

# **ENTERPRISE AND CULTURE COMMITTEE**

Tuesday 22 November 2005

Session 2

£5.00

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## ENTERPRISE AND CULTURE COMMITTEE

24<sup>th</sup> 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)

\*Karen Gillon (Clydesdale) (Lab)

\*Michael Matheson (Central Scotland) (SNP)

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

### COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Donald Gorrie (Central Scotland) (LD)

Fiona Hyslop (Lothians) (SNP)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

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

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Ian Howie (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Nicol Stephen (Deputy First Minister and Minister for Enterprise and Lifelong Learning)

Rosemary Winter-Scott (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

### CLERK TO THE COMMITTEE

Stephen Imrie

### SENIOR ASSISTANT CLERK

Douglas Thornton

### ASSISTANT CLERK

Seán Wixted

### LOCATION

Committee Room 4



## Scottish Parliament

### Enterprise and Culture Committee

*Tuesday 22 November 2005*

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

#### Items in Private

**The Convener (Alex Neil):** Welcome to the 24<sup>th</sup> meeting of the Enterprise and Culture Committee in 2005. We have no apologies.

Under item 1, I must ask the committee to agree to take items 5 and 6 in private. Do we agree to do so?

**Members** *indicated agreement.*

## Business Growth Inquiry

14:02

**The Convener:** I welcome the Deputy First Minister and Minister for Enterprise and Lifelong Learning, Nicol Stephen, to the committee. I ask the minister to introduce his team and his paper, which has already been circulated to committee members.

**The Deputy First Minister and Minister for Enterprise and Lifelong Learning (Nicol Stephen):** With me from the Scottish Executive Enterprise, Transport and Lifelong Learning Department are Graeme Dickson, the head of the enterprise and industrial affairs group; Ian Howie, the head of the business growth and innovation division; Jane Morgan, the head of the enterprise networks division; and Rosemary Winter-Scott, the head of the transitions to work division.

Members have our original paper, which was submitted at the beginning of this process. Since then, evidence has been given by officials. You requested some supplementary information, which was included in a letter to the convener on 3 June. As all that predates my period in office as the Minister for Enterprise and Lifelong Learning, it would be helpful if, rather than speaking to the papers, I gave some of my personal thoughts at the outset. I have discussed my approach informally with the convener, but other members of the committee might be interested in hearing about it.

I want to give priority to six areas. I hope that there is a great deal of common ground between those areas and the work that the committee is doing on business growth. However, it would be useful to know what differences there are. The six areas that I will outline are by no means set in stone or immovable. I hope that, by talking about the issues in partnership, we can get a more focused and concerted approach.

The first priority area is our approach to business rates. As you know, the proposed reduction in business rates will start next year with a 50 per cent move towards the English level of business rate poundage and will result in a full equalisation with the English level in 2007. That is an important additional investment in business and, in total, will give businesses around £180 million extra a year. That has to be good news in terms of the opportunity for businesses to reinvest that money or use it wisely for the future growth of their organisations.

Some will say that the reduction in business rates should have happened sooner, but it has now happened and it is a tangible and important symbol of the Executive's wish to work more

closely and to strengthen working relationships with business in Scotland. It removes a thorn in the flesh of business and business organisations. Business rates were an issue that arose time and again when we met businesses, and organisations such as the Scottish Chambers of Commerce, the Federation of Small Businesses, the Scottish Council for Development and Industry, the Confederation of British Industry, the Institute of Directors and others. I hope that that important move is received well within the business community in Scotland.

The second area is infrastructure. In my discussions with business over the six years since the creation of the Scottish Parliament, the most consistent issue to be raised as a tangible way in which Government can help business is improvements to infrastructure. I am pleased that we are increasing investment in transport—there has been a big increase since the establishment of the Parliament—and that we have been able to assist with improvements to the broadband infrastructure. In both those areas, the demand for further improvement is significant, and we have got to keep pace with the best internationally. That is one of the reasons why, when I was in India and China recently, I looked at infrastructure, as well as business development opportunities. As an aside, I say that if you believe that it is essential to have world-class infrastructure in order to have a dynamic entrepreneurial and fast-growing economy, go to Bangalore; it has some immense problems with infrastructure, yet it has a dynamic, vibrant, entrepreneurial group of companies and individuals. That contrasts sharply with Shanghai, where the facilities are genuinely world class.

The third area is investment, to which there are two sides. First, there is investment in research and development by business. We all know that Scottish business's record on R and D is very poor—there is no other phrase to describe it. We have got to do not just better but much, much better to match even the United Kingdom average—and the figure for the United States, which is a very big, vibrant economy, is significantly higher than the UK figure. So we all know about the challenge represented by business research and development. In the public sector—in science and Government research and development—we are pretty good. One of my concerns is that if we get even better in the public sector, for example by investing more through Scottish Enterprise or other Government-funded means—a suggestion that might find favour with the committee and the Executive—that would not necessarily address the poor performance by the private sector. We need to think of ways that help to lever in greater private sector investment rather than simply further increasing the level of Government investment.

The other side of the investment equation is the amount of money that is invested in Scottish business—the venture capital or business angel side of things. It is the role that an organisation such as 3i might have been expected to fulfil in the past. However, 3i is quite a different organisation from the 3i of days gone by. The total level of venture capital investment in Scotland is disappointing. There are ways in which the Government can help with that, but I am determined that ours should not become the sort of economy that depends on public sector investment. We must consider other ways to achieve that.

The fourth area is people—particularly young people—who are not in education, employment or training and people who are not economically active. We have 35,000 young people who are not in education, employment or training. A concerted initiative is required to make a difference in that area and to get business more involved in tackling that problem. I will leave it at that, but it is an important issue for Scotland's future.

The fifth area is excellence. That is a wide term, but it applies, for example, to our universities and to some of the research and commercialisation work that goes on in them. It applies to our intermediary technology institutes, the financial services sector, the energy sector and the life sciences sector. Scotland is genuinely world class in some sectors; we could do tremendous things with the right support and encouragement. We must invest in that success and be seen to support it. The Government must be seen to help to develop that success.

The final area in which I, as the Minister for Enterprise and Lifelong Learning, have a direct responsibility—although I think that my responsibility goes wider—is on red tape, bureaucracy and public sector procurement. Those issues are internal to government. Most businesses tell me that there is too much red tape and that the fact that some of the new legislation that comes out of Europe is gold plated means that access to public sector contracts can be very difficult—especially for small and medium-sized companies. It is important that I, as enterprise minister, make a difference when I can on those issues as they relate to enterprise and lifelong learning, but it is also important that I am a champion on those issues right across the work of the Scottish Executive and that I make appropriate representations to the UK Government, the European Union, the European Parliament, the European Commission and the Council of Ministers. It is important to try to create a more vibrant public sector environment in which innovation takes place. It is crucial that we work with small and medium-sized business to take on sparky and innovative new ideas in a sensible and

customer or patient-focused way. That is a big challenge for government in Scotland for the future.

I hope that those six areas tie in with the excellent work that the committee has been doing. I look forward to taking questions from the committee and to learning more about some of its priorities.

**The Convener:** Thank you, minister. That was very helpful.

We will start with Jamie Stone, who was anxious to get in first.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** Minister, the convener has a certain way in which he runs the committee.

