

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 27 September 2005

Session 2

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ENTERPRISE AND CULTURE COMMITTEE

20th Meeting 2005, Session 2

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Christine May (Central Fife) (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)

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

COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Fiona Hyslop (Lothians) (SNP)

George Lyon (Argyll and Bute) (LD)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

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

*attended

THE FOLLOWING GAVE EVIDENCE:

Dr Iain Docherty (University of Glasgow)

Donal Dowds (BAA Scotland)

Bob Downes (BT Scotland)

John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Professor Jim Gallacher (Glasgow Caledonian University)

Roger McClure (Scottish Further and Higher Education Funding Council)

Liz Mullen (Learndirect Scotland)

Roger Mullin (Inter-ed Ltd)

Polly Purvis (Scottish Technology Forum)

Jamie Ross (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

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LOCATION

Committee Room 4

Scottish Parliament

Enterprise and Culture Committee

Tuesday 27 September 2005

[THE CONVENER opened the meeting at 14:00]

Item in Private

The Convener (Alex Neil): I welcome everyone to the 20th meeting of the Enterprise and Culture Committee in 2005.

Under item 1, I ask the committee to agree to take item 4 in private. Are we agreed?

Members *indicated agreement.*

Subordinate Legislation

Dissolution of the Funding Councils (Scotland) Order (SSI 2005/437)

14:00

The Convener: Item 2 relates to a piece of subordinate legislation. The order is a technical measure to dissolve formally the two existing funding councils for further and higher education in light of their merger to form one funding council for both areas.

Does the committee agree to note the instrument?

Members *indicated agreement.*

Business Growth Inquiry

14:01

The Convener: Under item 3, we will continue our round-table discussions on business growth. The first of three round-table discussions this afternoon will be on transport. I welcome Dr Iain Docherty, from the school of business and management of the University of Glasgow; Donal Dowds, the general manager of BAA Scotland—whose first day back at work after leaving hospital this is; John Ewing, the head of the transport group in the Scottish Executive; and Jamie Ross, the head of the transport policy division in the Scottish Executive.

I emphasise that this is a round-table discussion rather than an us-and-them, confrontational or High Court situation. People should feel free to chip in.

Before we start, I invite members of the panel to say a few words by way of introduction. Since it is Donal Dowds's first day back, we will start with him.

Donal Dowds (BAA Scotland): Thank you for your kind words about my return to work. You need not have any sympathy for me; I am fully fit and able and am looking forward to the session.

For the sake of the accuracy of the record, I will correct you with regard to my job title. I am the divisional managing director of BAA Scotland and USA.

BAA owns and operates Glasgow, Edinburgh and Aberdeen airports. Our business is in good shape. The three airports are experiencing good growth and have been for a considerable period of time. In recent decades, Aberdeen has had some difficulty associated with the ups and downs of the oil industry, but it is now in excellent shape and is experiencing some of the strongest growth that we have seen for a number of years.

I am delighted to report that we think that the future of the three airports will be successful. We have been attracting many new routes, which is a main concern of politicians and of the Scottish Executive in particular. Since 1999, we have established 94 new routes and 50 new destinations. We are actively continuing that programme of work, which is receiving up to £100 million of support over a five-year period. We are looking forward to making some interesting announcements over the next few months.

The investment in our airports continues apace. At the moment, we are spending £50 million a year or £1 million a week. We envisage that that will increase as traffic demand and capacity increase in the next few years.

The business is a success and Scotland is benefiting from it. I look forward to answering any questions that people might have.

Dr Iain Docherty (University of Glasgow): I will make my opening statement very brief. Members will have seen my submission in which I tried to encapsulate some of the recent work that I and my colleagues have done in considering transport spending decisions in Scotland.

I have some summary comments to make. I think that I and most others in the transport community welcome whole-heartedly the increased priority and funding that the Executive has given transport over the past few years. That is crucial because transport is vital for the future of the Scottish economy. Of course, the problems emerge when we try to understand exactly what the links are. I suppose that part of what we said in our recent work is an admission that the links between transport investment and economic growth are sometimes less direct and apparent than we would like them to be. That means that we have to understand how we spend our money to ensure that we get maximum benefit for taxpayers' money.

In essence, the submission sets out a review of what the Executive has done on transport policy over the past few years. However, it raises more questions than it answers. It asks questions such as whether the right decision-making framework is in place; whether the current phase of delivery is the correct one, bearing in mind that the short-term bubble in expenditure may be just that; and whether we are creating the correct conditions for a sustainable increase in economic growth and not just a short-term fix.

The Convener: I call Jamie Ross.

Jamie Ross (Scottish Executive Enterprise, Transport and Lifelong Learning Department): I work for John Ewing, who heads up the transport group, so any difficult questions can go to him. I have specific responsibility for aviation. I am happy to take part in any discussion on the route development fund.

The Convener: Great. My apologies to you, John.

John Ewing (Scottish Executive Enterprise, Transport and Lifelong Learning Department): That is okay. I will exercise my right to pull rank by passing the difficult questions to Jamie.

We have nothing to add to the department's submission. Transport infrastructure is an important underpinning part of the environment in which business growth happens in Scotland, and the Scottish Executive is strongly committed to developing the transport infrastructure of Scotland. Plans are under way to deliver on a number of key

projects, but we are also engaged in an exercise to develop the next national transport strategy. That involves close discussion and involvement with the various players in economic activity in Scotland. In due course, it will lead to the development of a new strategy and a new set of projects.

The Convener: I will kick off by asking a couple of general questions. We heard an interesting speech on the need to remove barriers to growth from Adam Crozier at the business in the Parliament conference a few weeks ago. What are the key barriers to transport making its contribution to economic growth in Scotland—the barriers that should and could be removed?

What implications does a city region growth strategy have for transport policy? One of the areas with the poorest transport links in Scotland is the south of Scotland—by which I mean the whole of southern Scotland from the Borders right through to Dumfries and Galloway—yet it is on a main European distribution route. The transport links in Scotland are much better from north to south than they are from east to west. It seems almost as if there is a dividing line right through the middle of Scotland.

What are the main barriers? What are the implications of a city region strategy and what does such a strategy mean for areas such as Dumfries and Galloway and the Borders that are not natural parts of a city hub?

John Ewing: I will kick off. What someone considers to be a barrier to growth will depend on their individual perspective and to whom they are speaking. To pick up on the threads that you mentioned, someone in Dumfries will have a different view of what constitutes a barrier to economic activity in their area than will someone operating out of Glasgow or Edinburgh.

One of the key messages that we have picked up from the business community is the importance of connectivity between Scotland and its markets in England and abroad. We have also picked up the message about the importance of ensuring that transport can move efficiently and effectively across Scotland. Therefore, tackling issues such as congestion and the current constraints on infrastructure is important in ensuring that activity can happen.

The other challenge is where and on what rationale to make investment. The city region argument is largely that cities are the key drivers and principal sources of economic growth, into which the areas around them feed and from which they benefit as a result. The logical conclusion of that argument is that all investment should be concentrated on those areas, to the exclusion of others, but that approach cannot be taken, and the

Executive does not take it, because it is acknowledged that in developing a transport strategy, regard must be had not only to economic growth, but to issues such as social inclusion and enabling other parts of Scotland to benefit from economic activity. It is important to develop infrastructure proposals that plug all parts of Scotland into the opportunities for the future.

Dr Docherty: If I were asked what the evidence says about the links between economic growth and transport investment, I would have to say that the most important finding from recent research is that the presence of direct international air links is particularly important for high-value export activities, which is largely because people have become even more dependent on face-to-face contact as a driver of economic growth than they have been. That is despite the comments that were made 10 to 15 years ago about how the information and communication technology revolution might bring about the death of distance. The suggestion was that an individual or a firm would eventually be able to do any economic activity from any location, but that has not turned out to be the case and there is no evidence that that will change. For the high-value export industries, direct air links are critical. Of course, that could have big environmental impacts, which would have to be thought about separately.

Surface transport is a much more difficult issue. When companies say that they need better surface transport to reach their markets in England or continental Europe, that may well be true, but better surface transport links also make it easier for companies elsewhere to serve Scotland. The two-way-street argument is a classic debate in transport planning. For every job that we safeguard in Scotland by having better links south, we might export a job, because it will become simpler for somebody else to serve our domestic market from a central point.

The best example of that is what has happened to the surface logistics industry. Logistics employment and industries are concentrated in the English midlands and north-west and logistics employment has declined relatively in Scotland. Improvements in the railways and in particular in the motorway system in the past 20 years have meant that jobs in the sector have been exported. Ireland is a contrary case. It will never be connected to Great Britain or Europe by an equivalent of the M74 and has managed to be much stronger in some economic sectors simply because its connectivity to core markets is not as good, so it has retained indigenous activity. Whenever a businessperson or business interest tells me that we need better connectivity, I think that that is not automatically the case. We need to be careful about the two-way street argument and

to think about whether we would make competition easier against indigenous companies.

Donal Dowds: There are several ways to consider the barriers to growth domestically and internationally. I will start with international aspects. Since Wilbur and Orville Wright first flew, the aviation industry has long endured tremendous rates of change, and that rate of change has not slowed in recent years. One major change that affects countries such as Britain and Scotland is in the view of traditional carriers that efficiency is best gained through the creation of hub-and-spoke arrangements rather than by having a plethora of point-to-point arrangements and strategies.

That view has come under much pressure and many carriers that have benefited from such arrangements in the past 20 to 30 years now find that they increasingly struggle financially to meet the high costs of operating such a system. The system was considered efficient for aircraft utilisation, but labour has ended up being expensive, because the system generates repetitive waves of traffic that connect into an airport. Atlanta airport is perhaps the greatest example of that; Heathrow is a much lesser example, but it is similar. Being able to turn all the aircraft around and take people plus their baggage from one plane to another all within 45 minutes to an hour, in an environment of increasing security, is turning out to be a difficult and expensive task.

14:15

We have seen the beginnings of a rethink in the States, and we are now beginning to see that happen in the main cities of Europe as well. That creates opportunities for the regional economies of Europe—including Scotland—where the development of low-cost carriers means that much greater point-to-point operation is starting, providing the opportunity for greater connectivity to places such as Scotland. Clearly that will help us to achieve our joint aspiration of becoming a knowledge economy and being able to conduct global business out of Scotland.

We must be constantly aware of that and we should pursue opportunities whenever we can. That carries with it other implications, such as the number of aircraft that we have to house overnight, because point-to-point operations, by definition, need to start in the morning and work all day for aircraft to be utilised efficiently. That has an apron and land dimension to it, which the hub-and-spoke arrangement did not quite have for us in the regional airports, and it feeds through to aircraft size. With the hub-and-spoke configuration, we have tended, for domestic operations, to try to create bigger units and to use fewer slots at places such as Heathrow to serve the 5-million Scottish market, but that has been

reversed in recent years. We have a challenge and an opportunity to increase our international connectivity with more point-to-point and long-haul services, such as the Emirates service to Dubai, which is a major hub, and services to other hubs in Europe that offer us in Scotland connectivity alternatives to Heathrow.

