training, less likely to retain staff? I would have thought that the opposite would be true.

**Stephen Boyle:** I struggle with that also. I do not know the answer, but I can give you a view. I suspect that many growing firms are run by somebody who is good at a technical discipline—such as being a plumber, a marketing person or a lawyer—but who has less experience of running a business. They may develop their business in an unplanned way. They may not be terribly good at recruiting, so they recruit the wrong people. Once they get people, they might not be good at motivating those people.

**Mike Watson:** But they are still growing the business.

**Stephen Boyle:** The business is still growing. It is a conundrum. That is my take on what the evidence is telling us.

**The Convener:** I used to work for a company like that, called Future Technology Systems—it ended up having no future, no technology and no systems.

**Christine May:** Was that your fault?

**The Convener:** It was not my fault.

**Shiona Baird:** I think that you said that you look ahead 10 years.

**Stephen Boyle:** No.

16:30

**Shiona Baird:** How far ahead do you look?

**Stephen Boyle:** Other people may have heard me say this before. I like my job, apart from one thing: the fact that we have “future” in our name. I am deeply sceptical about the ability of anyone—whether it is us, who are supposed to be experts at this, or anyone else—to do anything more than make general statements about how the labour market will develop over time. We make available projections of the labour market in the future. We usually cover a period of about five years but, were I a betting man, I would not want to bet on those projections.

**Shiona Baird:** I do not know where I got the idea from that you look 10 years ahead. I was pleased to think that you were looking so far ahead, because the economic environment in which we will be living in 10 years’ time could be vastly different, particularly from a peak oil point of view. Are you looking so far ahead to try to develop the skills that will be needed in a low-carbon economy? Those skills will be vastly different from those required now. We must start to make the transition sooner rather than later.

**Stephen Boyle:** I have been involved in a piece of work with colleagues in the Executive and a number of sector skills councils about the skills implications of the growth of the renewable energy

sector, which relates in part to the question that you have raised.

**Shiona Baird:** Only in part.

**Stephen Boyle:** I accept that. We have come to the conclusion that we can be relatively optimistic about the ability of the education and training system to adapt to those changes and the ability of employers to adapt to the changes and to recruit and train the people whom they need, not least because the employment impacts will not be substantial.

**Shiona Baird:** The impact of a really expensive oil market is in many respects much greater. Perhaps we can talk about that issue later.

**The Convener:** I will ask you a couple of questions on the matters that Mike Watson raised. You seem to be saying that we have invested, relatively speaking, more in education than have our counterparts south of the border and that that has led to higher-quality manpower. However, as Mike Watson said, that is not the feedback that we often get from other people who give evidence to the committee—including some of the other witnesses this afternoon. Is there not an issue to do with the quality or effectiveness of the spend? Although we are spending more money, perhaps we are not spending it as well, or there may be other factors. For example, one of the reasons why Scotland tends to spend more per head on education than England does, is the preponderance of rural communities, which require much higher expenditure per head.

In comparison with the OECD average, we tend to spend much more per student on higher and further education than we do on early years education, yet all the research shows that early years intervention is by far the most effective. The information that I have is that we spend something like 80 per cent of the OECD average per pupil on early years education, whereas after the current spending round we will spend about 120 per cent of the OECD average per student on higher and further education. Perhaps we have got the balance wrong and are not spending enough on the early years.

You said that we should concentrate on the small coterie who leave school and go into work. A couple of years ago, the University of Strathclyde gave evidence to an inquiry by our predecessor committee. The university stated in its evidence that remedial classes in English had to be held before it started to teach language students Italian or other languages. It sounds to me as though there is a deeper problem than you perhaps suggest.

**Stephen Boyle:** There are three points there. The first is to do with factors that might explain why we spend more on education in Scotland. In

part, that might be down to rurality and sparse populations, but it could also be down to having four-year honours degrees rather than three-year honours degrees. There is a host of factors, some of which we can make choices about and others about which it is more difficult to make choices.

I am not familiar with anything that says that the appropriate premium for Scotland to spend on education as compared with England is X or Y per cent. However, if I remember correctly, when needs assessments were undertaken prior to the first attempt at devolution in the 1970s, the needs-based premium for Scotland was somewhere near 7 per cent or 8 per cent more than public spending in England. I am not aware of a time when the education increment has been close to 7 per cent more—it has always been 18 per cent or more. Allowing for your legitimate point, I think that we have still invested heavily.

**The Convener:** For comparison, one could invest heavily in a missile system, which then does not work. The National Aeronautics and Space Administration invests heavily in rockets that do not fire. Investing heavily per se does not mean that one has invested properly or effectively.