You will probably be aware from press coverage of our visit to Thurso last week. What Willy Roe and Sandy Cumming said at our meeting from a Highland perspective was interesting—colleagues can keep me right on my synopsis of their comments. They made the point that although there has been significant and welcome investment in transport—for example, when you were Minister for Transport, there was investment in the A9—still more funding is required. They believe that funding on a visionary level, almost as a leap of faith—they referred to the bridging of the three firths in the past—will be necessary if the lack of accessibility is not to stand in the way of business growth in the Highlands. I do not know whether the convener considers that synopsis to be fair. That opinion came over pretty strongly and was publicised accordingly. What is your reaction to it? Will you discuss the matter with the enterprise network, in particular Highlands and Islands Enterprise, and perhaps see what can be done about the matter in conjunction with your colleague Tavish Scott?

**Nicol Stephen:** I discuss those infrastructure issues with both Highlands and Islands Enterprise and Scottish Enterprise. I know that they would like to see greater investment in our transport infrastructure, roads and railways, air services, broadband and other telecommunications networks. We now invest significantly more than was the case in 1999 and investment will continue to rise significantly.

It is important that we get across to business the message that we are determined to improve the transport infrastructure and business infrastructure in Scotland and that that is a priority for us. There will continue to be a degree of cynicism until improvements are seen. A number of our projects are big, long-term projects—for example the airport rail links and some of the rail line improvements. I am pleased that the first of the significant improvements, the Larkhall to Milngavie line, is on time and on budget. Karen Gillon will

correct me if I am wrong, but I think that it is due to open next month. Criticism will continue until people see other projects such as the Stirling-Alloa-Kincardine line, the Airdrie to Bathgate line, the Borders rail link and a number of other improvements coming through.

It is important that those benefits are spread across Scotland and that we see improvements in the Highlands as well. That is why the creation of the regional transport partnerships is so important. For the first time, we will have a national transport strategy for Scotland that will set transport priorities across Scotland. However, if we are to get that strategy right, it is vital that regional transport strategies feed into the national strategy.

It is also vital that business has a powerful voice in those regional transport partnerships. Our intention is that business should be involved and should sit round the table with the public sector in the regional transport partnerships. I will be very much led by the strategy that is developed by, for example, the regional transport partnership for the Highlands and Islands, so that partnership's strategy will be very influential. I am sure that Highlands and Islands Enterprise, too, will play an important role in the development of that.

14:15

**Mr Stone:** I have a small supplementary question. Willy Roe talked about the need for vision. Do you believe that we will see big ideas coming from the regional transport partnerships? Will they have the capability to dream up the big one? I am talking about a tunnel to Orkney or a big bridge somewhere or other.

**Nicol Stephen:** It is important that we have a good handle on the costs and benefits of projects, but we also need the vision and ambition to go for it. We should be able to think about some of the blue-skies projects for the next 15 to 30 years rather than have our time horizon always fixed on the next five to 10 years. I am keen that we look at those projects, but no nation can deliver a limitless number of such projects. It is important that each region of Scotland looks to the future and comes forward with ideas and proposals, but those proposals must ultimately be capable of being turned into hard projects that form part of a set of national priorities.

It is important that proposals are achievable and deliverable. Dreaming great dreams and then failing to deliver will simply raise expectations high and then dash them. It would be wrong to do that. I want Scotland to be ambitious, as I want Scotland to be determined to deliver world-class improvements to its transport infrastructure.

**Karen Gillon (Clydesdale) (Lab):** Minister, you are aware of my interest in the Larkhall line. It will

indeed open on 9 December. I am sure that it will be very productive for the people of my constituency and beyond.

I was puzzled by some of the evidence that we heard last week. I sign up to the idea that infrastructure is essential to business development in Scotland. When we took evidence from HIE, we heard that it has a clear plan and a strategy for transport infrastructure priorities, which are currently being put into some kind of ranking order for the Highlands and Islands. However, when we took evidence from Scottish Enterprise, we heard that transport was not one of its responsibilities. Scottish Enterprise had no idea about the priorities for transport infrastructure in Scotland. It had no transport plan. Scottish Enterprise did not see transport as one of its roles and responsibilities. How do we square that with the fact that that organisation is strategically tasked with enhancing business growth and development in Scotland?

**Nicol Stephen:** I did not hear that evidence. However, it is important that the Executive, local government, business organisations and, in particular, Scottish Enterprise and Highlands and Islands Enterprise work together in a more effective, more joined-up and more strategic way. That will be a big challenge for us all over the coming years.

As part of that, Scottish Enterprise and Highlands and Islands Enterprise should have a view on the importance of transport infrastructure and other business infrastructure. Whether the problem is telecommunications or road systems, we should be able to discuss any constraints that exist and we should be able to influence each other to fix priorities. That applies to, for example, Scottish Water and the need for basic infrastructure such as sewerage and water systems. It applies in a variety of different areas to do with our approach to planning and regeneration. We have to work more effectively together if we are to get those issues right in the coming years.

I would like Scottish Enterprise to play an important role in those areas, and I am certain that Jack Perry and John Ward not only have views on those issues but have strong views that should be listened to.

**Karen Gillon:** I thought that as well. What struck me last week was that the witnesses did not seem to have any views on those issues, did not think that Scottish Enterprise should have such views, and had not done any exercise to establish what major infrastructure projects were needed to enhance economic development in central and north-east Scotland. Perhaps you and your officials could undertake to review that issue and return to the committee with information about how we can begin to move the process forward. The

lack of strategic thinking by the head of the organisation was of concern to me.

**Nicol Stephen:** I will certainly do that. However, I can give you some reassurance that, in my time as Minister for Transport, John Ward and Jack Perry met me to discuss transport issues. That is a positive sign. Scottish Enterprise also played a very important role in developing the proposal that led to the introduction of the Superfast ferry from Rosyth to Zeebrugge. The air route development fund is managed jointly with Scottish Enterprise, so it has played an important role in improving air links with other parts of Europe and further afield.

I have no doubt that Scottish Enterprise will also play a vital role, either at local or at national level, in the Hunterston and Orkney major trans-shipment terminal proposals. However, I hear your concern and I will certainly raise the issue with Scottish Enterprise, to ensure that it works towards a more co-operative, integrated and strategic approach that everybody would welcome.

**Karen Gillon:** The issue that was of most concern to the committee was not that Scottish Enterprise was involved in individual projects. What was of most concern was the lack of a strategic framework for where it thought that infrastructure, particularly transport infrastructure, should be going. HIE has the vision that seems to be lacking in the rest of Scotland. The committee would like you to pursue that issue with Scottish Enterprise.

**Nicol Stephen:** I hear that concern and I will be very pleased to raise it with Scottish Enterprise.

**Murdo Fraser (Mid Scotland and Fife) (Con):** I have a couple of questions, the first of which relates to the Executive's written submission, specifically paragraph 22, which deals with growing firms. I want to explore the relationship between support for new starts and support for growing businesses. The committee has been looking at that issue with some interest.

Paragraph 22, in dealing with that relationship, says:

"Scottish Enterprise is currently looking into the evidence as part of the organisation's strategy development."

First, when might that work be ready? It would be useful for the committee to see it. Secondly, what are your views? Should we target public assistance more at assisting new starts or at growing businesses? In the real world, many new starts might turn out to be somebody buying a car and opening a taxi firm or opening a hairdressing shop. I have nothing against taxis or hairdressers, but perhaps the money might be better spent in encouraging the growth of smaller businesses that have greater potential for the economy. How do you view the balance between the two?



**Nicol Stephen:** To answer the first part of your question, I do not know when the information will be available. However, somebody might be able to help.

**Ian Howie (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** I am pretty sure that Scottish Enterprise's submission referred to the review of its growing business strategy across the board. That includes the balance between support for growing businesses and support for volume starts. There is material in the submission that you received from Scottish Enterprise perhaps a fortnight ago.

**Jane Morgan (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** I understood that that work had been completed. I do not think that Scottish Enterprise intends to launch a glossy document on it, but I think that it is available.