We also have more local challenges, which I think could become real barriers to growth. Generally speaking, the aviation white paper envisages a doubling of traffic in 20 years and a tripling of traffic in 30 years. That is a fantasy and will remain a fantasy unless we can get people to and from the airports. At the moment, my concern for BAA-owned airports is not about the ability of our business to provide money and infrastructure within the airport fence, redefining that airport fence—as we must—as we go forward; it is about whether we can get the matching infrastructure outside the airport fence, and time that infrastructure development correctly, to enable people to come to and from our airports. If people get frustrated—as we see every day on the M8 at Kingston bridge and increasingly on the A8 at Gogar—we will choke the opportunity and potential that we have.

We have many schemes and transport plans for airport access, and I believe that they will make a significant difference. However, I worry about whether, as a small country, we can continue to provide the investment in surface access that will be required to meet the aspiration of doubling and tripling traffic in 20 and 30 years respectively. We have some local challenges as well as some international challenges and opportunities.

Jamie Ross: I echo some of the points that Iain Docherty and Donal Dowds have made. When we consulted on the aviation white paper in partnership with the Department for Transport two or three years ago, one of the major views expressed was about the barrier to business caused by the lack of international air connections. To some extent the picture has changed over the past few years, partly, as Donal Dowds said, because there has been a rethinking of philosophy in the aviation sector and partly because many airlines were in a state of flux after 9/11 and were looking for opportunities to risk share. The route development fund, with Government doing a bit of the risk sharing, has been quite influential.

To answer the second question, the city region philosophy is helpful in transport policy making, because it acknowledges the fact that there are specific parts of Scotland that are key economic drivers but that there are other parts of Scotland that cannot be deemed to be in a city region area. At times, I grow tired of hearing transport debates simplified, with talk about sustainability. In a city region sense, that is partly about car demand and

congestion, but in rural areas charging for cars or congestion is not the problem that must be dealt with; the problem in those areas is trying to maintain sustainable communities. The car is quite important in those areas, as is community transport, such as bus services. The city region idea signposts a bit to us the fact that we cannot develop and adopt a one-size-fits-all transport policy for Scotland.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I take as my starting point the written evidence that Iain Docherty has submitted. I am aware that it summarises a larger paper that he and certain collaborators produced earlier this year.

I would like to ask about how we go about the business of taking decisions in Scotland and how we might get better at that. If I am reading the summary paper correctly—I am sure that Dr Docherty will correct me if I am not—I believe that, in essence, it says that the Executive is to be commended for its commitment to transport, for increasing investment and for giving added impetus to transport's importance to the country's wider economic growth and so on, but that there are a number of deep-rooted problems or weaknesses in the way in which decisions are being taken. The paper says:

"it is difficult to understand exactly what the strategic aims of transport policy actually are, given that objectives are woolly, with very little prioritisation between them."

It also says that over the past five to seven years there has been a significant diminution in clarity of the objectives of transport policy in Scotland.

As one of the authors of the report, can Iain Docherty elaborate on the basis on which he drew such conclusions? In so far as they feel able to do so, will other members of the panel comment on whether they share that general view? I would like to explore further whether that is the starting point for analysis of where we are. I am sure that all the witnesses agree that we could get better at taking decisions in the future, and I would like to hear their views on how we might do that.

Dr Docherty: I preface my remarks by saying that I speak for myself, rather than for the colleagues with whom I wrote the longer paper. However, I hope that I will in no way misquote them or anything that we have written jointly.

Our biggest critique was that it is very hard to know which of the plethora of possible transport projects will get on to the menu at any time. Some infrastructure projects in Scotland have appeared in successive transport planning documents for five, 10 or 20 years. Others that have been around for a much shorter time have gone way up the prioritisation order. I can think of at least two examples of projects in the central belt that have

quickly come up the political agenda in response to short-term analysis.

One is the reopening of the Airdrie to Bathgate line, which was at the bottom of Strathclyde Passenger Transport's priority list for at least 10 or 15 years. The project was adopted by the Executive as the outcome of a large, robust piece of research called the central Scotland transport corridor studies, which examined the central belt's transport network as a whole and what we would be able to do with it across modes with the available budget. The researchers identified a range of options and suggested some that would be worth pursuing. The Executive explicitly adopted the outcome of the document in a rounded way. The approach was similar to the multimodal studies in England, which were an attempt to stand back and to ask the big questions about the transport needs of a region. Only then was a decision made about the kinds of infrastructure schemes that should be put in place to meet those needs. If that does not happen, there is always a danger of people saying, "Here is a scheme that we produced earlier. Can we build it now that we have some money?" Our big question was: how can we be sure that the menu of projects is right?

The second example that comes to mind is the Edinburgh airport rail link, which is no doubt close to Donal Dowds's heart. Until about five years ago, when the Minister for Enterprise and Lifelong Learning took a strong view on what the economic infrastructure of the area to the west of Edinburgh should look like in order to boost the Scottish economy as a whole, the concept of a very large project for Edinburgh airport had not featured in any public sector or Government planning documents. There was always the aspiration to have some sort of rail link, but a high-cost, high-impact project was always seen as being likely to be difficult to achieve. I am not saying that there is anything wrong with the project; I am simply saying that nowhere in the planning process have we asked ourselves what else we could build with the £500 million—or whatever the estimate is—that the project will cost.

As yet, because a series of projects has emerged from different planning documents and different political sources, we have not taken a broad view across Scotland and said, "Here is the transport budget and here are the Executive's objectives for the economy, society, and the environment. Out of all the possible interventions that we could make, which are the right ones?"

To give John Ewing, Jamie Ross and their colleagues credit, they are aware of that: it is why we will have a strategic projects review in the next round. Our paper said that we have not had one thus far, so we have not had a strategic look at

what we might be able to do. Some of the projects at the top of the prioritisation list owe more to luck, timing, the availability of funds and local politics than they do to any strategy.

In a sense, the Executive has come a little unstuck. The inquiry reporters unit report on the M74 special road orders neatly exposes the contradiction. The Executive has a range of aspirations for its transport policy—for example, to spend 70 per cent of expenditure on public transport and 30 per cent on roads, and to limit road traffic to 2001 levels by 2021—and a set of policy commitments that it has inherited from several different political processes, but the choice of projects does not always match those aspirations.

Susan Deacon: As the convener said, this is a round-table discussion, and we are not here to interrogate any of you, but I would like to play devil's advocate for a moment.

You asked how we can be sure that the priorities are the right ones. Surely, to an extent, we can never be sure; it is not a perfect science. You say in the introduction to your submission that decisions will be taken on

"political rather than technical grounds".

Do we not need to urge caution and say that there can never be any complete objectivity in the process and that there are limitations on the technical tools available? Should we not say that political judgments have to be made?

Perhaps part of the challenge for a devolved Scotland is how to create greater clarity and transparency in some of those judgments. I would be interested in hearing others' comments on that as well.

Dr Docherty: I am interested to hear you say that; we were playing devil's advocate with the language that we used as well. We were saying that all those decisions are political and that transport economics is a notoriously imprecise science: one can justify just about anything, depending on the appraisal criteria that one uses.

The core concluding message of the paper is that all decisions are political, so we need clarity and to admit that that is the case. If we do that, people will be able to take a step back and the process of prioritising projects will be able to be more transparent.

Donal Dowds: I believe that we can always come up with better, more open and more visible criteria that allow people to understand better than at present why one project has been pursued over another.

As Iain Docherty said, transport economics is seen as voodoo and black magic by most people;

they just do not understand it. It is for experts to debate. Therefore, getting the argument across when one is trying to spend considerable sums of taxpayers' money on transport projects is a challenge. I am delighted that, at long last, both at Westminster and in Edinburgh, we are getting some political leadership on the need for transport investment. That is crucial. Transport has risen up the list of priorities in Governments' budgets, and I welcome that. Political courage is required for a Government to say that although it will never have enough money for every project, it will try to explain its investment priorities, however unclearly it does that.

I have long suggested that all political parties, when they are approaching an election, should put to the electorate their policies on transport and transport investment as well as their policies on education and the other areas that people expect them to have policies on. Parties should be elected to deliver on those policies. The link would then have been clearly made. We encourage that, while in no way dismissing the requirement to bring clarity and to justify the use of taxpayers' money and the benefits that it brings.

I hope that BAA can help with that debate. We certainly see ourselves as a partner in the investment programme. Scotland has no choice but to spend significant sums of money on developing transport as part of its wider economy, as every other successful economy that one cares to look at has done. It is not about roads or rail instead of schools; we need everything. We need the transport infrastructure to have a successful economy. Political leadership over the past 20 years has not recognised that, but I welcome the fact that we appear to have that leadership now.

14:30

Susan Deacon: I will pursue a few points with you about the business of politics; I would not have led you into that terrain if you had not already gone there voluntarily. I am interested in what you say about the different political parties. The issue is realpolitik, so I am glad that we are talking about it. You advocate that parties should go into elections being clear what they are going to do on matters such as transport. However, does that not take us down the road—no pun intended—of exactly what Iain Docherty talked about, which is that parties promise projects that will be particularly popular in areas of the country where they are touting for votes, as distinct from promising projects that are strategic priorities for the country? How do we square that circle?

Donal Dowds: There is a danger associated with that, but it will not get far. Any party that was elected and started ploughing funds into what was seen as its heartland would not succeed in

Government for long. The whole of Scotland needs to be persuaded. A reality comes upon all parties when they go into Government. We have to deliver for the whole of Scotland; delivering for only parts of the country will not be adequate. I know that that is a major concern between the Highlands and the central belt, which will continue for some time.

We need to set forth our stall on transport more clearly than we have been prepared to do until recently, then we need to deliver. Prior to elections, parties will have to invest more in understanding the case for projects that may or may not go into their manifestos. They need to understand the political implications for and again the economic implications. As I understand it, some attempt is made to put accurate costs to manifestos and pledges. Parties should spend more time considering the transport investments that they take to the electorate, because transport is generally perceived as crucial.

One thing that has happened in recent times is a delight to me and other transport professionals. If you read any paper—I do not care which one—you will find letters and comments from the public welcoming the commitment to spend more on transport. People believe that transport is important; it is not a side issue to them, which is absolutely correct. However, we have not always had the follow through. It is always important to be able to justify to the electorate and to any audit one's use of taxpayers' funds, but at the same time we need to focus on delivery.

One of my big concerns is that we end up with nothing but an eternal talking shop. We need to get on with the business of delivering projects; we need to take the knocks when we have not got it 100 per cent correct, to learn from those projects and to move on. Perhaps that sounds naive, but it is exactly what happens in the commercial world. Not every project is a guaranteed winner. Some projects do not work well, but we learn from them—that is the important thing—and move on. We need more understanding of the complexity of transport and we need to concentrate on delivery as much as on understanding the economic benefits and cost arguments, which will always exist.