**Stephen Boyle:** Absolutely. Our evidence is that we have a better-qualified workforce in Scotland than there is in other parts of the UK; that we have low rates of skills shortages; that employers are satisfied with the outputs of the further and higher education system; and that employers are satisfied with private training provision. There is a substantial body of evidence that says that, notwithstanding specific problems and weaknesses that we can identify, the system generally delivers. I am not going to say that there are no opportunities for enhanced effectiveness or greater efficiency—I am sure that there will be—but my general argument holds true.

I agree entirely that the evidence is compelling that the greatest social returns on investment in education and training occur when that investment is made early in a person's life.

I have already rehearsed my arguments on further and higher education—the employers are satisfied with what they are getting. We will publish work towards the back end of this year that will look at what has been happening in Scotland's graduate labour market as the supply of graduates has increased. There is a lot of anecdotal evidence about graduates being underemployed and there being too many graduates and not enough plumbers and so on. The evidence seems to tell us that the increased supply of graduates has been fully absorbed by employers in Scotland with no adverse effect on graduates' wage premium or employability prospects. What we are doing in that area looks to be broadly the right thing. The question is then, if we wanted to invest

more in early-years education, where would we get the money from, but I do not have that answer.

**The Convener:** We are running out of time, unfortunately. Your submission and presentation have been exceptionally helpful. You raised some interesting issues that fly in the face of some of the earlier evidence and that makes it all the more interesting. Thank you. We might come back to you for some follow-up information.

**Stephen Boyle:** Please do so if you wish.

**The Convener:** We move to agenda item 3. Members might remember that we agreed to have a stock-taking session before we went off for the recess—I emphasise that it is a recess and not a holiday. We have three papers in front of us. The first paper is from Dr Wolfgang Michalski, and I will ask him to introduce it in a minute. Then we have a note from the Scottish Parliament information centre on the emerging themes that complements Wolfgang's paper. Thirdly, we have the forward planning paper on which we must take some decisions. It draws together the work programme for the business growth inquiry and all our other work to give us an idea of what is ahead.

**Dr Michalski:** I am very much impressed by the wealth, breadth and depth of information that the committee is receiving through the evidence-taking process. It shows not only how vast the field is, but the complexity of the issues under consideration.

This last item before the recess—I will avoid saying summer break—is devoted to stocktaking. Perhaps this should be a point at which, for the first time, we try to identify some of the priority themes that have come out of the process and the discussion and dialogue so far. The evidence that we have gathered during the process is broad.

I would choose five themes, based on my observations of the evidence that we have gathered. The first is demography, migration, human resources and skills. The second is business climate, regulatory policies and local taxes—I say local taxes because they come under the authority of the Scottish Executive and local councils. The third is entrepreneurship and the link between research and development and innovation, which is broader than the link between research and development and technology. The fourth is public sector performance, in relation to not only the size but the quality of the budget and how Government money is spent. The fifth is the broader issue of territorial development or regional policy approaches.

We need to focus our work because the area is so vast that there are many centrifugal forces. If the exercise is to be effective, we should come out with a small number of powerful recommendations, rather than make

recommendations that are too broad. The themes that I have suggested, which reduce the spectrum, are only a framework for consideration and I will be more precise within each of them.

The issues and policies that you must consider in the inquiry have to include the medium and longer-term issues, about which there is consensus. My paper starts with an attempt to highlight a number of fundamental trends and to provide a rough assessment of how I see Scotland within them. My paper has been distributed and I do not want to repeat myself, but the key trends that I identified were: demographic developments; the continuation of the globalisation of production and distribution structures; increasing competition at home and in export markets; intensified pressure for structural change; keener international competition in terms of the attractiveness of locations for domestic investment and foreign direct investment; the transition to a knowledge-intensive economy and society in which the information content of processes, products and services becomes equally or more important than the physical inputs, capital and labour; and an accelerated trend towards a globally networked economy and society in which the diffusion of information and new ideas is becoming speedier and the life cycle of products, intellectual property and acquired knowledge is becoming shorter.

That brings me to the question whether economic and social development could take a different form in the future from that which it has taken in much of the past, becoming a worldwide network of interlinked hotspots. That would be a dynamic development that would lead to a much wider divergence of economic development and distribution of wealth, not only worldwide but within countries. Taking that as a reference point, I would like to go over the priority themes that I have suggested.