**Murdo Fraser:** If it has been completed, making it available to us would be useful.

**Nicol Stephen:** On your question about the balance of priorities, obviously we need both to assist new starts and to grow businesses. We must encourage the creation of more businesses in Scotland. There is already the business gateway and there are a number of different schemes and programmes that encourage the establishment of businesses. We want to create a more entrepreneurial culture and environment in Scotland. The determined to succeed initiative in our schools, for example, is aimed at encouraging young people to think about setting up their own business and acquiring a greater knowledge of business, finance and what is required to be an entrepreneur. All those initiatives are vital for Scotland's future.

I agree with the sentiment that lies behind your question on direct business support. There are perhaps a couple of dozen commercial spin-outs from our universities, all of which are small, apart from a handful that have reached a stock exchange listing. If we do not ensure that some of those businesses grow from being six, 10 or 15-person businesses into 200 or 500-person businesses, we will have a big problem for the future. Not all of them will achieve that growth, but we must find ways of encouraging some of them to make that leap and to bridge the gap. Doing so is not easy. All the evidence shows that such businesses are seen as risky when it comes to raising funds and accessing venture capital. Sometimes they need not only first-phase or second-phase funding but third-phase or fourth-phase funding before they generate revenues and achieve profitability. However, they represent a huge potential for Scotland's economic future and Scottish Enterprise wants there to be an increase of effort in, and more of a focus on, such areas.

I did not hear the evidence that Jack Perry and John Ward gave to the committee, but I read press reports about it and heard about some of the things that they said. Such businesses can grow and develop with the right support. We must work hard, particularly on the life sciences, informatics, robotics, stem cell research, pharmaceuticals, optoelectronics and nanotechnology. There are companies in Scotland that have tremendous potential. We would like to be sitting here in 10 years' time saying that the companies in question are among the most significant companies in Europe, or on the planet, that they employ hundreds or thousands of people and that they generate millions of pounds of revenue. Currently, they do not do so, and that is a challenge for all of us in this room.

**Murdo Fraser:** My second question relates to one of the six key priorities that you spoke about in your introduction. The final priority that you mentioned was dealing with red tape, which is an issue that the business sector brings up all the time. When the committee met in private yesterday, we talked about the regulatory impact assessments that are attached to statutory instruments. Similar exercises do not seem to be carried out for primary legislation. I understand that primary legislation in Scotland is checked for its impact on human rights, equal opportunities and sustainable development but that there is no specific test for its impact on economic growth. Would the Executive be prepared to consider that matter?

**Nicol Stephen:** The advice that I have received is that there are such checks, but if there are not, we would be prepared to consider them.

**Murdo Fraser:** I wrote to your predecessor on the subject and I do not think there are such checks. He told me that the Executive did not think that they were necessary.

**Nicol Stephen:** I would, of course, have to check my predecessor's words carefully before contradicting him, but I would be pleased to consider shifting policy if that is the current policy. Given all the other checks that we do, which are fair and reasonable, I would find it difficult to justify to business not undertaking one additional check, which would be of the regulatory impact on business.

14:30

**Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** I am fairly certain that we have done some such assessments, because I remember seeing one for the Smoking, Health and Social Care (Scotland) Bill recently. We will certainly check that.

**Murdo Fraser:** I suspect that that assessment may have been more tightly focused. It may not have been an assessment of the impact on economic growth as such.

**Nicol Stephen:** We will find out and provide you with additional information.

**Murdo Fraser:** That would be helpful.

**The Convener:** Before I bring in other members, I will use the convener's prerogative to ask a couple of questions. You may remember that the report of the Scottish manufacturing steering group was published in February 2003—nearly three years ago. One of its recommendations was the establishment of a manufacturing advisory service. After nearly three years, that service is in the process of being established but, according to Scottish Enterprise, it has no chairman, director or board. Will you update us on its status, please?

**Nicol Stephen:** Yes. Jack Perry and I will attend a manufacturing conference later this week. It is no secret that we would have liked quicker progress and to announce more substantial progress this week.

After a false start on the position of chief executive—Scottish Enterprise has explained some of the reasons behind that and accepted that things could have been done better—we are in a position to have a shortlist of good applicants for that post. When the appointment is made through Scottish Enterprise, the notice period will be an issue, but we should be in a position to have a full-time chief executive in the next few months. I hope that the position of chairman will be filled by the end of this calendar year. Some advisory staff are already in place, as is an interim or temporary head of the new manufacturing advisory service. When the manufacturing sector makes queries or proposals, we can now provide support through Scottish Enterprise.

The formal launch is no longer to take place this week but, at the conference, we wish to highlight the fact that the manufacturing advisory service is now active in Scottish Enterprise. In the next few months, the problems that have existed will be overcome. I am determined that, working with Scottish Enterprise, we should sort the problems out quickly and that we should have a fully operating Scottish manufacturing advisory service in place by spring next year.

**The Convener:** Given the state of Scottish manufacturing, do you agree that taking more than three years to establish the service is hardly a sign of a smart, successful approach to giving business growth the number 1 priority place?

**Nicol Stephen:** You are trying to put words in my mouth. I spoke about the issue this morning

with Scottish Enterprise, which accepts that things could have been done much better. Everyone acknowledges that the service is a high priority and that we need to get on with it. We need to make up the lost ground. I am determined that we should do that as soon as possible.

**The Convener:** I will expand the issue of Scottish Enterprise's failure to deliver on manufacturing to the issue of the ITIs, which have received much attention recently. You said at the beginning that where we can achieve consensus, we should try to do so. I agree. There is a broad consensus about the importance of the ITIs, particularly in increasing investment in research and development.

In a letter to the committee that was circulated last week, Jack Perry pointed out that, in their short lives, the ITIs have already negotiated £70 million-worth of research and development programmes. Two thirds of that money is with small and medium-sized Scottish businesses. That is obviously welcome, particularly as the ITIs are still at an early stage, but it underlines the concern that a number of us have about what is happening.

We are getting two conflicting stories. The Scottish Enterprise story is that everything in the garden is rosy, that the ITIs have received every penny they asked for and that there is nothing to be worried about. Scottish Enterprise said that about the manufacturing advisory service a year ago. On the other hand, we have lost two of the three very able ITI chief executives. If everything is rosy, why did we lose them?

**Nicol Stephen:** First, I emphasise that the ITI project is fully funded and that, as you highlighted, it is coming forward with some encouraging projects. Good work is being done in each of the three ITIs—ITI Techmedia, ITI Energy and ITI Life Sciences—and Scottish Enterprise will work quickly to fill the vacancies that exist at chief executive level in ITI Life Sciences and ITI Energy.

I have spoken to individuals in the ITIs and to Shonaig Macpherson, who is the chief executive of the ITI umbrella organisation. Some concerns have been expressed to me about the nature of the relationship between Scottish Enterprise and the ITIs and about how hands-on or hands-off Scottish Enterprise should be. The concern that the ITIs expressed to me is that Scottish Enterprise should have a light touch in its role and its relationship with the ITIs. They believe that the public sector hand should be a supportive one rather than one that strangles or suppresses the development of the ITIs. It is important to be frank about that.

All the indications are that the departure of the two chief executives was not to do with that issue. Their departures were for different reasons. One

of them—the former chief executive of ITI Life Sciences—was offered a very good job with a significantly increased salary in Australia. Tony Amor, the former chief executive of ITI Energy, has family who live in California—indeed, he never moved his base across to Scotland—and he decided that he wished to move back to the United States. There were different reasons for those two individuals' departures but I believe that we can find very good replacements for them.