Susan Deacon: I do not want to take up more of the committee's time, but I am conscious that John Ewing should have the last word on this and tell us how we will take a more strategic approach. I hope that political parties will have more of an eye to that.

John Ewing: There is a history to the projects. The paper by Iain Docherty and his colleagues looks back on how we have got to where we are. We can recount stories for every one of those projects, which came from all kinds of analyses.

To pick up on Donal Dowds's theme, we are keen to avoid paralysis by analysis. The projects are important and ministers are committed to delivering them—that is the task.

Our work on the national transport strategy involves having a wider conversation with various interest groups around Scotland about economic activity and the environmental and social inclusion agendas. We want to establish whether there is a sense of common purpose about the priorities in Scotland and where they should lie. If we can establish consensus on the priorities, that should enable us to undertake strategic reviews of individual projects to ascertain how they fit with the consensus.

Looking at the politics of that process in a naive way, if the professionals do the analysis and present it to the politicians, they should be able to pick up projects against that background. The politicians should be able to say that they support a project either because it fits into the national framework or because it delivers local benefits. There should be a genuine and legitimate political choice about which projects to back. Some projects will be backed because they will, ultimately, be of value to the national economy; other projects will be backed because their primary impact will be regional or local. I do not see a problem with politicians making such a choice, as long as they know why they back individual projects.

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

My question is directed at Iain Docherty in the first instance. Given that our inquiry is into business growth, do we have the correct balance between public and private transport expenditure in Scotland? I am thinking about what you said about the M74 extension that the Executive announced. It seems that that proposal went ahead because of pressure from the west of Scotland business community, who felt that it was an important development project. Certainly, going around the country and speaking to people who are involved, for example, in manufacturing businesses, I have found that having better roads is regarded as a clear priority, compared with other types of spending. What is the correct balance in transport expenditure for economic growth and do we have it right?

Dr Docherty: It is difficult to tell what the correct balance is. One of the discomfiting aspects of transport economics is the discipline itself. It is difficult at macro level—regional or national—to prove that transport infrastructure and investment make any difference whatever to the economy. It is easy to argue that we cannot identify what additional impact transport infrastructure investment has had on Scotland's and the United Kingdom's growth performance over the medium

or long term, however those are defined. The classic example is the Republic of Ireland, which went through an incredible growth phase, but spent almost nothing on new roads and railways. Of course, the Irish now feel that they cannot sustain growth in the future without making a huge level of investment to bring them up to the level of their European competitors. However, in a sense, that again is a political choice. They cannot say that investment will make X difference to their future growth rate or economic performance, however those are measured.

I return to the point that was emerging and which Susan Deacon was probing towards. Many transport investments are political choices and, as such, are a leap of faith. Such investments might sometimes be justifiable under quality of life headings rather than in terms of the direct identification of economic benefits. As further evidence for that, there is the report that a unit called the Standing Advisory Committee for Trunk Road Assessment did for the Department for Transport and the Department for Environment, Food and Rural Affairs. The committee was directed simply to look at the available evidence that showed why investments in roads had fed into the wider economy. However, the committee said in its conclusions that it was difficult to find such evidence.

To pick up on what John Ewing said a minute ago, there is always a danger of paralysis by analysis. However, transport investments involve huge amounts of public money and they often tend to be delivered in huge lumps of money. It is probably more difficult to get such investment right than it is for other aspects of public spending in which there are more schemes. By definition, the risk of getting it wrong in such areas is probably less because the jam is spread more thinly. In our submission, I argue that the lumpy nature of transport investment makes it more difficult than it is in other areas of public expenditure to know that we are spending our money on the right things and that, because that is the case, we must be even more careful in our economic analysis of why we spend our money where we do.

Murdo Fraser: That is an interesting response. The Minister for Enterprise and Lifelong Learning will justify his annual spending outcomes to the committee by saying that spending such a lot of money on transport will make a major contribution to economic success. You seem to be saying that it is not possible to measure that contribution.

Dr Docherty: I would not feel confident in answering your original question, which was about how much difference such expenditure makes. My interpretation of the available evidence is that we do not know enough to be able to pin a number on that.

Murdo Fraser: Does John Ewing want to add to that?

John Ewing: There is a practical difficulty to do with cause and effect. We do not suggest that transport infrastructure per se will necessarily lead to more jobs, but it will facilitate the activity of the wider economy to create job opportunities. We could build wonderful road systems, but if we do not have firms in Scotland that can grow, develop and create jobs, those road systems will remain empty of traffic.

I want to return to Iain Docherty's point about making the link tangible. Although it is impossible to remove all the other variables that have an impact on the economy, we can say that we are told consistently by business and others that infrastructure is crucial to their activity. The Confederation of British Industry, the Federation of Small Businesses and others think that the transport investments that the Executive is making are crucial to Scotland's future.

As Iain Docherty says, there is an element of faith in some of the Executive's activity, but each project is economically appraised and analysed and judged carefully against value-for-money criteria. Whether we should spend as much money as we do on transport is a bigger-picture issue. Ministers believe that transport expenditure is important to economic growth and activity in Scotland. That is why they have made available more resources, which have allowed us to advance projects such as the Edinburgh airport rail link, which we simply could not have considered five or 10 years ago, because the resources were not there.

Murdo Fraser: What about my original question to Iain Docherty, which was about how we assess the mix between spending on public transport and spending on roads?

John Ewing: It is tricky to get the balance right. Ministers say that, in Scotland, the bulk of the money has traditionally been spent on roads. To a certain extent, that is an echo of the responsibilities of the old Scottish Office. We must spend more on public transport to give people choice and to tackle some of the environmentally damaging impacts of car use. The onus is on changing the balance by moving towards public transport. Although significant investment has been made in new public transport projects, the level of expenditure on roads has also increased. There is a genuine move towards public transport, but we are supporting investment across all modes. That represents a big change.

Dr Docherty: I return to Mr Fraser's question about roads. We considered the relationship between headline economic growth rates and road traffic growth. In England, as a rule of thumb,

every 1 per cent increase in economic growth that is achieved is accompanied by a 1 per cent increase in car traffic, so there is a direct one-to-one relationship. In Scotland, for some reason, it seems to take only an increase of roughly 0.6 per cent in traffic to generate a 1 per cent increase in economic growth, so it seems that Scotland is less dependent on cars for economic growth than the UK as a whole is. It is difficult to figure out why that is the case.

That leads me to the conclusion—which is part science and part hunch—that the Executive's current split is about right. I subscribe to the general view that to build more roads per se will generate more traffic, not much of which—certainly not all of it—will be of additional economic value. The difference in the situations north and south of the border tends to suggest that that may well be the case for our particular local circumstances.

Jamie Ross: As well as echoing John Ewing's point about the importance of public transport, I put down a marker that the split between public transport and roads is not as straightforward as one might think. Many people forget that roads carry the major mode of public transport, which is the bus, and the bulk of freight, which is vital to the economy. There is a feeling that, if we spend money on roads, 100 per cent of the benefit goes to the private motorist, but there are other beneficiaries, most notably the bus and freight industries.

14:45

Donal Dowds: I get worried when, as others have pointed out, the transport debate focuses solely on investment in public transport or rail solutions. Our economy cannot be enabled to grow unless we recognise that the situation is more complex than that and that we have to invest in vital road capacity, such as the M74 extension. Although 70 per cent of Scotland's manufacturing is located west of Glasgow, the industry has to get through a two-lane choke point through the Kingston bridge and Charing Cross. That is no recipe for future investment in manufacturing in the west of Scotland. Moreover, we need to solve certain problems in Aberdeen.

There are clear and strong strategic arguments for some improvement in road capacity. My worry with what John Ewing has said is that, although more money than ever before is being spent on our roads, much of it is going on maintenance. However, a lot of evidence from around the country shows that, even now, not enough money is being spent on maintaining our roads infrastructure. I am fully paid up to the view that we cannot build enough road capacity to solve Scotland's problems; however, we must place

road investment alongside rail investment and traffic management policies and build up an integrated picture. We have a chance of providing the transport infrastructure that Scotland needs only when we recognise that all those solutions have a part to play.

Shiona Baird (North East Scotland) (Green):

The Environment and Rural Development Committee's climate change inquiry report highlighted the fact that, by 2015, transport is predicted to be the biggest emissions sector. In your submission, you say that the number of passengers passing through BAA's three Scottish airports has increased by 6 per cent. However, you do not mention climate change, pollution or oil depletion. Your submission provides a list of the new services from those airports and sets out the number of flights that have been made. The promotion and development of short-haul routes directly contradicts the recommendation in the climate change report that we should reduce the number of short-haul flights in favour of more effective and competitively priced alternatives such as rail. How do you reconcile those contradictions?

Donal Dowds: The job is not as difficult as you might think, because you are wrong to suggest that we are simply promoting short-haul domestic routes. For a start, our incentivisation programme very much recognises the challenge that we face in connecting to the Highlands and Islands. We and the Scottish Executive favour those routes.

However, domestic routes to London, in particular, and to other major UK cities receive nothing like the level of support that we give to the international connections that we are trying to develop at our airports. Politically and economically, developing such connections is the right thing to do. After all, we fully support the idea that Scotland needs better international connectivity. On top of that, it is very good business. We make no bones about promoting and incentivising international route development, but I must point out that we are not doing the same for domestic route development, unless the opportunity arises. Unfortunately, not many opportunities for connecting to the Highlands and Islands have emerged.

Although we recognise that aviation is associated with environmental impact, we in the industry are a little tired of hearing that the problem all comes down to aeroplanes. Only one airport in this country—Heathrow—breaches European air quality limits, and that is only because of the road traffic on the M25 and the M4. That is our big challenge in tackling air quality problems in that part of the world. There is not a problem with the European limits being exceeded at airports in Scotland or, as I understand it, at any

other regional airports, because their volumes are so low. Nevertheless, the aviation industry—airports, airlines and other operators—must definitely step up to the challenge of mitigating the environmental impact of aviation growth. At the end of the day, the white paper lays that challenge in front of us fairly and squarely. It says, "This is the potential growth that we see, but here is the impact that has to be dealt with." We will need to find new solutions. We will have to invest in new technologies, as an industry, to meet that challenge. BAA is taking a leading role in developing those solutions. We are not running away from them at all; we are, in fact, leading the debate on European emissions.

The aviation industry is being led by our organisation, and I am delighted that the UK Government has now decided to pursue that as well. We will step up to that challenge, but the ultimate sanction is there. The communities will enable airport growth or not. If they decide to support it, through their representatives and others, such as yourselves, it will take place; if they do not support it, it will not happen, and the economic impacts of capping that growth will happen. We all face a perennial balancing exercise. There are economic benefits to aviation growth and international connectivity, but there are also environmental implications, which, as we go forward, the industry is committed to reducing. At the end of the day, however, there is no such thing as a silent, successful airport or an aircraft that produces no emissions. We will have to draw a balance on that and, ultimately, decide whether an airport can grow over and above a certain amount.

Shiona Baird: The 11 internal flights out of Aberdeen and the 13 out of Edinburgh were all to the south—there was nothing about going to the islands.