16:45

The first of those themes is demography, migrational movement, resources and skills. In the committee's discussions—in particular, those that took place after Donald MacRae's presentation—a lot of emphasis was placed on the decline in Scotland's population. A declining and aging population is the basic trend in most of the OECD countries, including China, and I do not see it as a major issue. For me, the real issue is migration and the fact that there is an enormous out-migration of 25 to 35-year-olds. Scotland pays for their education but it does not benefit from having them in the workforce. That is one issue.

A second issue, which is related to our discussion this afternoon, is the fact that Scotland has a higher proportion of people aged 18 to 25

who are not in employment, education or training. The problem goes far back: it starts at home and continues through kindergarten and primary school. In a knowledge-intensive economy and society, the question of employability is very important and, as the committee has heard this afternoon, it is not only about skills, but about attitudes. Social integration starts very early. Scotland's spending on university education is 120 per cent of the UK average, but its spending on primary education is much less—80 per cent or so of the UK average, I have been told.

A third issue is future oriented and relates to the necessary reform of the education system to meet the challenges of the 21<sup>st</sup> century. I am talking not just about lifelong learning, but about the need for a major change in the educational curriculum. When someone of our parents' generation—or even our generation—embarked on a career, it was pretty certain that they would stay in the same profession. Our parents even stayed in the same organisation or enterprise; however, it has been different for us. I expect our children and grandchildren to change profession several times in their working lives. That being the case, we should place much more emphasis on cross-disciplinary and horizontal subjects such as languages, mathematics, decision making, problem solving and team working. This afternoon's witnesses spoke about a lack of soft skills. Those are the skills that someone can take with them from one kind of job to another, and people's employability is improved enormously if they have such skills.

My second theme is the business climate, regulatory policies and local taxes. I mention briefly the need to produce a general climate that is conducive to investment, experimentation and risk taking. It is partly a cultural issue that is not much influenced by policy. You can improve enabling conditions, but it might be a long process. As I say in my paper, locational competition for investment is one of the new trends that will intensify further. You must build an attractive image for investment as well as improve enabling conditions, and you must sell Scotland internationally. That is one of the issues.

In the same context, the simplification of administrative and regulatory procedure is a major issue. Scotland, or the UK, is not overregulated in comparison with continental Europe, but it seems that the application of regulation could pose major problems here. I saw the phrase "gold plating" used somewhere, and that, not overregulation, might be the issue.

I wonder whether it might be a good idea to introduce a procedure that would be followed in Scotland whenever a new economic or social policy measure was designed. Just as OECD

member countries frequently conduct an analysis of the environmental implications of the measures that they introduce, you might introduce a procedure to analyse and evaluate the implications of any new measure for investment and innovation. That would be important in giving a dynamic to economic and social development.

My third theme is entrepreneurship, research and development and innovation. The first part of my paper makes it clear that innovation is the main driver of economic growth, especially in a country or region with a declining and aging population. Of course, innovation goes beyond the introduction of new products and processes. Aside from the creation of enabling conditions, Government interventions are needed in R and D and the development of hardware-type innovation.

The R and D expenditure of business, as a percentage of output, is still comparatively low in Scotland. The first question is whether existing R and D programmes could be made more efficient. The second question is whether additional measures are needed—for example, additional tax breaks and even closer links between universities and research establishments and between universities and business. Policies that support small and medium-sized enterprises could also come under that heading.

My fourth theme is public sector performance. As I have said, I am not convinced that the real issue is the size of the public sector budget. In successful countries such as Sweden and Finland, the public sector accounts for about 50 per cent—perhaps slightly more—of Government expenditure. I still say that I would be worried about further increases in Scotland. If I were to compare Scotland with other countries, I would be concerned about the quality of the budget, which is in two parts: current expenditure and capital investment. I considered them together and I was surprised to find that about 80 per cent of Government expenditure in Scotland is on consumption, and only 20 per cent—or less—is on investment. About 60 per cent of the expenditure on consumption is transfers, health care and so on, and I could identify only about 20 per cent that is future oriented, including expenditure on education and science, technology, research and innovation. There might be good reasons for that, but I wonder whether we should take a deeper look into the system to see whether an improvement in the quality of the budget is one of the major issues that could help to improve gross performance in Scotland.

I move on to the point about regional policy. In many countries, experience has shown that just pouring money into the regions that are faced with declining industrial activity has only very limited impact. Such money is frequently badly spent

because it is not sufficiently conditional. What is needed is a progressive shift from a more sector-specific support policy and redistributive measures towards targeted policies that unlock the competitive potential of a region. It is necessary to improve the enabling conditions for wealth creation, growth and employment and to build the capacity for multilayer governance.

