



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 7 November 2012



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**ECONOMY, ENERGY AND TOURISM COMMITTEE**

**29<sup>th</sup> Meeting 2012, Session 4**

**CONVENER**

\*Murdo Fraser (Mid Scotland and Fife) (Con)

**DEPUTY CONVENER**

\*Dennis Robertson (Aberdeenshire West) (SNP)

**COMMITTEE MEMBERS**

\*Marco Biagi (Edinburgh Central) (SNP)

\*Chic Brodie (South Scotland) (SNP)

\*Rhoda Grant (Highlands and Islands) (Lab)

\*Alison Johnstone (Lothian) (Green)

\*Mike MacKenzie (Highlands and Islands) (SNP)

\*John Park (Mid Scotland and Fife) (Lab)

\*David Torrance (Kirkcaldy) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

John Mason (Scottish Government)

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

David Wilson (Scottish Government)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

Committee Room 4



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 7 November 2012*

[The Convener *opened the meeting in private at 08:03*]

10:00

*Meeting continued in public.*

### Interests

**The Convener (Murdo Fraser):** Good morning and welcome to the 29th meeting in 2012 of the Economy, Energy and Tourism Committee. I remind all members to turn off their mobile phones and other electronic devices. Before we get into agenda item 2, I welcome Katy Orr, who is our new senior assistant clerk and who is hiding at the back of the room.

I also welcome Alison Johnstone, who is a new member of the committee, and invite her to declare any relevant interests.

**Alison Johnstone (Lothian) (Green):** I draw members' attention to my register of interests, which lists the organisations of which I am a member and supporter. In addition, I have a family member who is employed by the Edinburgh tattoo, which may have some relevance to tourism issues.

**The Convener:** Thank you.

## Draft Budget Scrutiny 2013-14

10:02

**The Convener:** Item 3 is the continuation of the committee's scrutiny of the draft budget 2013-14. I am pleased to have with us this morning John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, who is joined from the Scottish Government by John Mason, director of business, and David Wilson, director of energy—welcome to you all.

Before we get into questions, I invite Mr Swinney to say something by way of introduction.

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** The committee will be familiar with the contents of the budget statement that I made to Parliament on 20 September, which set out a budget programme within the context of the spending review that was announced in 2011 and which prioritises the improvement of economic conditions and the delivery of economic recovery within Scotland. I look forward to discussing the details of that with the committee.

**The Convener:** Thank you. We have quite a lot of ground to cover this morning, so I ask members to be concise in their questioning, and if the cabinet secretary and his officials can be concise in their responses, that will help us to get through the business in hand.

We will start by looking at the economic context for the budget. I invite Chic Brodie to ask the first question.

**Chic Brodie (South Scotland) (SNP):** Thank you and good morning. We had an interesting meeting yesterday with Bill Dowson from the Bank of England in which we looked at the general outlook for business conditions in Scotland, in the United Kingdom and globally. Some of it does not make for great reading. Given that the outlook for economic growth remains generally weak, how do you envisage the draft budget helping in delivering non-gross domestic product targets in the national framework? Is the national performance framework still fit for purpose?

**John Swinney:** Certainly the NPF is fit for purpose, because what it is designed to do is, in essence, to structure an assessment of how the country should progress in achieving some of the wider policy objectives on which the Government is focused. The NPF is not a sort of here-today-gone-tomorrow report card; it is a long-term measure to assess Scotland's progress across a wide range of different indicators.

I say a wide range of indicators, because I am conscious of the debate that a number of

organisations, including WWF, Oxfam and various other partners, have initiated in arguing for the establishment of some form of humankind index that assesses the performance of a society more broadly than just on an economic basis. That issue was debated some weeks ago in a members' business debate that Ken Macintosh led. The point that I made on behalf of the Government in that debate was that I consider the NPF to be of the character of a humankind index because it is broader than an economic measure. However, at the heart of the NPF are clear and strong economic measures that are there to structure the focus of the Government's priorities and our desire to deliver and improve economic performance. Therefore, my first point is that the national performance framework exists very much in that context and is fit for purpose.