The route development fund is a public subsidy, but commercial confidentiality prevents us from knowing how many people are going in and out and where the money is being spent. Do you feel that the fund leads to a net flow of money into or out of Scotland?

Donal Dowds: The route development fund is a generic term that comprises two parts. One is the public sector route development funding, which has been introduced in recent years to great effect and has had a huge impact on the airlines. The other is the £100 million that we put in. The route development fund has a massive influence on airlines. The rest of the world is looking at Scotland and the formula that we have generated, and the Scottish Executive and the two gentlemen who are sitting beside me must take a lot of credit for that. We have developed a winning formula that is getting the attention of airlines all over the world, such as we have never had before. The

formula helps airlines to defray the risk that is associated with starting new services. My hope is that, rather than kill off the fund—as suggested by some voices, particularly those that are concerned with the environment at the expense of everything else—we will modify it to make it even more effective than it already is.

Shiona Baird: Iain Docherty mentioned the financial differential in public spending. Are you satisfied that the Executive has tilted the balance towards public transport? What would the figure be if it was not for what you call the “transfer in accounting responsibility”?

Dr Docherty: The Executive has tried to tilt the figure. However, partly because procurement in the rail industry is still much more fragmented than the procurement process for roads, the Executive finds it easier to build roads than it does to sponsor railway projects. In part, that is to do with the inherited situation following the fragmentation and privatisation of the railways. We are not questioning the Executive’s objective or intent in saying that.

The specific point about accounting responsibility refers to the amount of money that is paid to subsidise the ScotRail passenger railway franchise each year. Until April 2002, that was paid directly from the budget of the Department for Transport, in London. The amount of money stayed constant, although the budget heading shifted into the Executive’s budget. More than once, in official documents, the Executive has claimed that as an innovation. It is, in fact, the same amount of money globally, although it all comes from the Executive’s block grant rather than from a variety of funding sources.

Christine May (Central Fife) (Lab): I would love to continue discussing policy and the criteria that are used to develop it, but I want to discuss some of the other points that you have made. However, I suggest that infrastructure projects take a very long time and that sometimes political, social and economic priorities shift in the 10 years between the devising of a project and the agreeing of the money. Some of those decisions are about generating a feel-good factor or confidence among the commercial community and ordinary communities that the projects will make a difference. Do you agree with those comments? A yes or no answer will do.

I want to ask you about the balance between the movement of freight and the movement of people, and the extent to which our investment is geared to knowing how much of each we should aim at. Perhaps you would like to comment on that.

The submission from BAA Scotland suggests that a global freight connection is important. Others have talked about the logistics industry and

the movement of goods. Could you discuss that briefly, please?

Donal Dowds: Freight strategy is a key part of our business strategy and we wish to maximise the opportunity to service global markets through our airports rather than by using trucks. There are too many trucks trundling along the M74 through the heart of Glasgow, down the M6 and on to Heathrow, or across on the ferry to Paris or Frankfurt before they hit a plane. We certainly see freight as a major opportunity. Manufacturing in Scotland will be better supported and greatly assisted—and, God knows, it is a tough enough battle to maintain manufacturing capacity in a mature economy such as ours—if we improve our transport and aviation links.

However, the bulk of growth will be in the passenger area. Scotland is in the middle of a significant and permanent structural change whereby the manufacturing sector as a percentage of the total economy will reduce and we will have to take seriously the future knowledge economy to which I referred earlier. Growth in that area will happen somewhere else rather than in Scotland if we do not succeed in making international connections. That is a people-based, rather than freight-based, strategy.

Freight is certainly important to all our manufacturers and they will disappear faster than snow off a dyke unless we can give them the capacity to move their products by air freight as well as by road.

John Ewing: Jamie Ross can talk more about freight. More of the Executive’s budget is spent on moving people or supporting the movement of people. That is because the industries that we are dealing with—such as the rail industry, the ScotRail franchise or support for the ferry networks in the western and northern isles—require a subsidy so that they can operate economically. The freight industry does not require that kind of intervention. However, it requires intervention on issues such as facilitating the exchange of freight from the roads to other modes of travel and that is where we use freight facilities grants. Relatively small amounts of money can unlock investment by the freight industry. We also spend money on helping freight companies to develop workforce skills and training. Jamie Ross can talk about that, too.

We are making selective use of the money. Investment in the main road infrastructure will play a key part in helping freight to move in Scotland, as will investment in the rail infrastructure in due course.

15:00

Jamie Ross: I do not think that freight issues have been dealt with adequately in the past, but

they have been dealt with better in Scotland than they have been in the rest of the UK. The rail freight group was very critical of the Strategic Rail Authority for not giving enough credence to the role that rail freight could play, but it is much more positive about developments in Scotland. We have quite a thriving freight facilities grant scheme to encourage modal shift. At the same time, the DFT was pulling the plug on its scheme for a year or two because of financial constraints.

As John Ewing said, we have done quite a lot to help the road haulage industry with recruitment and skills development. As a Government, we might not have given freight enough of a profile, but we have still done several positive things. As part of the national transport strategy, we are developing a freight strategy. We are working closely with the National Institute of Transport and Logistics, which is a Dublin-based body that has done a lot of work in Ireland on what industry wants from the transport side. The danger is that we might develop a strategy that, because it is all about infrastructure, is nothing but a wish list of projects. However, we want to create a strategy that is focused on the customer, particularly as there have been many changes in logistics and supply chain processes in the past five or 10 years.

Dr Docherty: Of course, infrastructure is partly about the feel-good factor. The feel-good factor is one of the ways in which we justify having trams in places such as Edinburgh. It is not always easy to explain in transport terms what trams do better than buses, but we all know that they make a difference to how people feel about where they live; there is lots of evidence from continental Europe that that is important, not only in terms of users' perceptions of the service but in terms of the economy.

It is true to say that priorities change over the long term—we hinted at that in the paper. Part of the downside of the rush to delivery is that, although it might be possible to deliver schemes, they might end up not having a sustainable impact on the economy in the long term. That is a risk but, again, it is a two-way thing. It is not just about some schemes becoming irrelevant if you wait too long for them, because they can become irrelevant even if you build them, which leaves a large subsidy bill to be picked up if there is infrastructure without many services.

On freight versus people, the classic critique of what has happened in transport policy over the past 50 years is that people move around 10, 20 or 30 times more than they did 50 years ago to achieve exactly the same ends and that there is therefore no net benefit to the economy or to people's quality of life. I subscribe to that view and agree that we are too obsessed with physically

moving people around to do things that could be done with less energy use, less mobility and less use of transport. How we can break out of that vicious circle is, of course, the \$64,000 question.

In response to Donal Dowds, I would say that manufacturing employment can be high-knowledge, high-value employment. Manufacturing employment in some of the English city regions is increasing again and such employment is going further up the knowledge classifications that Scottish Enterprise and other economic development agencies use. We have to be careful about writing off manufacturing.

Christine May: I was not suggesting that we bring things in because we can; I was saying that economic priorities change quite quickly these days and that some things seem now to have lower priority than when they were first proposed.

Michael Matheson (Central Scotland) (SNP): My question is largely aimed at Donal Dowds. In the recent business in the Parliament conference, there was a seminar on promoting Scotland internationally. One of the key themes that emerged from that round-table discussion was that businesses feel that the lack of point-to-point flights from Scotland to international destinations is compromising their growth in Scotland and internationally. What more could your company do to address the clear perception in the business community that more has to be done to improve Scotland's connectivity, particularly in relation to aviation links?

Donal Dowds: That view is typical of the views that business expresses when it has not burdened itself with examination of the facts. As I have already said, we have introduced 90-odd international services to 50 new destinations since 1999, which has not been factored into the view that you are talking about.

It is true to say that much of the recent growth in new routes is with low-cost carriers and that a number of business voices—not all—do not want to travel on those carriers and often think only about the more traditional carriers. However, the traditional carriers that have served Scotland well for many years have, from the outset, had a strategy that views Scotland as a collection point for services out of London. They have developed their strategies in keeping with that view for 20 or 30 years. Therefore, they will not readily change that approach and develop point-to-point services. In recent years, there have been some attempts to develop such services—for example, the New York service that is run by British Airways—but the carriers always tend to revert back to feeding domestic services into a hub.

The view that Christine May expressed is one that is expressed to us by many of the standard

business voices. A number of years ago, we conducted a survey to ask businesses whether they would use certain direct services out of Scotland if we provided them. "Absolutely," we were told. However, when we examine businesses' travel patterns, we see that because of air miles or some other benefit they choose to fly via London rather than on a service that operates directly out of Scotland.

We also have to deal with the evil reality of commissions. Recently, there have been a lot of news reports about airlines reducing that element because they have had to tackle the cost of distribution along with every other cost. In the past, commissions have directed traffic via certain airports or with certain airlines because that is how the people who organise travel were making money. That militated against some of the direct routes. Now, because a lot of people are booking their own flights over the web and are therefore looking for the cheapest price and the highest frequency, we are finding that that pattern is changing.

Many businesses are using the new services. In Edinburgh, Continental Airlines is delighted with its New York service. It is successful because the banks are supporting it big time. Instead of sending people via London, as they used to, they are now sending them directly out of Edinburgh. The front end of that flight is frequently oversold. We are in New York regularly and we often hear announcements five minutes before departure asking for people to give up their seats on the Glasgow and Edinburgh services to travel via Amsterdam, which will mean that they will get in a couple of hours later but a couple of hundred pounds richer. We do not hear such announcements on the Amsterdam or Paris services, however.

The direct flights are successful and businesses are changing, but Easyjet and Ryanair have a constant battle to get people in the business community to see their services as ones that they want to use.

Michael Matheson: If there were two or three suggestions that you would make to the minister in relation to his transport policy to improve Scotland's air links, what would they be?

Donal Dowds: He should continue to support the development of new routes through the route development fund and make the rules more flexible. I understand that those rules have been heavily influenced by what will satisfy Brussels. Given that Scotland has a population of only 5 million people, some operators cannot maintain a year-round service to certain points; they have to use aircraft to go to one point in the summer and another—perhaps a skiing area—in the winter. Even though the company is using the same

aircraft and the same crew and the economic benefits to Scotland are unchanged, it is possible for the company to fall foul of the route development fund rules that are, largely, determined by the European Commission. The route development fund is an effective tool that has proved itself over the past year. It could do even more good if it were more flexible.

My main point is that we need to get planning and surface capacity integrated so that we can match growth in demand with outside capacity. My worry is that those are not sufficiently obviously linked to ensure that that happens, and that we will end up with choke points 100yd from the airport fence. That will deal a major blow to the potential for growth and the economic benefits that would flow from that.

Richard Baker (North East Scotland) (Lab): My question is for Donal Dowds.

The Fraser of Allander institute's figures on the economic impact of the airports are impressive. To what extent could they be improved by improvement of surface access links to airports, such as the proposed Glasgow and Edinburgh rail links? What impact might that have on business growth?