There needs to be a good balance between central and local government. In a sense, both are needed, but when I look at Scottish Enterprise, it seems as if you have gone from one extreme to the other. The question is how that process could be reformed to take into consideration local and national points of view at the same time.

If you want to unlock the competitive potential of a region, you need to recognise that flexibility and adaptability are key factors. The efficient provision of soft and hard infrastructure is very important, and that is the link to the budget.

My final point is that I am not sure whether, in the past, you have spread resources very thinly all over Scotland instead of concentrating your policies on a few growth points and allowing the dynamics from that to spill over to the rest of the country. I know that that is a sensitive issue because it is regionally selective. However, I imagine that in Glasgow, for instance, such an approach could be much more promising than the approach of spreading resources too thinly.

My comments about the second part of my paper, which addresses your visits abroad, will be very brief. My main point is that, following the committee's discussion about the criteria for selection and the regions, cities and countries that would be interesting to visit, I tried to link the four destinations in the paper with issue-oriented points for discussion, which are directly linked to the priority themes that I suggested.

I did not go further and make revolutionary suggestions in my paper. Policies—even reform policies—are currently focused on improving the cost and output efficiency of the existing machinery. However, if I consider the trends and challenges of the future, it strikes me that we should ask whether the current machinery is appropriate for solving the problems of the future.

17:00

**The Convener:** Your introduction was helpful, as is your paper. I invite questions from members. We agreed to have this discussion so that we could think about where we are in our inquiry and about the themes that have emerged. The papers that are before the committee will help us in our consideration.

The committee will take further evidence after the recess. I think that we need a bit more

evidence about the link between education and business growth. The Irish identified education as one of the four main drivers of business growth and perhaps we have not sufficiently considered the matter. My suggestion is open to discussion, of course.

**Mr Stone:** I had a meeting with Wolfgang Michalski this morning, for which I thank him. He suggested that instead of spreading the jam so thinly that it has no effect we should target intervention—that is the tricky point. I understand the point that he makes, and it is not a bad idea, but how on earth do I sell it in a remote constituency such as mine? His paper talks about Hamburg and Bremen, but where are the remote and rural parts of, for example, Saxony or Bavaria in the equation? I do not know the answer.

**Christine May:** It is clear from what we heard today, particularly in Stephen Boyle's presentation, that the older the workforce entrant, the better their soft skills and ability to work with people. Is there an argument for extending school life, so that pupils reach that level of maturity? Do we shorten school life at the beginning, extend it at the end and then consider what is taught in the early years? That is the approach in France and other parts of Europe.

**The Convener:** I think that you agree with me that we have not spent enough time considering education.

**Christine May:** Yes. If we target the early years, there will be budgetary implications. Either we stop doing some of the back-end stuff and allow industry to do that work, while putting money into the early years—because only Government can do that—or we somehow find the resources to do both.

**Richard Baker (North East Scotland) (Lab):** The paper helpfully provides a much-needed focus for our inquiry and I am pleased that key areas have been identified. Jamie Stone picked up on Wolfgang Michalski's point about dynamic clusters. Our constituency interests come to the fore when we start to consider the regions that should be targeted and of course I think that Aberdeen should be included. However, business and economic growth in Scotland is slowest in peripheral communities, not in cities. It would be interesting and useful to make comparisons with other countries in Europe and to see how clusters have worked there, because many communities here are seeking reassurance.

Public sector performance is a key issue. As Wolfgang Michalski said, health spending makes up a huge part of our budget—although if this committee were to sort out the problems in that area we would be going beyond our role. The Executive has identified long-standing problems—

for example, Christine May and others spoke about the importance of investment in education.

We have heard interesting evidence about the way in which our businesses connect with growing markets abroad. I hope that that can be part of our inquiry, perhaps under the third theme in Wolfgang Michalski's paper.

**Susan Deacon:** I welcome Wolfgang Michalski's paper, which gives us a framework for our work. It is useful for us to put our thinking into a broader context. The introduction to the paper is useful in giving us a sense of where we are on the timeline for the transitions that many developed countries are going through.

In the title of the paper, and woven through its analysis, is social policy. That is very important. We have teetered on the edge of discussing social policy but I think that we should go a lot further when we move to the next stage of our inquiry. We have to consider social capital, and we have to ask the question that is parallel to the GDP question: what kind of society do we want to live in? Often there is a false juxtaposition with the desire for economic growth. That has been coming through in our discussions and the paper will help us to go further.

The convener spoke about education and I have a specific point to make about the early years. One of the committee's papers today quoted Wolfgang Michalski saying that entrepreneurialism is not just about starting businesses but is also about wider cultural issues. If we are talking about building capacity in the early years, we have to be careful that we do not talk only about education. Huge issues arise to do with what goes on in communities and families.