My second point is on the general economic outlook. I have been clear with Parliament for a considerable time that I remain deeply concerned about the economic outlook. There is a prevailing lack of economic confidence in the eurozone and, as it accounts for 45 per cent of our export activity, we cannot in any way be immune from that lack of confidence.

That brings me to my third point, which is about the draft budget and the measures that we take to try to support activity. Essentially, as I said in my opening remarks, the budget has been constructed to assist economic recovery. Therefore, we have established economic priorities. For example, one priority is to strengthen our capital investment programme, which we consider to be a strong contributor to economic recovery. There is also a focus on supporting key industries in the Scottish economy, whether that is established and strong industries such as the oil and gas or food and drink sectors or emerging sectors such as the renewable energy sector. We invest to support the development of those industries. Clearly, there is a requirement to ensure that our budget is focused on meeting the needs of individuals in their pursuit of employment and training opportunities, which largely accounts for the Government's skills and training budget.

That is the focus in dealing with the prevailing economic conditions to which Mr Brodie referred. Of course, other provisions in the budget are designed to support the Government's wider objectives in relation to the breadth of the national performance framework and all its characteristics, which I have mentioned.

**David Torrance (Kirkcaldy) (SNP):** Good morning, cabinet secretary. How does the budget promote growth in the low-carbon sector? How will it deal with the potential for thousands of jobs to come online very quickly, which could lead to skills

shortages, particularly in the engineering and manufacturing sectors?

**John Swinney:** As I said in my first answer, the Government has established the energy sector as one of its key sectors. We have identified seven key sectors in the Scottish economy that have growth potential. In each of those, we identify the opportunities for us to provide sustained support to encourage private sector investment in the economy. The low-carbon economy represents one of those huge opportunities and can give significant benefits. We have a number of interventions that are assisting in that process.

First, our enterprise companies will focus on supporting companies that have growth potential in the Scottish economy. The committee will be familiar with the enterprise companies' mode of operation following the reforms of 2007, in which ministers required Highlands and Islands Enterprise and Scottish Enterprise to focus much more actively on individual company support to encourage growth. There are now about 4,000 account-managed companies in Scotland, a substantial range of which are in the low-carbon and renewable energy sectors. The first intervention that we make is active support for the company development plans of those organisations. As a consequence, the enterprise companies will invest in the account-managed companies, as part of a wider investment programme.

Secondly, there will be specific landmark investments. We take strategic decisions to invest in particular infrastructure. The Fife energy park is a good example of that. It must be in Mr Torrance's constituency.

**David Torrance:** It is.

**John Swinney:** That is a happy example to cite, then.

Through such measures, the Government focuses investment to create the foundations of economic opportunity in the low-carbon sector.

Thirdly, the Government will look for opportunities that it can take forward through the construction of significant funds such as the renewable energy investment fund, which has now been created, and through the national renewables infrastructure plan, which structures our investment in our activity to maximise opportunities.

We will make a range of interventions in the low-carbon economy in relation to energy-efficiency measures and developments in technology that concern that. That will involve the development of partnerships between our higher and further education institutions, the enterprise companies and private sector companies, to ensure that

Scotland generates a range of business development opportunities that enable us to capture the clear opportunities that exist in the low-carbon economy.

**Dennis Robertson (Aberdeenshire West) (SNP):** Good morning, cabinet secretary. You have touched on the periphery of the answer to the question that I will ask. David Lonsdale from the Confederation of British Industry Scotland suggested a step change in the allocation of the budget towards skills. What assurances can you give the committee that the budget allocation to support skills and encourage the development of new skills is adequate?

**John Swinney:** If the committee looks at the range of areas in the Scottish economy in which the Government invests in skills, it will see that we are to spend—through the Scottish Government, the Scottish Further and Higher Education Funding Council, individual institutions, local authority employability programmes and a variety of interventions—in excess of £2 billion on skills. In anybody's money, that is a substantial amount of public money. In headline terms, we have a strong budget allocation that supports the development of skills.

Having said that, I frequently—I have to say that it is all too frequently—have discussions with the business community in which I deal with a concern about a lack of available skilled personnel. Particularly in relation to his constituency interest in the oil and gas sector, Mr Robertson has raised in Parliament the issue of the availability of all the necessary engineering skills that are required at a time when that sector is performing formidably well in the Scottish economy and when it has a strong appetite for more employment and growth.