Secondly, to what extent is BAA Scotland looking beyond those airports to improve surface access links to other airports in Scotland? I think in particular of Aberdeen airport. You mentioned that there is room for improvement at Aberdeen, which is now Scotland's fastest-growing airport.

Donal Dowds: We certainly believe that the Fraser of Allander institute study that we commissioned in 2002 needs to be redone—it significantly understates the benefit that the three airports deliver for the economy. We will undertake that exercise shortly.

We believe that our foreign visitors expect there to be rail links at airports the size of Glasgow and Edinburgh: 8.7 million passengers use Glasgow airport and 8.3 million use Edinburgh. At such a level of usage, there would typically be rail connections in European airports. I believe that there is the political will to deliver the rail links.

The Edinburgh rail link is a key element in what I believe is an important strategic rail link that takes in the cities of Inverness and Aberdeen in the north, comes down to central Scotland through Dundee and links Edinburgh and Glasgow. The missing link remains what happens between Queen Street station and Central station in Glasgow. That strategic link should continue all the way down through Ayrshire, Dumfries and wherever. Our vision is of putting that together. We recognise that a lot of money is required and that it will take time, but it is the right approach and I support it because it would bring massive social and economic benefits.

We are studying the impacts on Edinburgh airport and we have made it clear that we are a partner in the project. We have committed funding, to the tune of £2 million, to various levels of rail studies. We will continue to work with the Scottish Executive in planning and development of such schemes. I hope that they will ultimately be approved. They have a huge social and economic benefit but they do not have a massive airport benefit: they will not produce millions of passengers. The future growth of the airports will not be ensured by rail connections alone.

One of the challenges that we face is that we must deliver a plan that our airlines can support. If we needed the importance of that proved to us, it was by the recent experience at Newquay where an increase in charges—I understand by the local authority in that case—led to Ryanair leaving the airport. We must be sensitive to the fact that a lot of growth is coming from low-cost operators. They have clear views about what is acceptable in respect of extra charges and in general about their willingness to support investment in rail links to the airports. We must take on that challenge.

We have made it clear that we will be a partner. We ensure that the land that we own that is required for the rail links will be given to the schemes as and when it is required. Above and beyond that, we are examining what financial support could be provided, although the land alone would represent a considerable sum of money.

The Convener: That was a long session, but it included four panellists and covered a big subject area. I thank all four guests for their contribution. I thank Iain Docherty and BAA for their submissions and all the panel members for their oral contributions.

The second panel has two panellists. I will try to bring in the members who came in at the tail end of that discussion at the start of this one to ensure that everyone gets a fair crack of the whip, so to speak.

I welcome Bob Downes, director of BT Scotland, and Polly Purvis, executive director of ScotlandIS and board member of the Scottish Technology Forum. We have received papers from BT and Polly Purvis, but I invite Bob and Polly to say a few words by way of introduction to our round-table discussion.

15:15

Bob Downes (BT Scotland): Thank you for the invitation. I will summarise some of what we have said, which I hope will be helpful. I will start with a few remarks about BT operating in Scotland. As far as business growth is concerned, it is important to have three things. One is competitive taxation. Taxation is a relative concept and, given that we

are paying £30 million in rates per year, we certainly welcome the recent announcement by the First Minister on business rates in Scotland. The other two things are appropriate regulation—again that is relative—that is conducive to our doing business here rather than somewhere else, and targeted incentivisation, particularly for research and development and design.

I know that the committee is running behind time, so I will touch only briefly on digital communications. I will talk about the infrastructure of digital communications, this country being one of the most exciting places for using digital communications and, related to that, the Government and institutions in Scotland showing leadership in the digital economy. It is extremely important that companies such as BT, which have already invested in Scotland, feel that it is a good place for investment. I do not have to be convinced, but this is about where a company's headquarters are. I am part of the chain and that is an important comment that most of the big companies in Scotland would agree with.

On advanced infrastructure, the last time I was before the committee we had some way to go on broadband. I am delighted to say that with the support of the Executive—or with BT supporting the Executive—we are going to have among the widest coverages of broadband anywhere in the country. I spent a lot of time trying to convince the Western Isles that they should join in, so it is disappointing that they chose not to. Coverage is not 100 per cent largely because of the 21 exchanges in the Western Isles that will not have broadband by December. The race for greater capacity will continue. Now that we have broadband, the race will not stop. Our trials for 8 megabits will start this November. Next year, we will be looking to run something like twice as fast as that. I will do my best to ensure that at least part of that trial is in Scotland.

The big thing to come is the so-called 21CN—21st century network—investment by BT, which is a £10 billion investment in modernising the infrastructure in the UK. Scotland will get a substantial share of that—probably £1 billion. As far as business growth is concerned, it is great to have that, but I would also like to see it being used by Scottish firms as a supply opportunity. It will be a leading incumbent investment anywhere in the world when it starts and when it is completed. It is a major opportunity for Scottish companies. That is part of the research and development theme that I will explore.

This country being the most exciting place for digital communications means that we have to use the technology. Screaming for more capacity will be effective only when there is an extraordinary demonstration through the small business

community of developing products and services. I share the view of previous witnesses that there is no reason why we cannot be a manufacturing economy in digital communications.

We have done work, which I would like to see more of, with the Hillington Park innovation centre. We brought in our chief technology officer to spend a day with the companies there to talk about BT's requirements, to allow those companies the opportunity to partner BT to sell to a wider world.

Digital leadership is about the Government's economic policy, particularly on the innovative applications in the public sector. It will help us to achieve productivity gains, which will be important to the Scottish economy, but it should also be an opportunity for leading lights. To follow the theme the committee was discussing earlier, I would say yes to transport investment and to investment in flexible working. Technology allows us to have much more home working and flexible working. Already, 10 per cent of BT's entire workforce in the UK and globally are home workers.

My final point on big company investment is that we should grow what we have. There is a wonderful opportunity to use the community connections that Parliament has with large companies in Scotland to chase down further investments, particularly in research and development. We are ready to help out with that through our Adastral Park facility.

Polly Purvis (ScotlandIS/Scottish Technology Forum): I am here with two hats on. As well as being the executive director of ScotlandIS, I am a member of the Scottish Technology Forum executive group. We submitted a paper to the business growth inquiry in March, which addressed issues faced by companies in the technology sector that are trying to grow in Scotland. The committee also has a particular interest in our input, which was given at early meetings of the committee, regarding roll-out of broadband and take-up of broadband capabilities. I came with four comments for the committee, but if members have wider questions I would be happy to answer them.

Bob Downes mentioned the opportunity that broadband provides for greater productivity. That is a serious issue for Scotland. We do not compete well internationally on productivity and we do not compete well in the UK on productivity. Broadband will give us some of the tools to cut through those challenges. Connected to that are issues to do with changing working practices. I see that as a massive opportunity for Scotland, particularly in regeneration of our rural areas, where we still have great pockets of unemployment and deprivation. We represent not just the smaller companies in Scotland, but some

of the larger companies too, including the telcos that are in competition with BT. They see some issues around competition that need to be clarified. Although huge investment is not needed, policy changes are.

Finally, a plea that has been made by a number of people is that one of the greatest things the Executive can do is to help to open up public sector procurement in Scotland to greater access by small and medium-sized enterprises. That is particularly germane to the technology sector.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): I have listened with great interest and I have questions for both witnesses. The first is a question that I originally put to Sandy Walkington, Bob Downes's erstwhile colleague, before he went on to pastures new. The third page of BT's submission says:

"At present barely more than 35% of SMEs in Scotland have broadband subscriptions."

I thank BT—I see Iain Shanks sitting there—for all that has been delivered in the roll-out of broadband; however, take-up remains a concern. How do we persuade the town centre businesses such as the butcher, the cobbler and so on, to take up broadband?

Secondly, the BT submission says:

"The Scottish Executive and local authorities could stimulate demand through effective e-government services that fully display the benefits of new technology."

There is always a cost consequence. What are your thoughts about capital allocations to local authorities? The most up-to-date technology, through which customers can link quickly to local government or health authority services, has a cost consequence, and some of the technology is not quite as advanced as it could be. What are your thoughts on the cost?

My final question is for Polly Purvis. You just referred to public sector procurement. Trying to get the work further down to the SMEs is a laudable aim, but generally speaking there is a cost consequence of that as well—or is there? Ten smaller contracts work out more expensive than two big ones. What are your comments on that?

Bob Downes: As I said earlier, take-up of broadband is a key point. It is incumbent on all of us who can to persuade SMEs to do that. Government bodies, including Scottish Enterprise, have a part to play, but so do we in the industry. Last week, we announced that we were appointing a dedicated senior executive and a team to support small companies in the use of ICT. That will be part of our contribution. It was in response to market demand and it will happen first in Scotland.

One of the best ways of encouraging take-up of broadband is through trade bodies. For example, if

small companies in the tourism sector see other companies like themselves using broadband, that has a far greater impact than if a larger company says, "Why don't you do this?" There is a cost factor and a fear factor, so seeing someone you know using it can have a tremendous effect.

In the past, small grant schemes have been used. I know that the committee has considered the actnow project in Cornwall, which used European money and has been extremely effective in encouraging take-up of broadband. The initiatives that achieve most tend to be local.

Encouragement of take-up of broadband should remain a major priority for the enterprise networks. I hope that people do not think that because the broadband coverage problem has been solved, the broadband take-up problem has been solved: it has not.

There is a cost for broadband in the public sector, but there are ways of turning that into a recurrent cost. If the problem is considered solely as a technology problem, it will remain a cost and there will be capital difficulties in justifying it; but if it is seen as a way of transforming the business, there will be—in the public sector just as in the private sector—productivity gains and returns.

I am doing a project right now with Westminster City Council in London. Peter Rogers, the chief executive, is making a virtue out of wireless as a way of communicating with traffic wardens and with security people—for obvious reasons in Westminster. He is also considering how social services can have access to records, with everything securely and wirelessly delivered out in the field. Many of the council's workers were office bound or had to travel a lot around Westminster, but now the requirement for office space has been reduced and the number of journeys has been reduced. Immediate gains have followed the capital investment; there are real opportunities to do similar things in Scotland.

Polly Purvis: I endorse much of what Bob said—and he said it more eloquently than I could. I certainly endorse his comments on the need to continue the work. This is a journey and we need to raise awareness and increase the take-up by smaller companies. There have been a number of take-up campaigns and that is where we need to continue to concentrate our efforts.

I completely agree with Bob that small companies tend to prefer to learn best practice from other small companies rather than being told what to do by very large companies.

Jamie Stone asked about public sector procurement. It is a question of how value is defined. I agree that letting 10 small contracts can be more costly than letting one large contract, in terms of administration. The question is, what is

the value to the local economy? And what is the loss of value if one contract is put out to one organisation that is not domiciled in the UK?

Policy makers have to understand such issues and take a view on them. They are political issues. My view is that every time you consolidate contracts simply to drive down the basic sterling cost, you are forgetting the value to the local economy. Every time you put a small company out of business, you are losing jobs from the local economy. We have to get the balance right. As Bob suggested, there is a series of non-cost benefits to using technology on smaller contracts.