The phrase "early intervention" was coined for children who are five or over. However, all the evidence, and all our experience, tells us that the characteristics that will shape behaviours in later life are formed much earlier than the age of five. I was struck by what was said about that in the final evidence session. We have to consider early years but not only education in early years.

The five themes in Wolfgang Michalski's paper are helpful. However, I wonder whether we should highlight governance—although we might come on to discuss it anyway, without any particular need to highlight it. It would come under themes 4 and 5. As I have said before, devolution is part of the tapestry of the context within which we now operate. He spoke about the machinery of devolution, but it goes wider than that. It is about the decision-making process—not just its machinery and rules, but its culture, ethos, speed of operation and so on. That is a different question, but it is linked to that of public sector performance. I wonder whether we need to find an

explicit place for those governance issues in the inquiry.

I also have some thoughts about the process of where we go from here, but I will end my reflections on the paper there.

**The Convener:** When we come to discuss the forward work programme, I will bring you in again.

**Shiona Baird:** I return to what I said earlier about the challenges that we face in the 21<sup>st</sup> century, which is an aspect that is missing from the paper. We are not even beginning to look at the challenges of climate change and oil consumption at its peak, yet those issues will have a dramatic effect on the way in which the world economic climate develops in future years.

I gather that Italy has started to look at the transition, but are we even beginning to do so? The issue needs to be at the centre of our radar. The paper gives the committee a wonderful opportunity to look forward to see what will be the real challenges to the economy in future—I assume that we are talking about the next decade or two.

**Mike Watson:** I have two points to raise. Like everyone else, I think that the five priority themes are useful. I am particularly drawn to the first theme on demography, migration and so on. Wolfgang Michalski has rightly identified the fact that, although we train a lot of people, we do not get the benefit of doing so.

Is there any way of finding out how many of our young people leave to gain or enhance their skills and come back? I suspect that the figure is higher than we imagine. We picked up on the issue from the Irish example. For years, Ireland was entirely about emigration, but nowadays many people are returning to Ireland, particularly those who went to the United States of America a generation ago. How do we take stock of the extent to which that is happening and encourage it in future?

Demography is an issue, as are future birth rates. Stephen Boyle said that skills are not the issue, as demand can largely be met. His point was that somehow we have to increase demand, particularly among employers.

My second point concerns what Wolfgang Michalski calls “dynamic clusters”. I take Jamie Stone’s point that Bremen and Hamburg are not of much relevance to the area that he represents in the Parliament. The inquiry is, of course, a Scotland-wide inquiry and we must consider it in those terms. Dynamic clusters appeal to me in part because I happen to represent a Glasgow constituency, and it is inevitable that many of the economic drivers are in the central belt, but that does not mean that we should ignore other parts of the country.

Both of the German examples will be helpful to us in examining dynamic clusters and the idea of the city state, to which Susan Deacon referred. That said, I am not sure that the city state is quite what Wolfgang Michalski meant by a dynamic cluster, although the two are linked. I accept that dynamic clusters also relate to industries or sectors. We can hope to gain something from those ideas.

I assume that we will move on to consider what we want to get out of the visits. Certainly, the geography of Sweden or Finland is more diverse than that of Hamburg or Bremen. At the same time, Hamburg and Bremen are devolved parts of a larger country, which makes them more like Scotland, whereas Sweden and Finland are autonomous countries. There, we want to examine not the regions but those countries’ model of future business growth.

**The Convener:** They are a model for the future.

**Mike Watson:** Not in our lifetime.

**Mr Stone:** Naturally, I will keep the issue that I raised on the back boiler. In fairness to Mike Watson, there is no doubt that Glasgow’s economy has a huge effect on parts of the Highlands. One needs only to think of Argyll and Bute, the seat of the new Deputy Minister for Finance and Public Service Reform.

**The Convener:** I was talking the other night to Sir Stewart Sutherland about an exercise that he had done. One of the points that he made was that, if we consider the areas with the highest levels of unemployment and deprivation and the lowest levels of educational attainment, the same postcode areas appear almost every time. If greater Glasgow were removed from the Scottish statistics, we would probably perform as well as, if not better than, the OECD level. For my money, the recognition is that a huge chunk of the entire country’s population—about one fifth of it is in that city—has a concentrated problem. However, that is not without opportunity.