To tackle the concern, the Government has put in place a much stronger dialogue between the industry leadership groups. Those are facilitated by the enterprise agencies but—crucially—they are what it says on the tin: industry leadership groups of industry representatives from different sectors such as the chemicals, oil and gas, renewables and food and drink sectors.

I have asked those groups to give us hard data on where the skills shortages exist, which we can use in our dialogue with the funding council and other organisations to ensure that the £2 billion is spent on meeting the needs of today and tomorrow, not those of yesterday, five years ago or whenever it was. That process is not a perfect science and it is not easy to undertake, but it is necessary to ensure that we use the more than £2 billion of money as effectively as we can to equip industry with its skills requirements.

From time to time, we identify weaknesses that require a specific remedy. That is what led me to

conclude, in producing the budget, that the energy skills academy had to be brought forward as a budget proposition. I very much welcome the input that has been given to that exercise by the four higher and further education institutions in north-east Scotland, with which Mr Robertson will be familiar.

I hope that that answer gives the committee confidence that the Government is attentive to the question. I acknowledge the seriousness, the significance and the imperative of ensuring that Scotland's company base can access the necessary skills. That will come about only if we properly, fully and effectively align the skills propositions with industry's present and future needs.

10:15

**Dennis Robertson:** Thank you for that answer—you have provided a lot of assurances not just for the committee, but for the industry as a whole.

You mentioned oil and gas, which is incredibly important for the economy of not only the north-east, but Scotland and the UK. You also linked the importance of education to that sector in response to my previous question. How does the budget ensure that appropriately skilled youngsters come into the industry? You will not be surprised that I ask about this, but how is gender equality being considered to get people into what is considered a male-oriented sector?

**John Swinney:** There will be a number of different approaches to fulfil that. First, the curriculum for excellence is specifically designed—it is essential that it is designed in this fashion—to equip young people for the world of work. Consequently, working opportunities, the process of work, the nature of work, and the range of possibilities in work will be reflected in curriculum for excellence for young people who are emerging through today's school system. That is a significant long-term contributor to strengthening the Scottish economy and, in particular, to improving the number of young people who opt to pursue science, technology, engineering and mathematics subjects and a career in engineering and technology. A long-term benefit will accrue as a consequence of the policy focus in the education system on curriculum for excellence.

Secondly, we have particular challenges relating to accessing some of the engineering and technology skills to properly reflect any semblance of a gender balance. We are well adrift from that—I have acknowledged that to the Equal Opportunities Committee, of which Mr Robertson is also a member. The women's employment

summit that was convened between the Government and the Scottish Trades Union Congress had a particular focus on identifying interventions that would begin to rebalance gender segregation in key skills in the economy. The careerwise initiative that emerged from that summit is the first step in what I acknowledge will be a long haul to change particular industries being considered to be areas where men are predominately active and others as industries where women are predominately active. The Government is committed to pursuing that approach.

As a society, we have a general requirement to encourage more people to consider technology opportunities and, in that respect, we are seeing much more decisive leadership of the process from some of our higher education institutions. In particular, I single out the University of Strathclyde and Heriot-Watt University, which are demonstrating astonishing leadership in the fields of technology and engineering by actively promoting those opportunities in our society. The engagement of those and other institutions in the creation of new economic opportunities is particularly welcome.

**The Convener:** Chic Brodie has a question about employment.

**Chic Brodie:** My question is about business development. Last week, we heard from the chief executives of Scottish Enterprise and Highlands and Islands Enterprise. The consensus was that Scottish Enterprise and Scottish Development International are doing a great job at the top end in the high-growth and export markets. With regard to the feed-through requirements for sustaining new businesses, does the budget provide enough support and sustenance to allow us to achieve a much greater increase in business start-ups and ensure that they are sustained?

**John Swinney:** A number of elements are relevant to Mr Brodie's question. First, the key test for our model of business development and for business growth is whether it operates as a cohesive pipeline; if it does not, it is not working at all. That was the key test in 2007 when the system was designed—and it must remain the key test. My clear requirement is that the system that is presided over by the enterprise agencies operates in that fashion. I am confident that it does so, but I am in no way impervious to the point that on certain occasions it might not and we have to remedy such situations.