Mr Stone: What you say is laudable and I do not think that anyone would disagree with it. However, if you are a local authority and you are trying to balance your capital and revenue budgets—and we have heard about roads and about councillors shouting about not having enough tarmac—it is very tempting to go down the big Honeywell or IBM route.

15:30

Polly Purvis: It is tempting; it is clearly easier to do that, in the short term. However, in the long term, hidden costs might come back and hit you, making the single contract more expensive than you originally thought. Honeywell is perhaps a good example, although it clearly has a base in Scotland as well.

My analogies are always to do with paper-clip manufacturers. If each local authority in Scotland buys its paper-clips from separate, local stationery suppliers, all those companies will be kept in business commercially—I am not suggesting that they should be subsidised—but if all the paper-clip buying throughout Scotland is consolidated into one contract, which is let to a business based outside Scotland, all those small businesses will be put in jeopardy. Value and costs—which are different things—must be considered.

Iain Graham said in the Parliament the other day that if small companies are not given access to public sector purchasing—which is one of the biggest parts of the Scottish economy—a major element of the market will be withheld from them. They will then not have reference sites as they start to build legitimacy in their markets. If companies do not have local reference sites, how will they get into work for BT, Scottish Power and the Royal Bank of Scotland? The public sector is a stepping-stone that small companies have used effectively and can continue to use for reference sites. If that sector is shut off by consolidating all the purchasing, the market will be significantly distorted.

Michael Matheson: I want to pick up on research and development spend in Scotland for

companies such as BT. When BT is assessing where it will carry out research and development work, what factors does it consider before going ahead with the project? In your experience, what is Scotland good at and what is it not so good at when it tries to attract research and development spend from companies such as BT? What must we do to make it more attractive to get more of BT's research and development spend up here?

Bob Downes: There are several strands to that answer. BT used to do more R and D in Scotland than it does now. One reason why that no longer happens is that the R and D market is not a perfect market in which you go out to open tender. I am talking about pure R and D as opposed to the operational or commercial end. The R and D market tends to be heavily based on relationships with universities, for example, where you would expect to see much of the original research and development done. Those personal relationships used to be quite strong in Scotland—I have made it my business to find that out—and relationships between heads of departments, and research and development people at Adastral Park, must be worked at in order to maintain them. Such relationships were important in the past, but they tended to be local and a lot of work would be done in the UK. However, like everything else, research and development is globalised and BT will source whatever it needs from wherever it needs it; but there is no reason why Scotland cannot be—where it is best in class—in as good a position, if not better, than anywhere else. In other words, marketing Scotland's skills directly into Adastral Park is extremely important, and we have tried to do that. There is a senior executive on my board in Scotland specifically for that purpose, but he has not found things as easy as he would have liked or expected them to be—not least because he is a Scot, which is why we got him. He would like to see more responsive relationships with respect to things that BT has tried to do, although of necessity there must be a discussion about fit.

You ask what Scotland is strong at doing. It is strong in optical switching technology, which is a current issue, as some of the highest-value stuff in the 21CN investment will relate to optics. The University of St Andrews, the University of Strathclyde, the University of Edinburgh and Heriot-Watt University are strong in that field, and I would like there to be much closer relationships.

We have a software centre in Glasgow in which there are 200-odd engineers, and I would like there to be closer relationships between it and the Scottish universities. Members should not misunderstand me. It is not that there are none of those relationships, but there is an opportunity to do more. Small countries must be enormously aggressive and greedy, and should not start by trying to get what they think is their fair share—

they should get whatever they can at the highest level.

It is also clear that there is a major opportunity with ITI Techmedia. More could be done and we are up for doing more, but when I talk to my R and D colleagues, things seem to be harder than they ought to be. However, the business is there to be done.

Trials are another issue. As Polly Purvis said, there is no reason why small companies, particularly the spin-outs that are close to the universities, cannot partner companies such as BT on public sector innovation. That means not only the large companies such as BT or Hewlett Packard, but the smaller ones such as DA Group. The opportunity for innovation exists. Bringing chief technology officers to Scotland for a day in the Hillington Park innovation centre with representatives of university spin-outs or research departments creates personal relationships. A lot of R and D is based on respectful personal relationships between the researchers and those who buy the research.

Michael Matheson: Is BT working to address the problems with the lack of personal relationships?

Bob Downes: Yes, but it needs to be a two-way street.

Michael Matheson: Yes. How much of the problem is with the businesses and how much is with the academic side? Is the problem that the universities are not being as ambitious and are not ensuring that they have the right contacts in business to develop partnerships, or is it businesses that are not up to speed?

Bob Downes: With international companies such as BT, the onus is more on the country and therefore the academics. Bell Labs or the BT labs are under enormous commercial pressure to produce the right thing at the right price. The international companies are looking less for partnership, because they have people beating a path to their door. The onus is on Scotland to go after partnership with BT. It is in a particularly good position to get business from our Adastral Park site.

I cannot really answer on the specifics. I asked my R and D colleagues how they got on with the ITI—the process started 18 months or two years ago—but I am still waiting for an answer.

Michael Matheson: Do you mean from your colleagues?

Bob Downes: They do not tell me that they have had a wonderful meeting with the ITI on optics and switching technology and that X number of contracts are being discussed.

Michael Matheson: Your written evidence highlights switching technology as an area of business growth and argues that Scotland could make much more of it, but, for some reason, that is not happening. Why is that?

Bob Downes: That is exactly the same as the previous question that you asked and the answer is the same.

Michael Matheson: Is it just down to the ITI?

Bob Downes: Polly Purvis may know better than I do whether the ITI has optical switching technology as a priority, but I am saying that BT and other companies will use optical switching research and development. From previous experience, I know that Scotland is strong on that, so I expect there to be a connection.

Christine May: I thank both witnesses for their interesting papers. I could pick out many questions from them, but, in view of the time and the questions that have already been asked, I will confine myself to two. One is about wireless technology, which Bob Downes mentioned. I recall from a trial that I viewed that part of the problem is reception and the speed of downloading pages, particularly when people are doing home assessments. Has that been overcome, or is further research needed to make the technology practicable in Scotland?

I also want to talk about regeneration and the role of new ways of working, but perhaps we can deal with my first question first.

The Convener: As we are dealing with wirelesses, I point out that somebody has their mobile phone on. Can everybody check that their mobiles are off, please?

Bob Downes: It is a mobile office.

The question is important. Wireless technology has not yet been proven. There is a lot of talk that wi-max will be the answer to everything—it may be, but it is not at the moment, as there is some way to go with it. We are trialling the system now, as are others, and it would give the sort of bandwidth that Christine May is talking about. The system in Westminster to which I referred is more of a closed wireless operation. There is a contract between a supplier and a local authority. We are putting in the infrastructure, but it will be used by the mobile operators there. The system will cut down on street furniture and so on in Westminster. A secure wireless network will be laid over that for the local authority, which will allow them to use internet protocol television for close-grained monitoring for security purposes. It is a very secure network. That sort of thing will work in the city environments in Scotland, as it does in Westminster. It will be less effective in rural areas, but there are ways of overcoming that, such as

having specific groups of workers on mobile technology.

Christine May: Does Polly Purvis want to comment on that?

Polly Purvis: It is an area in which Bob Downes is much more expert than I am.

Christine May: Okay. Let us explore the business of changing working practices and regeneration. You spoke about regeneration in rural areas, but one of the big areas of regeneration is in urban centres where there is still a significant level of long-term unemployment. What consideration have you given to those types of working practice in that sort of area, and how might what you would do there differ from what you would do in a rural area?

Polly Purvis: This is not my area of expertise, but I will try my best to address it. There are several examples—some of which we have already mentioned—of the benefits of using broadband technology to allow people to work from home and in a distributed way. Many of the larger companies have harnessed that capability and are using it among more senior staff. Plenty of senior executives around the world are now hot desking and working from home, in America, on a plane, or wherever they might be, because the technology allows them to do that.

It is interesting that we are speaking immediately after the transport people. In this economy, we have serious transport congestion, with a large number of people moving from home to traditional places of work. We need to examine ways of changing that. Part of the answer is to change our working practices so that we are not all trying to hit the M8 at the same time, or all trying to get our kids to school before travelling to work.

We should look at examples from other parts of Europe. Bob Downes also referred to examples in Cornwall, where people have tried to make buildings into community working places. Rather than having to come in to a central office to work, people have the opportunity of having a local office. In the Cornish example that I looked at, local people who are self-employed, people who work from home for large companies such as BT and IBM, and people who are setting up small businesses are now using a different work space in which to do that. It is not about creating a completely different work space—for example, shifting an office from here to a West Lothian village; it is about creating a different mix. Some people will work from home; some people will work from a central office but will also be able to work from local offices.

There is a big challenge for Scotland. It is all very well mobilising our senior people, but we have to consider the large number of employees—

many of them in the service sector—who are currently based out of offices and who could work in different ways. With the advent of broadband and the move towards new forms of telephony, we have opportunities to exploit that. There are new solutions to be created in that area. If we start to spin that out, it means that, instead of us all moving to the Borders, because of the price of housing in Edinburgh and Glasgow, and then commuting to Edinburgh and Glasgow—or moving to places around Inverness and travelling to Inverness—we will start to build some of the regeneration that we need in our rural areas. That is just as applicable to some of the deprivation that we see in parts of Edinburgh and Glasgow.

It is about changing the way in which we work and looking at flexible working patterns, shifts and where we work from. Do we have to be based in any one place for core time? That is an area in which BT has significantly more expertise than I have. The change and growth in new forms of core management, new ways of contacting people and the ability to distribute database and working information from central servers to hand-held PCs mean that we can change the way in which we work, and we need to use that as part of a holistic response to 21st century working patterns.

15:45

Bob Downes: Looking across Scotland, it is no surprise to see where there has been a rapid uptake of broadband and where there has been a low level of uptake. We have worked with the everybodyonline initiative on projects around the UK, including one in Glasgow, to ask how to help people in difficult areas to access IT and broadband. It has emerged in the past couple of weeks that such public-private projects have been remarkably effective. The areas that are involved were chosen because they are difficult. Project workers work with people and families in such areas, where the rate of take-up of broadband is five or six times higher. Broadband is used; people do not just have the kit.

Interesting things can be done with some communities. I am surprised that digital inclusion seems to have lost its priority in Scotland whereas public authorities in, say, Merseyside are investing heavily in their communities. A digital media hub that is targeted at specific groups has been built in Liverpool.

On the regeneration of physical urban areas, I would like more to be done to use advanced communications. The Thames gateway in London is ahead of us in Scotland. I would like things to be done with developers and urban regeneration companies. The only area with which we are working, along with Cisco Systems, Microsoft and others, is Raploch in Stirling. That is a beacon on its own.

Christine May: Perhaps we could ask for information for the committee on the Thames gateway and Raploch.

The Convener: The final question is from Shiona Baird.