That leaves the issue of the relationship between Scottish Enterprise and the ITIs. I agree with those individuals who have said to me that it is important that the relationship is different from the relationship between Scottish Enterprise and other parts of its organisation. It has to be a light-touch relationship that allows the ITIs to behave more like private sector organisations, to be entrepreneurial and to make the right investment decisions for the future. I will work hard to defend that position.

It would be wrong to change the relationship and pull the ITIs in house. That would centralise things even more because there would be a direct relationship between the minister, the department and the ITIs. We need to make sure that the current model has every prospect of success. It is a relatively new venture with significant funding and it is here for the long term. I am committed to making sure that the ITIs have every opportunity to make their partnership and research investments work. If there are continuing concerns from you, from others or from people in the ITIs, I will be happy to hear them and to take action to try to improve the situation, provided that that is done in the right spirit.

The worst thing for the ITIs would be for them to become a political football and for there to be continual ministerial intervention. We are trying to avoid that and to ensure that the founding spirit of the ITIs is the spirit in which we move forward.

**The Convener:** I agree that the last thing the ITIs need is ministerial intervention or direction by civil servants, but given the high powered nature of the executives who have been running the ITIs—ITI Scotland is on its second chairman and the ITIs have lost two chief executives—why does ITI Scotland need to have Scottish Enterprise second guessing what it does? Why not let it stand alone and let the three ITIs go and do their jobs?

**Nicol Stephen:** You raise an interesting question. There are indeed three ITIs, but there is also the umbrella body that Shonaig Macpherson chairs. If there is an area in which there is an opportunity for a sensible dialogue, it is to do with the relationship between the umbrella organisation and Scottish Enterprise and the impact that discussions at that level have on the energy, spirit, growth and development of the three ITIs that are

doing the work. I am absolutely determined that the three ITIs—energy, techmedia and life sciences—should have the support, space and budget that they need in order to deliver. When there are issues between Scottish Enterprise and the umbrella organisation, I have tried to ensure that a sensible solution can be found in a way that strengthens the ITIs' ability to deliver. I will continue to make representations in that regard to Jack Perry and John Ward of Scottish Enterprise.

It is important that we get the ITIs into the business media pages because of the success of their investments and the solidity and spirit of what they are doing rather than because of internal or administrative difficulties.

The budget that is there will continue to be there. The opportunity for development and significant growth arising from the work of the ITIs is there and will continue to be there. The support of Scottish Enterprise can be helpful to the work of the ITIs. I am sure that that is the view of Jack Perry and John Ward. I understand that the last meeting between Shonaig Macpherson, the chairman of ITI Scotland, and the board of Scottish Enterprise was productive. However, the acid test is what happens over the next few months. The challenge is to get in place the new chief executives as quickly as possible and to ensure that the deals still come forward and are worth while.

Who knows why the relationship between Scottish Enterprise and the ITIs has been what it has. Undoubtedly there have been concerns about that, but that relationship should now settle down and the ITIs should have the chance to do what they were established to do.

**The Convener:** If it becomes necessary, are you prepared to tell Scottish Enterprise to back off and let the ITIs get on with their job?

**Nicol Stephen:** Again, you are trying to put words in my mouth.

**The Convener:** Absolutely.

**Nicol Stephen:** I think that I have said enough. I think that I have made clear the sort of role that I want to play. I do not think that it is helpful for there to be seen to be ministerial intervention as that politicises the situation and will cause further difficulties for the ITIs and get further media coverage for the wrong reasons. I want—as quietly and constructively as possible—to give the ITIs the opportunity to get on with the work that Scottish Enterprise, the Scottish Executive and, I think, this committee want them to do. That work can be important for Scotland's future. In Scotland, the United Kingdom and other nations around the world, there is huge interest in the ITIs. If we can make them work, they will give Scotland a competitive advantage.

That is why all I do over the coming months will be in support of the ITIs, to ensure that the core concept has every prospect of success. The initiative is new, so there can be no guarantees. In many ways, this is a risky thing to have done, but it is good that the Government is taking this sort of measured risk. With the right support and encouragement, the ITIs have every prospect of strong success.

14:45

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** Planning reform is firmly on the agenda. As we all know, the business community has said repeatedly that improvement in this area is required. In fact, the desire for improvement in the planning process is shared pretty widely throughout Scotland. As Minister for Enterprise and Lifelong Learning, how are you engaging with the work that is under way in the Executive to reform the planning process? What do you hope will be the outcome of the proposed new legislation in relation to how decisions on planning matters are taken in future?

**Nicol Stephen:** I engage regularly with my ministerial colleagues and with Malcolm Chisholm in particular to discuss those issues and to represent the business interest. Business wants a faster, clearer and altogether more modern and effective planning system; it wants not just a better structure and better decision-making process but a system that is better resourced. Planning support at local government level, the work of planning officials and their ability to deal with applications speedily, effectively and professionally will be important parts of the proposed legislation.

It is about more than a legislative framework; it is about what happens on the ground and the transformation of the planning system, which many politicians and businesses would like to see. A vital part of that is involving communities earlier in deciding the future needs of the community and future land-based planning, which we want to see.

That involves pulling together a range of issues that until now have been kept separate. It touches on a lot of what we have been discussing, such as infrastructure and transport. We have to ensure that when there is a major new development, whether industrial, commercial or housing, we consider from the earliest stage the appropriate location and public transport links as well as road links. We have to consider the opportunity to create something of a quality rather than seeing the system as defensive and reactive, so that communities can for the first time in decades get excited about new development and see it as an opportunity rather than as a threat to their community or their patch of green belt.

There is a challenge for business, too. The system simply will not work through the public sector or community engagement alone. The very best developments that I see in other parts of Europe and the world are delivered by private sector developers who have a real vision, passion and commitment to high quality development. Through their success, profitability and ability to sell houses or fill commercial or office spaces, they show that investing in something that creates a higher quality environment has business benefits.

There is a challenge for the private sector and private developers. It is not about taking a lowest-common-denominator approach or about how close they can get to the bare minimum requirements of the planning system or how many units they can cram on to a particular site; it is about how inspiring we can make the Scotland of tomorrow. The challenge is as simple and as big as that and it should motivate us all.

**Susan Deacon:** One of the biggest challenges facing us in the months to come will be reaching decisions on planning legislation and what the planning system should look like. Far be it from me to put words into your mouth—I will leave that to the convener—but it is probably fair to deduce, given what you said in answer to my initial question, that you share the frustration that I and others feel that the debate on planning reform has become polarised. It is often presented as the business interest versus the community interest, whereas in fact there is a shared interest in getting a planning system that works well. However, unless, in the months to come, people come together to have that conversation and achieve shared objectives, it will be difficult for us to legislate for an effective planning system.

What are your thoughts on working with ministerial colleagues to bring together some of those interests and to work with us in taking those important decisions, so that we or our successors are not sitting at yet another business in the Parliament conference four or five years from now bemoaning the planning system, when we have a once-in-a-generation opportunity to change it?

**Nicol Stephen:** I agree strongly. We must get the message across that we want a dramatically different planning system from what we have at the moment. Incremental change will simply not be good enough. If we do that and bring business and communities closer together, we could do exciting things in future to kick-start the economic development of Scotland in a way that simply has not been possible with the current planning system. The current system—not just the legislation, but the way in which the system has worked in individual local authority areas—has acted as a brake and a barrier to economic

development. The right development, of the right style and quality, thought about early enough, and planned with communities rather than imposed on them, can work.