17:15

**Susan Deacon:** My point links with your comment. I am struck by the amount of reaction to our adviser’s suggestion that we might need to think about the concentration of resources and so on. It is important to keep an open mind. If we decide further down the track that we disagree with a view or if people say that going down that road is politically too difficult, that ought to be explicit. It is important to try awful hard to stay open minded from early on in our discussion—there will be jaggy edges for all of us given our local interests. Something registered with me there.



**The Convener:** I think that we all agree with that. One purpose of the visits is fact finding and examining how arrangements have worked.

**Christine May:** My comments are on the same theme. None of us has examined the evidence that might exist about the external impact of concentrating on geographical clusters, for example, and how much trickle-down takes place.

Another issue is that neither in this country nor throughout Europe are we explicit about the extent to which we are prepared to provide disproportionately large resources for less return to sustain more remote communities. We need to think about the extent to which we are prepared to do that, what return we expect, how we will measure that and when that becomes something that we are not prepared to do because the cost is so out of proportion to the return. That is difficult, particularly politically, but it is worth having broader discussions about.

**The Convener:** We need to consider two other issues. One reason why we have a population problem is the relatively low birth rate. France adopted a policy of universal child care and the indications are that that is working, because the birth rate there is rising again. That ties in with the demographic problem, early-years intervention and the point that Susan Deacon made. Universal child care might be a way to tackle two big problems at once. [*Interruption.*] Keep an open mind, Susan.

The other point is about the labour market. If we made substantial inroads into the 150,000 people who are still unemployed, that would have two effects. First, it would improve tremendously those people's lives and the growth rate of the Scottish economy, as it would become more productive. Secondly, it would go a long way towards tackling the problems that Wolfgang Michalski highlighted of a large proportion of the budget being for consumption and transfers. Unemployment costs the public purse a lot, which is right, because people who are unemployed need help. If that cost were significantly reduced, that would have a substantial impact on the public purse through lower spending and higher revenue. We should not lose sight of the labour market and tackling that residual pool of hard-core unemployment.

**Christine May:** Gordon Brown would be pleased to have your support.

**The Convener:** I ask Wolfgang Michalski to respond. We are not deciding our position; we are just discussing the framework for where we go from here.

**Dr Michalski:** I never know whether the fact that everything in economic and social affairs discussions is dependent on everything else is an advantage or an inconvenience. I fully agree with

Christine May that we need to put more emphasis on education, but we need to consider education, the labour market and the budget together, so that we can see the interaction between them. We need to reduce consumption and bring people into work. Education is one of the means of doing that, but there are others.

On the possible destinations for the committee's visits, I did not say in my paper that I had covered all the issues for all the destinations. In the paper, I discuss how to deal with peripheral areas in the section on Sweden, but, of course, one could ask the same question about Finland. Hamburg has a remote hinterland, which is in Mecklenburg-Vorpommern in the former East Germany, where the danger for economic development is that it will become more like Sicily than Hamburg. However, I expressly excluded such issues from the sections on Hamburg and Bremen, because I think that in considering those cities we should focus on the issues of competition for investment—both cities have succeeded in attracting modern industries—and on the fact that Hamburg is one of the most prominent examples of a Government succeeding, with the business sector, in converting huge areas that were devoted to old industries such as shipbuilding and harbour facilities into promising areas of new activity.

Hamburg has become the second largest container port in Europe and the seventh largest in the world. It did so by using areas that were freed up by the decline of shipbuilding and the scrapping of all the refineries, because today's big tankers cannot reach them. In a huge new project that is now in its terminating phase, the city has also converted part of the harbour into an area of housing, business, offices and so on. In my paper, I also mention companies such as Airbus. In suggesting agendas for the possible destinations, my aim was to cover as much as I could without too much overlap.

On the budget, certain transfers will always be needed. In principle, certain transfers are rational—there are policy actions in which one needs to compensate losers because otherwise one will not be able politically to get the actions through. That also applies to health care. My point is that when we consider budgets, we need to avoid the situation that we have with the budgets of the European Commission and the European Community, through which we spend seven times more on defending the past, which is agriculture, than we invest in the ventures of the future, which are in science, technology and innovation.

Even if we accept that we have to compensate losers, the focus should be on the future and not on defending past structures that are no longer viable. That does not exclude the possibility that we pay for agriculture where there is an

environmental benefit for the country and for the world. The only reason why I did not include climate change as a major issue in my paper is that we are discussing Scottish policies. Climate change is an issue of worldwide perspective and you need to discuss it in fora other than the committee's inquiry into business growth in Scotland.

It would be interesting to know how many of the people who leave at a young age come back. I would have reservations if those people were migrants aged over 60 or 65. Such immigration imbalances the structure of the population. One has to consider how many of the people who leave when they are in their 30s come back when they are in their late 40s or early 50s, when they are still active.