Shiona Baird: My question has really been answered, but it follows on nicely from the transport debate that we have just had and emphasises what Iain Docherty said about the opportunities that might not be considered when we prioritise schemes. Broadband and an emphasis on flexible home working might be one solution that is not considered when transport infrastructure is examined.

I have just heard from a colleague who has returned from being inside the Arctic circle in Norway. Every small community there—even those as small as 2,000 people—has a videoconferencing facility. She could not believe how modern the systems were in those small and very isolated communities. How long could it be before every small village in parts of the Highlands or even isolated parts of rural Aberdeenshire could have similar facilities?

Polly Purvis: The technology is available already.

Bob Downes: We could do that now.

Polly Purvis: How long will it be before the Parliament can take evidence without my having to get in my car to drive from Livingston, park here and come in to the meeting? I do not mean that to be a dig, because I know that the Parliament has used technology innovatively, but that is an issue.

There is also a question for our transport colleagues about how to balance the cost of air travel. As the economy becomes increasingly global, the business community is asking for greater access to point-to-point connections to further away places. You have to counterbalance that by saying that the cost of that is that people do not jump into their cars to go to meetings or to work and that they work from home and consider the environmental impact of their activities, the cost of petrol, pollution and the time that is wasted travelling. We should use simple solutions such as teleconferencing and videoconferencing—the technology exists—and encourage communities and small businesses to adopt such solutions. I think that BT uses that technology regularly.

A series of issues is involved. We need awareness of the opportunities. We must recognise that we will not be ahead of the game—some of our colleagues in Europe and other parts of the world are already well up there.

The Convener: I am sorry that we are running short of time, but between the papers and the oral evidence, we have much useful material. I thank

both witnesses for their extremely helpful evidence. We may well ask for follow-up material.

Our final panel will cover education, training and skills. We need to finish by 20 past 4 at the latest so I will try to be ruthless. I declare an interest as the convener of the Scottish Universities Association for Lifelong Learning.

Our witnesses are: Professor Jim Gallacher, who was a previous adviser to the committee during its lifelong learning inquiry before 2003 and is a co-director of the centre for research into lifelong learning at Glasgow Caledonian University; Liz Mullen—I think I am right in saying that she is no relation to Roger Mullin—who is director of marketing and development at learndirect Scotland; Roger McClure, who is well-known to the committee and was chief executive of the old funding councils and is chief executive of the new Scottish Further and Higher Education Funding Council; and Roger Mullin, who was also an adviser to us during the lifelong learning inquiry and is here in his capacity as managing director of Inter-ed Ltd.

The witnesses have circulated helpful submissions and unless there is something else that they are absolutely bursting to tell us, I propose that we start with questions and comments from committee members. That will allow us time to ask them about areas of interest.

Professor Jim Gallacher (Glasgow Caledonian University): I have something to say by way of information. As members might be aware, I have been appointed as a member of the new funding council, but I make it clear that I am here today in my capacity as the co-director of the centre for research in lifelong learning and not as a member of the new funding council.

The Convener: That is okay. I am sure that Roger McClure will articulate the views of the funding council.

Susan Deacon: I am sorry that we do not have more time this afternoon to pick the witnesses' individual and collective brains, but I will cut to the chase with something that has been bothering me increasingly during the inquiry. A range of people to whom we have spoken have discussed skills and people development with us, and I am continually struck by how little emphasis is put on leadership development. We have talked a lot—as have the witnesses in their submissions—about entrepreneurialism, innovation and so on.

Without getting caught in the enormous body of literature on leadership, we can all agree that leadership is broader and more generic. Will the witnesses explore that with us? If we are serious about business growth in Scotland, we need to have very strong leadership in a range of different places and across sectors, including the public sector.

Roger Mullin (Inter-ed Ltd): I agree. I will speak about the context with which I am familiar. As we know, we live in a society that is changing much faster than ever before. A few years back, I remember hearing a talk by Professor Tom Stonier, who said that there were more researchers working in the previous 25 years of the 20th century than in the entire previous history of the world. When one adds to that the sheer power of new technology, about which we heard in the previous evidence session, one can see that it fuels a pace of economic and social change in society with which we have never had to cope before.

We now require particular types of leadership that go beyond those of the past—including even those of the 1950s and 1960s. Many leaders in business and elsewhere worked in a context in which there was much greater stability in the marketplace, the economy and society than there is today. Therefore, one of our key challenges is how to develop the types of leadership that will be able to cope with that change. Some aspects of leadership are particularly poorly attended to, such as the effectiveness of decision making when one has to make key strategic decisions. Someone raised that point in an earlier session. Are we sure that we are developing the people in leadership positions who know how to make and to take forward strategic decisions? I see that as an important aspect of leadership. I have a great deal of sympathy with what you said.

Roger McClure (Scottish Further and Higher Education Funding Council): I wonder what Susan Deacon means by leadership. In the context of growing the economy, is she talking about senior management skill, entrepreneurial skill or both? That makes a difference. Most people in colleges and universities—more than 50 per cent, although not 90 per cent—are young and are acquiring qualifications at an early stage in their career. We do not fund senior management training. That has always been funded outside the system for people who have gained experience. Even the MBAs that are commonly offered by universities in business schools have always been funded by the students, for whom the qualification is seen as an investment.

If Susan Deacon is talking about entrepreneurial leadership, I agree that not enough has been done. However, quite a lot is being done and is being introduced in recognition of the situation that needs to develop. I refer to the Scottish Institute for Enterprise, which at the moment only works in higher education but involves all the 20 higher education institutions in Scotland. Recently, the Scottish Further Education Funding Council and the Scottish Higher Education Funding Council jointly produced a report called "Learning to Work", which is all about employability and enterprise and

deals with that side of leadership. For completeness, I mention other organisations that are trying to stimulate leadership and of which members will be aware, such as the Scottish Leadership Foundation. We are connected with the foundation and have encouraged all our institutions to be part of it.

Professor Gallacher: In my brief paper, I made the point that there is increasing differentiation in our education and training system. Increasingly, different sectors are providing different forms of provision. The issue that Susan Deacon raised is interesting. She is asking what sectors are best suited to developing leadership. I mention in my submission that one area of growth has been taught masters programmes. Roger McClure referred briefly to MBAs. In a differentiated system, how do we want to build on areas of strength?

Susan Deacon: Potentially, this is a huge area for discussion. My question alludes to a fairly broad theme—how do we build leadership capacity in Scotland? That comes in many different shapes and forms. The observation that I am making is that there is less reference in the submissions that we have received in the inquiry than I might have expected to the need to build that capacity and the means by which we might do so.

I am glad that two of you referred specifically to our business schools. Although I recognise that the kind of programmes that we are discussing are funded not through the funding council but by individuals or their employers, it strikes me that we have a certain capacity in our business or management schools in Scotland, of which there are several—I have lost count of how many. Do you have views on how we could make greater use of those schools? How could they contribute and, possibly, collaborate more effectively, with a view to taking forward business start-ups and growing existing businesses?

16:00

Liz Mullen (Learndirect Scotland): Obviously, learndirect Scotland engages directly with SMEs. Others have spoken about increasing the capacity of leadership skills in the community. We do a lot of work in that area. We get a lot of demand for generic management training and learning and we have gone some way to make provision in different management skills for small businesses.

We welcome a lot of the work that is taking place at the moment in the developing sector skills councils, which provides us with a great opportunity to capture a lot of information sector by sector. In addition to looking at generic business needs, we are working closely with the

sector skills councils to look at sectoral needs. We are also working with the funding council to feed the information back into the business schools. We need to get at the customer's wants and needs to increase skills and capacity.

Roger McClure: As the committee probably knows, the business school question is quite fraught. Several attempts were made before I arrived in Scotland, and others have been made since, to get the existing business schools to come together to see whether there is scope for them to produce something from their joint resources that would be really effective for Scotland. A wide spectrum of the business community was asked whether it would support such a proposal, but, each time, the proposal seemed to come to nothing. We can find no general support for it.

One reason may be that the business schools can be thought of as doing three quite different things. The first is to teach the postgraduate courses to which Jim Gallacher referred. The second is to provide a meeting place for young up-and-coming managers—a place where firms and successful businesses want to send their young managers so that they can rub shoulders with other successful up-and-coming managers. The third is to conduct pure academic research into business matters. In some ways, the three activities are detached from one another. The discussions on the question of a Scottish business school were bedevilled by the fact that nobody could agree on which of those three things we were trying to pursue.

Business leaders most often say that sending their young up-and-coming managers to rub shoulders with others is the thing that is of most benefit to their organisation. However, they say, "We don't want them to do that in Scotland"; they want their young up-and-coming managers to rub shoulders with others at INSEAD, in the States or wherever. They want them to go elsewhere to get an international perspective and to be challenged by outstanding leaders. That may not be wrong. The question is a difficult one.

Professor Gallacher: There is value in trying to recognise the different contributions that different types of institution can make. The idea of simply trying to bring them all together into one institution is not necessarily the best way forward. In some situations, one may want to encourage close forms of collaboration but, in others, one may want to encourage a form of collaboration that recognises the value of the different contributions that institutions can make. We will have to think about that more. In the context of a mass system of higher education, a lot of different institutions provide for a wide range of people, and we have to ask what contributions those institutions can make.

Roger Mullin: I have one point to add. The business schools and other parts of the education system could act much more as a base from which to encourage effective networking in society. For example, there have been some recent innovations in Canada where people are trying to replicate the earlier—and perhaps more organic—networking that took place in California. People in Canada are trying to establish bases where they can bring together not half a dozen people from the same firm to meet half a dozen people from another firm—people tend just to separate and talk to the people they know—but instead only chief executives, heads of finance or heads of marketing. The early evidence suggests that that is an effective form of networking and seems to have the capacity to contribute a little towards the development of certain types of leadership skill. It also contributes to knowledge diffusion, which is a key element in encouraging entrepreneurship and innovation. The question is how to diffuse knowledge in society much faster than we do at the moment.

Christine May: I will ask two specific questions and then one great big “What?” question.

On page 4 of his submission, Roger Mullin says:

“The education sector has one of the weakest rates of self-employment in Scotland.”

Are you suggesting that all teachers, further education lecturers and university staff should become self-employed?

Roger Mullin: I have never thought of that, but it is a very good idea. However, I am not suggesting that. I think that there is a danger of the public and private sectors becoming less and less alike in their ways of working. For example, Elmwood College in Fife—where you come from, Christine—deals with many people from agriculture and related land industries. Fifty-one per cent of people in that sector are self-employed. I know that Alex Neil is vice convener of the cross-party group on construction; roughly 25 per cent of the people who work in that industry are freelancers. A similar percentage of self-employed people work in the new media industries and the like.

In order to access new and up-to-date knowledge and to have flexibility in work, many sectors in the private sector economy are using more self-employed freelancers than ever before, but we are doing practically nothing in Scotland to support them educationally or to improve their skills. Unsurprisingly, as far as education is concerned, I think that more than 95 per cent of people—I cannot remember the exact figure, but I can find it if you want—are employed in very traditional, full-time, contracted employment. I have simply asked whether in some cases it would

be a good idea to invigorate aspects of the public sector by following the private sector and thinking much more about self-employment and freelancing.