As Minister for Enterprise and Lifelong Learning, I encourage co-operation now. It is a bit like developing a green-field site: often, constituents will complain once the bulldozer goes in to start the work, but that is far, far too late in the process to lodge a complaint. The same point needs to be put across to individuals throughout Scotland: if they want the planning system to change and improve significantly, now is the time to take part, because it is now that we are thinking of legislating and now that the Parliament will start to consider legislative proposals. When the diggers move in, it will be too late.

People have the opportunity now to influence the future. It is a once-in-a-generation opportunity—the last fundamental change to planning legislation was more than 50 years ago. We have a significant opportunity to get it right, which could be good for business, good for local communities and good for the future of Scotland.

**Susan Deacon:** I have a brief question on a completely different subject but, before I ask it, could you update us on your thoughts and where the Executive is at on another aspect of the public policy decision-making process: how we deal with legislation on major transport infrastructure projects? The Executive has committed to bring forward a transport and works act to expedite the current byzantine process for dealing with rail links, tramlines and the like. Where is that?

**Nicol Stephen:** We intend to bring forward legislation in this session of Parliament. We have fairly broad cross-party consensus on the sort of change that we would like to see.

It is very important that there should be close co-operation between the Minister for Transport and the Local Government and Transport Committee and that the Executive works with the Parliament—the handling of current private bills is very much a responsibility of the Parliament because of our procedures—to ensure that we move from a very difficult system, which is probably the kindest way of putting it, to the brave new world of tomorrow with as much consensus and partnership as possible.

Once the legislative proposals that are being developed are worked up, I hope that the Executive can be inclusive and involve parliamentary officials, who have much experience of these matters, as well as the politicians and ensure that we produce a good, robust system that does not simply mimic or copy what is in other parts of the UK and that gives us something that will work for Scotland and deliver the transport

infrastructure that we need in a far faster, more efficient and more effective way.

**Susan Deacon:** That is certainly something we would all like to see.

**Nicol Stephen:** On your planning question, I want to float an idea. It seems to me that there is an opportunity to encourage a dialogue among, for example, Planning Aid for Scotland, community councils, which have a deep interest in planning, architects, representative organisations for architects and surveyors and the development community and for some sort of road shows or presentations to be offered to community councils and community groups in particular. I think that the private sector should play a role in that by encouraging and welcoming it and perhaps even helping to joint fund such initiatives. If the committee was interested in that, perhaps it would be worth trying to kick-start it over the coming months, although I would obviously need to discuss it with ministerial colleagues.

**Susan Deacon:** Thank you very much. I, personally, am sympathetic to any idea that brings people together to come up with solutions in this area. Can I ask—

**Nicol Stephen:** It would alert others, such as community councils and local communities, that big change is taking place and it would perhaps help to introduce the scale of the change and the ambition for planning in the future. From my enterprise viewpoint, it would also seem a good idea to try to bring architects and those involved in development into the process and explain some of the change to local communities in that way.

**Susan Deacon:** I suggest that one of the problems of discussing issues such as planning within specific sectors is that it leads to the polarisation of discussion rather than to people coming together. Many issues on this matter were raised at the business in the Parliament conference. It strikes me that if the conference had included people from a range of different sectors, interests and communities, they would have had similar, rather than different, concerns. There is a lot of mileage in taking such an approach.

I am determined not to run out of time, so, finally, I will ask you to comment on a big subject. I appreciate that, in the interests of time, I might be able to get only a short answer. When your predecessor was before the committee some time ago—I cannot remember exactly when—one of the things I asked him was how he, as the enterprise minister, was taking forward the work to develop our cities and city regions in line with the commitment in “A Smart, Successful Scotland” and the recognition of city regions as drivers of economic growth.

I had a concern about your predecessor's response: he was reluctant to say too much about the issue because the cities growth fund lies within the remit of the finance minister. Perhaps I am reading too much between the lines, but it felt as if that particular area of policy was not as joined up in the Government as it ought to have been. Can you comment on that and give us some reassurance that this vital area is being taken forward across the Executive and that you in particular, as the enterprise minister, are taking a close interest in it?

15:00

**Nicol Stephen:** Given the scale of what we are trying to achieve, one cities growth fund will not be enough to make the difference. That is why Scottish Enterprise is taking a metro-regions approach, why work is being done on planning reform and why we are encouraging small, spin-out companies that have the prospect of growing from small to medium-sized companies into medium to large companies. All that work is important and most of it is taking place in our city regions. We need more joined-up thinking and a more joined-up approach. If there is a sense that ministers are saying, "It's not my responsibility", because something is in a different department, organisation or part of Government, we must get rid of that and work far more closely together. If we get it right, the prospects for Scotland will be good.

A sense of momentum and opportunity is starting to emerge. Nevertheless, in the context of the pace of change in other parts of the world, simply growing is not enough; we must grow in the right way and we must do it fast. We must move quickly to seize opportunity in the modern world and inject not just a spirit of partnership working, but a sense of urgency into our work. I hope that the committee keeps asking about progress in this area and that, through some of the changes that are being delivered through planning reform, Scottish Enterprise and the other aspects of the enterprise portfolio, we can come up with a simpler, more joined-up and more effective system that gives priority to the development of our city regions.

**Shiona Baird (North East Scotland) (Green):** The Executive regards sustainable development as a major cross-cutting theme. However, the problem with cross-cutting themes is the fact that nobody takes overall responsibility for them or that responsibility gets lost in the general work that is undertaken in the various areas. I am concerned that the briefing that the committee has received contains no reference to sustainable development. What priority does your department give to sustainable development? How can we measure how well the economy is moving towards

sustainability if it is not made an eye-catching portfolio responsibility?

**Nicol Stephen:** As I mentioned, this morning I met Scottish Enterprise; however, I also spoke at a sustainable business development conference. The Executive pays a lot of attention to sustainable development, as do I in my role as the Minister for Enterprise and Lifelong Learning. Scotland has the potential to have an exceedingly good international reputation for sustainable development and for policies that encourage it. A couple of years ago, we were audited on sustainable development and came out well. The business group to which I spoke this morning stated in the evidence that it gave in response to a consultation document from Ross Finnie that it believes that Scotland has a real opportunity to be the sustainable development leader through the work that we are doing. That is encouraging.

The move towards addressing sustainability and other environmental issues provides economic opportunities, including opportunities for companies in Scotland to export their expertise in areas such as renewables. Indeed, sustainable development provides opportunities in every business sector—the chair of today's event was from Scottish & Newcastle plc. There are also opportunities between sectors. One of the issues that was addressed at today's conference was the symbiotic relationship that can exist between one business that produces a waste product and another business that sees that waste product as a raw material out of which it can create something of value. Businesses can create huge opportunities by co-operating more closely with one another. That is the case not only in Scotland, but in other parts of the world, and if we show leadership and expertise in that area, sustainable development could be good business for Scotland in the future. Energy is a good example of that; we have the potential to show leadership on renewables and the more efficient use of hydrocarbons.

**Shiona Baird:** It is a question of highlighting and referring to sustainable development. I know that a lot of work is going on, but is the Enterprise, Transport and Lifelong Learning Department considering highlighting sustainable development a bit more? It comes down to how we can measure sustainable development. Is the department considering how to measure the progress that we are making as a country?

**Nicol Stephen:** The department is not doing that on its own, but we are doing it across the Executive. Ministers meet as a cross-cutting group on sustainable development to discuss such issues and we have strategies, such as the sustainable development strategy, and our work on carbon emissions. We have a range of different

initiatives, but, as I said to the conference that I attended this morning, we must move from the stage of developing strategy in those areas to delivering, making the difference and seizing the business opportunities in them.