The pipeline itself operates on the basis that an emerging start-up can access business gateway, which I believe has been the subject of a recent committee inquiry and which is available to anyone in any locality in the country who wishes to enter the business start-up market. It also

supports any company that wishes to grow and develop its business activity. Crucially, business gateway must also be able to identify the companies with growth potential and to flag them up to HIE and Scottish Enterprise to be considered for more intensive support through the account-managed system, which is designed to deliver on the expectations of companies with potential for growth.

The crucial point is that the judgment on which companies have growth potential is made irrespective of the size of the company in question. It does not matter whether the company has 1,000 or two employees; if it has growth potential, it can be considered for account-managed support from Scottish Enterprise or HIE. As I travel round the country, I see examples of large and small companies; all of them have growth potential, which is excellent.

The financial support that we are giving to these interventions is strong and gives us the capability to provide the type of intensive support that is available to individual companies, but we are always alert to areas in which we can utilise resources to provide more added value, if such circumstances arise. Where there are particular developments in companies that the enterprise agencies identify as requiring more support than they can provide, they know that they come to me and that we can try to identify other support that might be required.

**Chic Brodie:** The approach that is taken to the business gateway contracts, which have in effect just been signed, has been disparate, with some local authorities bringing them in-house. Are you convinced that where the services have been taken in-house the local authorities concerned and the Convention of Scottish Local Authorities will take the same approach as those companies in the private sector to whom the service has been outsourced?

**John Swinney:** They will have to, because they are contractually obliged to do so. As I have said, I am always alert to the necessity for the business development pipeline to operate in the fashion that I have outlined. Indeed, the whole system requires business gateway to operate to that model and if I see any evidence that that is not the case I will intervene to address the situation.

**Chic Brodie:** Another issue that was discussed yesterday was lack of productivity. To what extent is productivity, particularly in manufacturing, being hampered by job retention? The fact that people are, if you like, slowing down to hold on to their jobs, coupled with a lack of investment in the private sector, seems to be impacting on overall productivity. Do you share that view? Another question is whether the policy of no compulsory



redundancies in the public sector is impacting on productivity in the public sector.

**John Swinney:** The commitment to no compulsory redundancies in the public sector is not impacting negatively on productivity. If anything, it has a positive impact on productivity in the areas of the public sector where it applies because, in a difficult economic climate, it gives members of staff confidence in their employment and, as a consequence, they make a substantive contribution.

Of necessity, I have had to reduce the headcount of the Scottish Government. That is part of the budget plans that have been openly communicated to Parliament as part of our strategy to address the financial restrictions that now affect the public purse. My impression is that our remaining workforce is contributing significantly to the achievement of the Government's policy, despite the fact that there are fewer people around to do that. As a simple rule of thumb, that says to me that productivity within the Government service is higher.

I will make two points on private sector activity. First, many private sector organisations have had to make some pretty tough decisions and the economic climate is not getting discernibly better for them. Therefore, I find it hard to believe that they are sitting on top of unproductive assets. They have to work and perform extremely hard in the current climate, so the contribution that their employees make will be made in that context.

My second point concerns private sector investment. The wider issues of economic confidence are a real factor in whether companies invest effectively in their organisations. One of my biggest worries about the economy just now is the willingness of individuals and organisations to commit to investment, whether that is people being prepared to commit to buying a house or people being prepared to invest in new technologies in their companies. The wider economic circumstance of a lack of confidence in the eurozone, which has now become prolonged, creates an unwillingness to commit. Undoubtedly, that has some effect on the long-term productivity of private sector companies, because investment will be a sustained source of productivity advantages in the years to come.

**Alison Johnstone:** Dennis Robertson asked about how we ensure that both genders have equal access to future opportunities in our low-carbon economy. I do not know whether the cabinet secretary is aware that one of the leading Scottish newspapers this week had a front-page story about the fact that women find it increasingly difficult to access part-time college places. I agree entirely that the curriculum for excellence has been far more open in offering choices to young

people from the early stages and that higher education also has a role to play, but will any action be taken to ensure that women can access part-time further education places so that they can take advantage of other opportunities?