Christine May: My second specific question, which is for Roger McClure, is on the new board of Scottish Further and Higher Education Funding Council. Some people have pointed out that, apart from one person, there seems to be a lack of representation from the further education sector on the board; however, that individual, for whom I have the very greatest respect, has retired and is no longer a serving principal of a further education college. Given that there are two places left on the board, do you intend to recommend to the minister that they be filled by representatives from further education?

Roger McClure: It is not my job to make such recommendations to the minister; such decisions are up to the chair of the funding council. That said, my recommendation to the chair of the council is that he should wait at least six months and let the dust settle before he decides how to go forward with those two places.

As for what some people have called FE representation, I should point out that it is more delegation than representation. Because more board members are currently employed in higher education and none is currently employed in further education—although at least one member is on the board of a further education college—anyone who does the arithmetic will conclude that there is an imbalance. However, I do not share the view that, as a result, the council is unable to understand what is happening in the FE sector. The number of people who have joined the new board from SFEFC is the same as the number of people who have joined from SHEFC. Instead of having a knee-jerk reaction and rushing to fill the two vacancies, we should let the board operate for a while and then decide how to go forward.

Christine May: I am slightly disappointed by that answer. Leaving aside the reality of the situation, we have to address the question of perception. The FE sector perceives that it has less representation on the board.

Roger McClure: I recognise that.

Christine May: I will leave that question.

My great big “What?” question—

The Convener: There is the additional issue of our recommendation of an international person on the council.

Roger McClure: Thank you for saving me from saying that, convener.

Christine May: My great big question—which you might want to get back to us on at a later

date—concerns something that Adam Crozier raised in the business in the Parliament conference, which is the development and training needs of the great mass of employed people who do the mundane, repetitive, boring jobs. What role, if any, does Government have in supporting business in training and developing those individuals, or should that be left to business and the new sector skills councils?

Professor Gallacher: It is important that that issue is addressed. I refer to it in the final paragraph of point 2 in my paper, where I state that we must examine ways of bringing together all the various sectors with responsibility for education and training to work together. An interesting example from a number of years ago, with which Roger McClure is familiar, was the fast-track initiative in Fife.

Christine May: I remember it well.

Professor Gallacher: It brought together the further education colleges and the local enterprise company, and pooled the funding from the local enterprise company and the funding council in the area of skillseekers. My research centre evaluated the initiative. Unfortunately, the terms of the evaluation did not enable us to put it into a wider context, but it was an interesting attempt to bring together different sectors and funding sources and to develop a more coherent approach to education and training. That is an important challenge for us in the future and bringing together the two funding councils is an important step forward. Although I am not here to speak on the new council's behalf, I am looking forward to my role in it.

There are all sorts of wider issues to do with how we develop a more coherent policy. One of the downsides of the way in which the Scottish Parliament and the Scottish Executive have developed is that education has been dealt with by separate committees and departments, which means that sometimes it has been difficult to get the right kind of interface. The interface between the schools sector and the post-compulsory sector was raised in the earlier lifelong learning inquiry. There are important questions that should be addressed.

Roger Mullin: How we develop people who are in the more mundane and boring jobs and whether the Government has a role are important questions. One thing that we know about the boring, mundane jobs in society is that they are probably affected more than many others by the rate of technological change.

I recall a colleague of Christine May, Gordon Brown, talking at Rosyth a few years ago about the Treasury model for the UK economy and pointing out that many young people who were entering the labour market around 2000 and just

after that could expect about 10 major skill or job changes in their life. In other words, they would use one narrow skill set for only about four or five years. That being so, it is not the case that some people will be in boring, tedious jobs for the rest of their life. They may only be in them for a comparatively short time, following which they will need retraining, either for work within their own company or to increase their mobility and move on. There are big questions to be asked about people in those jobs.

A second point to remember, which I think was also discussed in the lifelong learning inquiry, is that the purpose and benefits of education go beyond mere economic benefits, important though those may be. Indeed, comparatively recent research on the wider benefits of learning points out the strong correlation between, for example, education and health and education and crime. The Executive must bear in mind the fact that the purpose of education goes beyond benefiting business; it benefits individuals' quality of life and wider society.

16:15

The Convener: We are running out of time, so I will take Murdo Fraser and Shiona Baird together and then let the panel give a short, sharp reply.

Murdo Fraser: My question is also on skills, but I will keep it fairly short. I want to ask Roger McClure about the new funding council. He will remember that one outcome of the Further and Higher Education (Scotland) Bill will be the formation of a skills committee as part of the funding council. We saw a new skills committee as providing a potential interface with business. How do you see the skills committee developing? I know that it is not up to you to appoint the members of the skills committee, but we would be interested to see people from the business community joining it and having a strong role in setting its direction.

Shiona Baird: My question follows on from what Christine May was saying. I found page 4 of learndirect Scotland's submission really rather grim. Massive resources go into education, but are we co-ordinating our approach adequately? Are there better ways of targeting resources to ensure that there are not quite so many disaffected people?

Roger McClure: I am in a slight difficulty, because the funding council is awaiting advice from the minister on how we should develop the skills committee. However, I can make some basic points. The legislation specifies how the committee should be set up. It is a committee of the council, and the council has a duty to have regard to the skills needs of the Scottish economy.

The committee's main function will be to advise the council in the discharge of its function. That is the statutory position. It would be sad if it were construed as narrowly as that, but that will be its primary function; that is what it must do. In doing that, it will be examining matters that are central to the Scottish enterprise agenda and to the agendas of bodies such as the sector skills councils. Although the committee will be primarily and statutorily set up to work to the council in the way that I have just described, we hope that its deliberations and reports and the advice that it gives could be made much more widely available.

To answer the second part of your question more directly, it is certainly my expectation that the committee will draw its membership from our stakeholders and from those with a particular interest in skills development. Its members will come not only from the council, although a few, including the chair will; as with our other committees, we expect to bring in people from other stakeholder bodies who have something to contribute.

You will have seen from our report, and others have made the same point, that we believe that it is time for social inclusion—to use the general label—to be tackled more seriously than has perhaps been the case when we have talked about economic growth until now. Recently, the funding councils jointly published a report called “Learning for All”. The report's basic message is that though much has been done in the past 10 to 15 years to promote greater participation in further and higher education by the most disadvantaged sectors of society, relatively slow progress has been made in achieving that, whereas there has been a great expansion in participation by the better-off. The situation is the same in the rest of the UK. The report also says that promoting greater participation in FE and HE by the disadvantaged is part of the agendas of several different bodies—SFHEFC, Scottish Enterprise, local authorities and so on—which makes the position difficult.

Those two aspects mean that we do not get the radical change that might make for progress. We recommend in the report that if greater participation is to be taken seriously, we need a national campaign, in which the various contributing bodies would come together and make a determined effort to do something about the situation.

We also argue in the report that promoting greater participation is not just a matter of social justice, although that is incredibly important; it is also a matter of the economy. Currently, a substantial group of people are a cost to the economy in a variety of ways and do not contribute to it. That is a significant issue and we

should look for ways to try to help such people to become contributors and to develop themselves in the same way as we like to do.

The report is significant and we will see how the Executive responds to it.

The Convener: It is called the McGoldrick report. We should get an executive summary of it for committee members, because the issue of greater participation is relevant to economic growth, as you said.

Roger McClure: I have one further point. Roger Mullin gave the impression in his paper that there is no skills training for people who are, or are going to be, self-employed. The evidence that is cited for that is that such courses cannot be found even after trawling for them. However, we should acknowledge that colleges, for example, deliver construction courses and other courses that tend to attract a large number of self-employed people. The colleges know that they will do so and that knowledge is factored into how the courses are delivered. It is wrong to draw the conclusion that, because there are no courses labelled “self-employment course”, there is no skills training for the self-employed.

Liz Mullen: I agree that page 4 of our paper makes grim reading. On a more positive note, the Executive and ministers have gone a long way towards co-ordinating much of the work of the many agencies that deal with socially excluded groups and communities, and that co-ordination is being done through learndirect Scotland. We provide a gateway for people who are in low-skilled employment or excluded groups. They can contact our helpline for information to help them to overcome barriers and to get into better jobs.

I highlighted in our report the fact that 50 per cent of people who phone us say that they are motivated to do better in their current job or to get a better job, but they face many barriers, such as child care and funding. Over 500,000 people have called our helpline and we have signposted them to opportunities that can help them on their way to realising their potential.

We work not only with people in low-skilled employment, but with community learning and voluntary learning centres in the heart of communities in the most difficult places, where people have the hardest barriers to overcome, whether they be physical, financial or other barriers. Many community centres provide a first, essential point of contact in helping people to overcome barriers and to get into the training that will lead them into employment. Learndirect Scotland also provides a branding mark that assures people that they are in a quality learning environment. My colleagues around the table will probably tell you that community centres are often

the most valuable first point of contact for people. I believe that we have demonstrated that we have made much headway in the past five years in pulling together many organisations to help people to get back into employment.

In our paper, I also referred to literacy, because one in five people in Scotland have literacy problems. We work closely with Communities Scotland, on whose behalf we promote the big plus campaign, which targets people who have literacy issues. One of the most recent spin-offs from the campaign is big plus for business, so there are two strands: we target people and encourage them to make the first, brave steps to address their literacy issues; and, through big plus for business, we help businesses to reach out to people in their employment who have literacy issues. We help businesses to understand the needs of those people, who we help to get over the difficult first hurdles on their way to better skills and better employment.

The Convener: There are two quick, final comments from Professor Gallacher and Roger Mullin.

Professor Gallacher: Shiona Baird asked whether we need greater co-ordination. As I said, I think that we do—that is a key issue for us to address. As Roger McClure said, one hopes that the skills committee will be one way in which movement will take place on those issues. However, as Shiona Baird is perhaps suggesting, there are wider issues that it is important for us to address.

Roger Mullin: Murdo Fraser asked about representation on the skills committee. I hope that it is not dominated by the supply side. There should be representation for those who are searching for skills, whether they are employers or others, as well as for those who are deliverers and who have a vested interest in particular ways of delivering. I hope that that issue will be taken on board.

On resources and co-ordination, I favour the joining of the FE and HE funding councils, but I do not think that it has gone far enough. If we want to co-ordinate resources and skills across Scotland, somebody should have overall responsibility—perhaps the skills committee. For example, Scottish Enterprise's volume training programme should be within rather than outwith the system, to ensure the co-ordination of resources. I say that despite the fact that I totally disagree with Roger McClure's comments on my paper. [*Laughter.*]

The Convener: On that cordial note, I thank the four witnesses. As you can see, each of the panels could have run for three hours today, but we have covered a wide range of subjects. We lost a meeting from next week because of the

Carnegie awards; otherwise we would have had more time on our hands, as we had initially planned. We will probably come back to you at some point for additional material.

We now move into private session for item 4.

16:28

Meeting continued in private until 16:57.

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