Scotland is well placed to do that. We are a small enough nation that we are able to make the difference at the individual, community and local business levels. We can issue a call to arms and create momentum in sustainable development. That is important because, in the parts of the world that have the most dramatic rates of economic development, sustainability is not high on the agenda. If we do not act now—if we do not establish expertise and do not get across to other parts of the world as powerfully as we can the message that sustainable development is vital not only for Europe's future but for the planet's future—it could arguably be a race against time. Some pretty frightening negative things could start to happen during this century if we cannot get the message across powerfully enough.

The message will be all the more effective if we have advocates for sustainable development from the business sector. I have great respect for the non-governmental organisations and charitable organisations that are trying to get the message across. However, if some of our major corporations in Scotland are seen to have gained benefit from sustainable development—if they have managed to reduce their energy costs and emission levels, find alternative fuels, increase their use of renewables and create new job opportunities from sustainable development—that sends a far more powerful message in our discussions with Governments or businesses from places such as India, China, Mexico or Brazil or the other emerging nations. That could have a dramatic impact on the sustainable development of the planet over the next few decades. Some of the statistics on energy use alone are frightening.

**The Convener:** I am conscious of the time, so we need shorter questions and—with all due respect, minister—shorter answers.

**Shiona Baird:** I will ask a quick question. In a way, the minister has answered it but, in another way, he has not. How much work is being done to move unsustainable businesses towards sustainability? That is key. There are ways in which companies can move themselves towards sustainability, but what work is being done to address companies' initial processes that are unsustainable in the first place?

**Nicol Stephen:** Perhaps I should offer to write to the committee and explain the initiatives on which we are working. That would be the best thing to do. I hope that the package is sound and credible. A lot is being done, but I am also sure

that the package will need to be strengthened over the coming years.

**Shiona Baird:** Thank you.

**Michael Matheson (Central Scotland) (SNP):** Minister, I was interested in the six priority areas that you outlined in your opening comments. I am particularly interested in the third priority area, under which you referred to investment in research and development.

As you pointed out, in Scotland we do well on R and D investment in the public sector, but fairly poorly on R and D investment in the private sector. Some of the evidence that the committee has received as part of its inquiry shows that the opposite is true in Sweden and Finland, where most of the R and D expenditure comes from the private sector. In your view, what are the inhibitors to greater R and D spend in the private sector in Scotland and what is being done to address that?

**Nicol Stephen:** I do not think that there are inhibitors in the traditional sense of there being some sort of legislative barrier or public sector hurdle. The level of investment from US corporations tends to reinforce that point. A highly significant element of the business research and development that takes place in Scotland is funded by major overseas corporations, more than 90 per cent of which are from the United States of America. If there was some sort of legislative or structural barrier to companies carrying out research or development in Scotland, there would not be such a pattern of investment from overseas companies.

By far the greatest problem is that we do not have medium and large Scottish businesses that are researching and developing new products and services here in Scotland—we do not have the Nokias or the Ericssons. For whatever reason, the companies that we have are not investing significantly in research and development. That is depressing and—if we do not do something about it—potentially disastrous for the Scottish economy. It is vital that we change that situation. That comes down to addressing issues of culture and attitude—attitude to risk and to the research and development line in businesses' accounts. Too many organisations see that line as an opportunity to save money rather than as an opportunity to invest in the future profitability and survival of the business.

If we look round Europe, the UK and Scotland, we find that part of the reason for the decline in many of the manufacturing companies that have dwindled and died has been a failure to invest in the future. They failed to invest in research and development, in reinventing the organisation, in creating new products and in developing more efficient ways of producing the products that they

already produced. As well as being a big issue for the committee's business growth inquiry and for Government, research and development is central to any discussion that one has with the CBI, the Institute of Directors, the Scottish Chambers of Commerce or the Federation of Small Businesses. As I said at the outset, although Government can help, ultimately the answer to the problem lies in the hands of business itself.

**Michael Matheson:** When we were in Sweden, I and other members of the committee were struck by the close relationship that has developed there between academia, business and the public sector, which the Swedes call the triple helix. Do you feel that we have been sufficiently successful in developing such a relationship in Scotland? I think that it was the director of BT Scotland who highlighted in evidence the need for a closer working relationship to develop between academia and business in particular. Could more be done to develop that relationship so that we can deliver the leverage that you mentioned as being necessary to increase R and D spend in Scotland?

**Nicol Stephen:** Yes. Of course such things can help. Leverage is essential and there is more that the Government can do in that regard. I repeat at the outset of my answer that we need to find a way of getting business to realise the importance of R and D and to change its attitude to it.

On the need for links between our universities and businesses and for further commercialisation and spin-outs, it is still difficult for academics in Scotland to go into the business world. Many of them do not find it comfortable. In Scandinavia and, perhaps more commonly, the United States, it seems to be more expected that ambitious academics who want to be successful will get involved in business. In those places, the transition from being a professor to being a company senior researcher or managing director is easy and comfortable. In Scotland, many academics are still instinctively uncomfortable about making that kind of switch. When they move into business, they find themselves in an alien world, where they are often left to try to develop their business with other academics without access to advice.

The business angel investor community provides some of the sort of non-executive director support that can come through venture capital investment, but although there are some very good people working in that area, finding such support is not easy, as it is not commonplace. Scotland still has a big challenge because of that divide between the academic world and the commercial world.

15:15

**Richard Baker (North East Scotland) (Lab):** My question follows on directly from Michael Matheson's question. We have been told by venture capitalists and others that, especially in academia, Scotland has no shortage of good ideas in which to invest but we have a real shortage of people with the business skills to take those ideas forward. You have outlined the problem, but how are we to address it? How can we ensure that the people who can lead businesses are matched up with those ideas? We need to accept that, with the greatest will in the world, academics will not always be the people who take those ideas forward.

**Nicol Stephen:** In many ways, that is a good problem to have. Many other nations do not have the ideas and the inventive university sector that we have in Scotland. If they had the same flow of ideas and commercialisation opportunities, they believe that they would be more effective in marketing and developing those commercial opportunities.

Part of the reason for the problem is that over recent decades—this is a sweeping generalisation, but I hope that it is helpful and makes the point—Scottish business has in many ways become insular. We have tended to look to our own market and to providing services to one another instead of being outward looking. Having an international outlook was previously part of our strong and proud history. We need to be out there seeking opportunities in China and India—which I have just visited—Mexico and Brazil. We need to be in other parts of Europe and in North America.

The visitor to Bangalore sees not just information technology and software companies but one of the most successful biotechnology companies on the planet. One might wonder why that has happened in a part of India that has such overstretched infrastructure. What has made the difference is that people there have seen the opportunity for a market and—as well as taking the risk of investing strongly in plant, equipment and machinery to allow them to go from small-scale manufacture to larger-scale production—they have regarded the market not simply as India but as all parts of the globe. That must surely be Scotland's future.

We need to inspire the younger generation to recognise that, if they want to create exciting vibrant businesses such as Microsoft, Cisco, Biocon or Infosys, they will need a market not of 5 million people or even 55 million people but one that is global. We need people who are determined to grow the market wherever the opportunity to sell their product or service exists. That is an exciting message about an exciting future for Scotland.



Of the businesses in Scotland that have potential, not enough are learning that lesson. A good example is what happened in the past in our oil and gas industry. For too long, we relied solely on the market that was created in the North sea. Today, some of our companies are now doing fantastic things internationally—many of my friends who are of my age now work all round the globe—but I would argue that such opportunities also existed 20 years ago, although we are taking advantage of them only now. We need to seize those opportunities sooner and be more passionate and determined about getting the message across. Politicians alone cannot achieve that—far from it. There needs to be a change of attitude at business level.