**Mike Watson:** I meant economically active.

**Dr Michalski:** Yes. The point about declining birth rates and the effectiveness of policy is completely unresolved. In Sweden, there had been a heavily declining birth rate, but suddenly the rate is going up and nobody knows why.

**The Convener:** They all got asparagus.

**Dr Michalski:** France has a proactive population policy, with all kinds of tax breaks for child care and so on. However, many think that the rising birth rate is a new, short-term trend and is not the result of the policy; there are other explanations for it.

I return to issues relating to the economy and society of the future and the interaction between technology, economy and society. Our societies were always co-determined by the underlying technology of the historical period. I have a short definition of the industrial society, which is about mass production, mass consumption and mass government. The question is whether those three things are the machinery that we expect for the future. My view is that the kind of knowledge-intensive society that I foresee for our countries will be determined not by mass consumption, mass production and mass government but by higher degrees of diversification and individualisation, increased flexibility and adaptability and governments that have to react much more rapidly than they do now and which confine themselves increasingly to creating the conditions in which the process of adaptation can take place.

In my paper, I did not refer explicitly to the need to review the machinery for the same reason that I did not include a paragraph on the issue of governance. I refer only to governance by governments; there is also governance in families and companies. There is conflict in relation to the challenges that we will have to face in the future and the way that our Governments are organised.

Our Governments are still organised in vertical structures with someone responsible for the environment, someone responsible for trade, someone responsible for the economy and so on. The real issues are horizontal. The second thing is that with all the attempts that are made within the present machinery to co-ordinate, we cannot meet the challenge of the future, which is to have decisions made rapidly. The co-ordination process, which is based on the vertical structure, makes decision making increasingly slow.

17:30

**The Convener:** That has been extremely helpful. There is a lot to think about over the recess. We will also have a paper that will give us a bullet-point list of all the points that were made under each of the major headings in the evidence so that we do not need to wade through every piece of evidence.

We must now agree our work programme, including how to proceed with the business growth inquiry. I point out that, this afternoon, the Parliamentary Bureau approved two trips, as the Conveners Group had pared the number of visits down from three to two. The Parliamentary Bureau has approved the trip to Sweden and Finland and the trip to Hamburg and Bremen for sometime after the recess. Wolfgang Michalski and others will be working on arranging appointments with people whom we want to see, but we will have time at our first meeting after the recess to finalise dates and arrangements and to have a serious chat about what we want out of each visit and who is going. We do not have time to discuss any of that tonight, but the fact that we have agreement in principle means that the clerks and others can start the process of planning the visits over the recess.

Susan, do you have a specific point about the process for the business growth inquiry?

**Susan Deacon:** Yes, I do, although it is also a wider concern about the way in which we handle our work programme. I have an issue with the balance of the programme and individual meetings, which today typifies. I will obviously be influenced by how colleagues feel but, in my view, we place far too much emphasis on protracted evidence-gathering sessions. We keep ending up having the creative discussion and, sometimes, taking our decisions at the tail end of the meeting. Today is an exceptional example of that. I say that with all due respect to those who must grapple with the realities of organising a schedule—and organising us, for goodness' sake. We all have to take some responsibility for the problem—I certainly do; I have a strong sense of it.

As far as the inquiry is concerned, we need far more sessions like the one that we have had over

the past three quarters of an hour—both in formal, public meetings and in private or at informal meetings—than we do of the more plodding, two and three-hour evidence-taking sessions. I say that with the greatest of respect to the people who are giving us evidence, all of which is interesting—we all get engaged in the discussion once they are here.

I know that an away day is scheduled for November, but that is a pretty long way off for it to feed into our thinking process. I know that there will be chances for informal discussions—not least on the visits, on which committee members will reflect and talk to each other. I have referred to my three and a half hours at the Audit Committee this morning and my capacity for creative thought by this stage is limited—please do not say that that is obvious. It would be awfully valuable to get some quality time as a committee sooner rather than later to refine our thinking and decide where we go from here.

**Christine May:** I agree, although we have probably come to the end of the oral evidence that we can usefully hear, other than the evidence on education, for which we should be careful whom we ask to come before the committee—do we want someone who considers the future of education and who has some international experience to advise us? I have a suggestion: it is probably time for the committee to have an informal dinner—to go out for a pizza or something similar—so that we can have a much more in-depth discussion of the various issues. That would enable committee members who do not go on a particular visit to help to shape the thinking of those who do or, at least, to influence what committee members do on trips.