**Christine May (Central Fife) (Lab):** Good afternoon, minister. Thank you for your opening statement, which I found helpful, and for the briefing paper.

I want to explore with you a number of areas, some of which have already been touched on. However, one in particular has not yet been dealt with: the development of city regions and the support that Government gives to the interests and needs of areas that are perhaps peripheral and subject to very long-term structural unemployment and the problems that are associated with that. For example, I cite the work that has been done in coal field areas on the long-term lack of educational attainment, lack of ambition and lack of business start-ups. In the current discussions and consultations that are going on about the future of the enterprise network in lowland Scotland, what direction have you given on the needs of those areas as opposed to those of the growth folds? What thoughts have you given to that issue?

**Nicol Stephen:** It would be wrong to say that the number 1 priority is to build businesses of the future and to move them from the start-up phase to the phase at which they can employ significant numbers of people and become medium and large businesses, and then to say that investing in existing communities with real problems is also a number 1 priority.

I would say to communities that have genuine problems of deprivation that we have to invest in the future and in change. Simply investing in a structure that is already in place is no longer acceptable in the 21<sup>st</sup> century economy. We have to create a spirit of change and development through which we can give people the confidence that, by making the right decisions, we are offering everyone in Scotland a brighter future, whether they are in rural or urban Scotland or in traditional communities where unemployment levels are higher than we would wish.

It is a big challenge to get that message across and to shift priorities. Organisations can be pretty good at sustaining themselves and investing in their existing structure rather than shifting their investment and resources to make sure that they seize the opportunities of the future. I am determined that we should be prepared to do that—we have to shift away from the priorities of the past 10 years and look to the priorities of the future. Ultimately, that will be good for all parts of Scotland, including our deprived communities, because it will create new business and new life. I am determined that that should be done in a way that involves business.

You mentioned some of the former coal communities, but there are other examples of initiatives in Scotland, some of which have tended to come more from the social care and support angle. The numbers of people who are economically inactive are alarmingly high in certain communities in Scotland—particularly in the most deprived communities—and include people who are on disability benefits and the 16 to 19-year-olds who are not in education, employment or training. We need to involve business more in the future direction of those communities. By doing so we can offer real, hard job and training prospects in a way that has not always happened in the past.

**Christine May:** I hope that you will also seek to involve communities in that discussion so that there is buy-in.

**Nicol Stephen:** Absolutely. I am sure that if our approach is explained in the right way, we would get not only buy-in, but enthusiastic support for those ideas from communities. The people who feel the despair and frustration of all of that far more than we do are the people who live in such communities. They want a better way, they want opportunity and they want new energy breathed into their local area. I agree completely with you. If we proceed in the right way, we have a great opportunity to get the right response from local communities.

**Christine May:** I move on to an issue that was raised at the business in the Parliament conference—access to public procurement contracts. We came across evidence of similar frustrations in Finland and Sweden, for exactly the same reasons. I know that you undertook to do some work on the issue. Can you tell us a little about what you have been doing and update us on the point that has been reached?

**Nicol Stephen:** This week I had a meeting with Nosheena Mobarik. I have had a meeting with Ian Graham of Graham Technology and will have a follow-up meeting with him at his company very soon. I have involved Nick Bowd, the head of procurement at the Scottish Executive, as well as

Graeme Dickson, in those meetings. We will liaise with John McLelland, who is doing work in the area on behalf of the Executive. My next step is to seek to meet him.

It would be wrong for me today to go into the detail of what we intend to do, but I intend to have a significant number of action points, so that I can respond in a substantive way to some of the criticisms that were made at the business in the Parliament event. I will keep working on the issue and will report back to the committee once the work is in position to be revealed to an unsuspecting world. I hope that it will be launched fairly early in the new year. This is a serious issue and we need to get it right. We need to be seen to respond in a full, fair and frank way to the legitimate concerns that were expressed at the business in the Parliament event.

**Christine May:** We have heard evidence that in some parts of the world a certain proportion of public sector contracts are reserved for indigenous small and medium-sized enterprises. Is that one of the ideas that you are examining?

**Nicol Stephen:** We have gone into that level of detail and have done a great deal of work to see what might be possible. Some parts of the United States have the thresholds to which you referred. We have clarified that it would not be possible to have such a quota in the EU. However, it is possible to encourage far greater involvement of small and medium-sized companies in public sector contracts and to encourage the public sector to be more willing to take on new and innovative ideas and to take a faster, more fleet-of-foot approach to new products.

Life sciences are a good example of an area in which such an approach could be taken. The national health service and the medical sector could take on clinical trials and purchase products from Scottish businesses that currently believe that there is a better market for their products outside Scotland than there is internally. Wherever that is the case, I would like to know about it. If we can take steps to turn around the situation, we will get good support from Nick Bowd and the procurement division of the Executive, to ensure best practice and to encourage a similar approach in local government, where we are not directly responsible but can play an influential role in changing attitudes and approaches. I do not pretend that that will be easy, but we should make a start and should be determined.

**Christine May:** My final question goes back to the issue of encouraging better collaboration between further and higher education and business. Have you given any consideration to making Government support, especially for research and development, contingent on evidence of collaboration between further and

higher education and business—large and small—locally? Do you see the ITIs as pivotal in building the knowledge networks that could put the consortiums together?

15:30

**Nicol Stephen:** I am not aware that we have made support contingent on collaboration. However, collaboration is essential, and not just between universities and business—greater collaboration in future between universities and colleges is very important as well. That is what lies behind the Enterprise and Lifelong Learning Department: we want to bring enterprise and lifelong learning closer together, which is not a bad idea. We are criticised for some of our projects: some of our support is too complex and we have too many hoops that people have to jump through. I would support collaboration if it were done sensibly.

**Christine May:** I would be more than happy to talk to you about my ideas for how you might do that.

**Nicol Stephen:** If you have seen good examples overseas, I would be very interested to learn about them.

**Christine May:** Thank you.

**The Convener:** As we have you here, minister, I want to ask two final questions. They are not specifically about the business growth inquiry, although we gave your office notice of at least one of them. First, concern was expressed about the fact that there are still two vacancies in the new Scottish Further and Higher Education Funding Council. The council has no representative who is currently working in the further education sector and it has not followed the committee's recommendation that someone from the international educational community outwith Scotland or the UK be appointed to the council—at least, not that the committee is aware of. When do you hope to fill those vacancies? Will you take those two points into consideration?

**Nicol Stephen:** I heard the criticism concerning the further education sector and made reference to it at the council's launch, but this is the first that I have heard about the lack of an international representative.

**The Convener:** That was a specific recommendation from the committee's stage 1 report on the Further and Higher Education (Scotland) Bill, which dealt with the merging of the funding councils.

**Nicol Stephen:** Was the recommendation that there should be an international representative on the council?

**The Convener:** Yes. It was agreed in principle at the time by your predecessor.

**Nicol Stephen:** Okay. I was not aware of that continuing gap, but I am very happy to consider how best to fill the two posts. I am particularly sympathetic to the need for a fair balance between the higher education sector and the universities, as I have been aware of that issue for several weeks. Of course, four representatives came from the Scottish Higher Education Funding Council and four came from the Scottish Further Education Funding Council, so there is good experience in the new council. There are also four new representatives, including the new chairman, John McClelland. There are two gaps, but we can start the process of filling them pretty soon. Early in the new year, we should be in a position to make two new appointments.

**The Convener:** Finally, I have one easy question. Given that there has been a nine-month delay from the original date, can you tell us when the new employability strategy and the NEET strategy will be published?

**Rosemary Winter-Scott (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** Publication has probably slipped from December to January now. However, we are still keen to publish in this financial year.