**The Convener:** I am perfectly happy to do that, although I make the point that the attendance has not been great when we have done such things—I refer to the visit to Dundee, for example, when there was an informal session.

**Christine May:** That is why I suggested dinner. Members have work to do on other committees during the day.

**The Convener:** Absolutely, but attendance is sometimes not great at external events. I am happy to do as you suggest, but members must make a commitment that they will attend.

**Christine May:** It must be accepted that it was difficult for many members to go on the all-day trip to Dundee, which was on a Tuesday, when other committees meet.

**The Convener:** I accept that, but as a general point, attendance has not been great when we have done things outwith the hours of 2 o'clock to 5 o'clock on Tuesdays.

**Christine May:** I will treat you all to pizzas.

**Susan Deacon:** So why do we not do more of those things between 2 o'clock and 5 o'clock on Tuesdays, which we agreed to do some time ago? That is my point. We should rebalance our efforts and energies.

**The Convener:** Members are not disputing that. We want to try to do such things, but it must be remembered that we have to build into the work programme the other things that we must do—we must take evidence on the St Andrew's Day Bank Holiday Bill, for example. I take Susan Deacon's point, but it is not always possible to do such things and meet all our other requirements.

Having a dinner or doing something in the evening is a good idea, which we will pursue. We will find out whether we can deformalise meetings a bit more and have more time for informal discussions. There is absolutely no objection in principle to doing so, but we have a wide remit. There is a fair amount of proposed legislation to deal with—there is the St Andrew's Day Bank Holiday Bill and the bankruptcy bill, which will involve months of formal evidence taking that will include very technical evidence. However, I take the point. We will consider how we can do more than is in the proposed work programme.

I point out that since the paper was circulated, we have been told that no committee will be allowed to meet on 4 October in the Parliament because of the Carnegie awards. We were not consulted about that. I am in favour of the Carnegie awards, but this is a Parliament and committee work should be done first. We are not an Edinburgh version of the London Palladium. A full committee day will be lost. We could meet on a Monday or a Friday, but that might not be convenient.

**Mike Watson:** Can the committee not meet somewhere other than in the Parliament? Why do we not meet somewhere else nearby?

**The Convener:** Should not the people who are going to use the Parliament meet elsewhere?

**Mike Watson:** You are right to ask that, but if that is not possible and no committee meeting can take place in the Parliament, let us hold a committee meeting somewhere else. We could meet in the Holyrood Hotel or the Tun, for example. We should not simply accept that we cannot meet on 4 October.

**The Convener:** I think that we would need to obtain permission to do so from the Scottish Parliamentary Corporate Body and the Parliamentary Bureau.

**Stephen Imrie (Clerk):** If the committee wanted to have a formal meeting outwith the Holyrood campus, it would have to be approved, but I would

be happy to look into the matter. Obviously, broadcasting, official report and security people would have to come along with us.

**Mike Watson:** Committees regularly meet outwith the Parliament and we could meet outwith it too. I do not think that the committee has ever met outside Edinburgh. Committees should not be entirely Edinburgh-based.

**Murdo Fraser:** We went to Campbeltown.

**Mike Watson:** That is right—there was indeed a formal session in Campbeltown.

**The Convener:** Some time ago, we agreed that one of our November meetings should be in the Highlands, so we had better keep that promise. That should also be in the paper.

We will take on board the points that have been made by Susan Deacon and Christine May and will consider organising a round-table discussion in the evening in an atmosphere that will allow us to have a discussion without interruption.

Bearing in mind those suggestions, are members happy with the work programme?

**Mike Watson:** There is a minor point that I thought that Richard Baker might have made. I do not want to go on to another subject, but we said that the football inquiry should be wrapped up before the October recess. I see that it will not be and that it will continue until at least the middle of November. I presume that there is no way around that.

**The Convener:** There is a possible problem with the meeting on 4 October, when we were to take a fair amount of evidence.

**Mike Watson:** I simply wanted to make the point.

**Richard Baker:** I hoped that the inquiry would be finished by now. There is no argument for its not being finished, if we look at the work programme.

**The Convener:** I think that we all agree that one of the problems is that the committee's remit in covering the work of two departments is too wide. We had hoped to start the employability inquiry some time after the recess, but there is no way in which we can start it this year. We will juggle a bit more and see what else we can accommodate, but it is obvious that there are certain commitments that we must meet.

**Mike Watson:** We had talked about that inquiry and I had noted that it had slipped.

**The Convener:** We will consider how it could be brought forward, but that does not look possible at the moment.

I wish everybody a happy recess and look forward to seeing you on 6 September, which is when the committee will next meet.

*Meeting closed at 17:40.*

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