**The Convener:** This financial year ends in March.

**Nicol Stephen:** It ends in January.

**The Convener:** Will both strategies be published in January? The publication would not be delayed because the green paper has been held up south of the border by the Department for Work and Pensions, would it?

**Rosemary Winter-Scott:** We have a meeting with Margaret Hodge and the closing the opportunity gap Cabinet delivery group ministers on 24 November. We will discuss with her the implications of the green paper on our framework and vice versa. We will have a better view after that.

**The Convener:** Will you keep us updated on that?

**Nicol Stephen:** We will. Whatever happens, the strategy document is just the start of the process. We have to involve business and get some real passion and commitment. Particularly in relation to those who are not in education, employment or training, all indications are that business people at a very senior level care passionately about the issue and would like to get involved with it in a concerted and determined way. We need to think about how we can best involve those individuals and make an impact. The framework document is

just a foundation for all that. I am sure that you will want to consider that area in your inquiry.

**The Convener:** Absolutely.

**Nicol Stephen:** If I can provide any information that will assist in preparing your report, please let me know, but I emphasise—as you will have sensed—that it is absolutely wrong to give the message that the Executive has all the answers or, indeed, that politicians have all the answers. However, your work, and particularly the information that you gathered from business and overseas, will be valuable in setting the agenda for Scotland's economic growth over the next few years. Thank you for your time.

**The Convener:** I am sure that we agree with both sentiments about the Executive and politicians. Thank you, minister. Your written and oral evidence have been helpful.

## Subordinate Legislation

### Glasgow School of Art (Scotland) Amendment Order of Council 2005 (SSI 2005/525)

15:37

**The Convener:** Item 3 is three statutory instruments, which have been circulated along with comments from the Subordinate Legislation Committee.

The first instrument is the Glasgow School of Art (Scotland) Amendment Order of Council 2005. Members will see in the paper that the Subordinate Legislation Committee noted that the transitional provision in article 1 refers to elected governors, whereas the principal order provides for the appointment of governors, only some of whom are elected. Further clarification was sought on that. Paragraph 5 of our paper EC/S2/05/24/2 states that clarification was also sought on

"whether the exception in this article is a personal exception or an exception which applies only for the duration of the present period of office of a Governor."

Although we do not have it in writing, my understanding through the clerks is that the Subordinate Legislation Committee has received a response from the Executive on both points; the committee will publish its report on Thursday, which I understand will indicate that it is satisfied with the explanation. Subject to that proviso, is everyone happy with that?

**Members indicated agreement.**

### Education (Graduate Endowment, Student Fees and Support) (Scotland) Amendment (No 2) Regulations 2005 (SSI 2005/545)

**The Convener:** Issues were raised about the Education (Graduate Endowment, Student Fees and Support) (Scotland) Amendment (No 2) Regulations 2005. Paragraph 9 of our paper states:

"The SLC has sought clarification from the Executive in respect of what plans there are for consolidation of the regulations amended by this instrument."

As with the Glasgow School of Art (Scotland) Amendment Order of Council 2005, clarification has been provided by the Executive. The Subordinate Legislation Committee is apparently satisfied and will publish its report on Thursday. Subject to that proviso, is everybody happy?

**Members indicated agreement.**

**Michael Matheson:** That addresses the points that I was going to raise.

### Electricity from Non-Fossil Fuel Sources (Scotland) Saving Arrangements Order 2005 (SSI 2005/549)

**The Convener:** The third instrument—I am saying all this for the record, not because I particularly enjoy the sound of my own voice, although I do—is the Electricity from Non-Fossil Fuel Sources (Scotland) Saving Arrangements Order 2005, which I am sure everybody will have read in detail. Paragraph 12 of the paper by the clerk states that the Subordinate Legislation Committee

"asked the Executive for clarification of whether the amendment applies to payments accrued prior to the original date of coming into force of subsection 10, 1 October 2001, or prior to the date of coming into force of the new amendment."

It also requested

"explanation of the use of the words 'came into effect' instead of the more usual reference to coming 'into force'."

The Executive replied and the Subordinate Legislation Committee is satisfied. It published its report on Thursday.

Shiona Baird has a point on the order.

**Shiona Baird:** I do indeed. I refer to paragraph 19, on the small firms impact test.

**The Convener:** I do not have a paragraph 19. Which paper are you referring to?

**Shiona Baird:** It is the regulatory impact assessment in the order.

**The Convener:** Sorry, I was referring to the note by the clerk.

**Shiona Baird:** Paragraph 19 states:

"small generating companies do exist in the renewables sector and it is likely the proposals will impact on their business."

However, it does not state whether the impact will be positive or negative. As far as I can gather, the order is about bringing the Scottish renewables obligation into line with the arrangements in England and Wales and implications arise from the way in which that is being done. I do not know how we can investigate which questions to ask, but—

**Michael Matheson:** Paragraph 20 addresses paragraph 19.

**Shiona Baird:** But that raises the question of how the Executive will judge that generators are in substantially the same economic position. Will there be a requirement for the industry bodies that represent SRO holders to sign off the work and assess it as neutral? I want to ensure that the order will not have a negative impact.

**The Convener:** I suggest that, in our report to the Parliament, we flag up that point for further explanation. The order is subject to the negative procedure, so unless someone moves a motion to annul it, it will go through. I take it that the committee is not minded to suggest that but that we are minded to seek further clarification. The matter can then be pursued.

**Shiona Baird:** Yes. We want to flag up that we are considering the matter.

I have another concern, but I suppose that it may not be relevant, given what you have said. It relates to an inference that the Department of Trade and Industry made in relation to Mark Lazarowicz's Climate Change and Sustainable Energy Bill. The DTI said that alterations would be made to ensure that microgeneration does not suffer a negative impact. As far as I can gather, the DTI is considering simplifying the procedures—

**The Convener:** At Westminster?

**Shiona Baird:** Yes. I am not certain where the order fits in.

**The Convener:** You would need to pursue that as an individual. The committee's job this afternoon is simply to consider the order and report to the Parliament.

**Shiona Baird:** So the order will not necessarily impact on what has been agreed even though that had not been agreed when the order was made.

**The Convener:** You would need to ask the minister to confirm that. I cannot give you that assurance. The bill that you refer to is a Westminster bill, so you will need to pursue the matter through Westminster.

**Shiona Baird:** It gets complicated.

**The Convener:** I know. It would be a lot easier if we had only one Parliament, but there we go.

**Karen Gillon:** The question is which Parliament you mean.

**The Convener:** You will notice that I showed no party-political bias in that comment.

## Business in the Parliament

15:44

**The Convener:** Item 4 is on the business in the Parliament conference 2006. The feedback on the 2005 conference was generally positive, although we can still improve in certain areas. I do not think that the Friday afternoon session worked, but we can discuss that later when we consider the agenda.

I ask the committee formally to agree that we should approach the Scottish Parliamentary Corporate Body for our share of the funding for a similar conference, and for the proposed seminar on procurement, in 2006. I also ask the committee to agree that we should ask the SPCB to classify the conference as one of the major events in the Parliament, as that will trigger certain support and resources from the corporate body.

**Susan Deacon:** I am happy to agree both to repeat the main event and to hold a seminar. I have some views about the proposed subject for the seminar, but I do not feel the need to discuss them in full committee session. However, I want to confirm that the subject is not set in stone and that there will be further opportunities to discuss it.

**The Convener:** Absolutely. As we did last time, we will bring a report to the committee every now and then and no decisions will be taken without the committee's agreement. Is everybody happy with that?

**Members indicated agreement.**

15:45

*Meeting suspended until 15:54 and thereafter continued in private until 16:21.*



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