**John Swinney:** The Government is committed to ensuring that all our citizens have wide and clear access to further education. That is why we have made the commitments that we have made on the capacity of the further education system and maintained the number of further education students at 116,000 full-time equivalent places.

On the low-carbon economy, I already referred in my answer to Mr Robertson to the careerwise initiative, which is designed to overcome some of the issues of gender segregation that are all too prevalent. Some weeks ago, I attended an event here in the Parliament—I am not sure whether Ms Johnstone was there, too—that was held by an organisation called women in renewable energy Scotland, or WIRES. I distinctly remember looking at the material beforehand and thinking, "It will be interesting to see how many folk are at this", but it was a very well-attended and dynamic event involving women exercising what I thought was tremendous leadership in encouraging other women to become involved in renewable energy activity and the low-carbon economy.

10:30

By coincidence, just a few weeks ago when I was up in Thurso for other commitments, I was invited to open the offices of a new renewable energy consultancy that is led by a woman who has been immersed in project management activity in the renewable energy sector. It was fascinating to talk to her about the challenges that exist in encouraging other women to move into a sector that is not ordinarily perceived to be one in which women are active. The Government is involved in trying to take forward that activity.

**The Convener:** I want to return to the question of productivity, which Chic Brodie raised. Obviously, productivity measures form part of the national performance framework, but I note that we are making very slow progress on improving productivity compared with other Organisation for Economic Co-operation and Development countries. Is the Scottish Government satisfied with the progress that we are making in that area?

**John Swinney:** As I explained in my answer to Mr Brodie, the national performance framework is there essentially to assess the performance that we are making as a society as a consequence of a range of different interventions. Some of those will be the direct responsibility of the Government and some will be related to wider issues within the economy that are the subject of some Government

leadership or encouragement in policy and direction. On all those indicators, I would certainly want to see us making swift progress to improve performance, and the framework is there to assess whether or not we are doing so.

In the current economic context, there are challenges in a number of areas of activity—clearly, the growth performance is not to my liking or choosing—but I think that the performance framework gives us a discipline around which we can assess whether further steps and interventions are required to improve performance.

Of course, productivity will be an essential part of some of the interventions that are made by our enterprise companies. For example, the Scottish manufacturing advisory service has a good track record on assisting companies to strengthen the productivity in their operations, and I would look to that to continue.

**The Convener:** Let us move on to resource to capital transfers, on which we took quite a lot of evidence. A number of members want to come in on that, but let us start with Alison Johnstone.

**Alison Johnstone:** The cabinet secretary spoke about the strengthening of the capital investment programme and the case for shifting resources from revenue to capital to stimulate the economy. However, as we are all aware, the Government is working with a fixed budget and there are some concerns that capital projects suffer from leakage. For example, the economic benefits of spending may flow quickly out of the country due to overseas procurement. Therefore, I would be grateful if the cabinet secretary would discuss his views on two other options.

On the one hand, some take the view that spending money on the pay bill would be more likely to support spending in the domestic economy, as well as relieving the social cost of continuing real-terms pay cuts in the public sector. What consideration has been given to a better settlement for public sector pay that would at least achieve an end to those real-terms cuts?

The other issue is that the Campaign for Better Transport, the Federation of Small Businesses and the Construction Products Association have written a letter to the Secretary of State for Transport in Westminster to advise that, under

“the 2010 American Recovery and Reinvestment Act ... a dollar spent on repair and maintenance was found to have created 70% more job hours than a dollar spent on new roads.”

Has the fact that our councils have estimated that we have a £1.5 billion backlog for fixing local roads been considered? Over the past five years, councils have spent £5 million on compensation to more than 7,000 motorists. Have shovel-ready

potholes been considered compared with major infrastructure projects?

**John Swinney:** “Shovel-ready potholes” is altogether a new concept in our lexicon. I shall think about that next time I go down one.

A number of significant issues have been raised, which I will take one by one.

First, on resource to capital transfer, it is clear that there is a balance to be struck in the budget allocations that are available to us. Alison Johnstone is correct to say that we have to operate within a fixed budget. I have the ability to vire money from resource to capital but not from capital to resource, which is quite a good rule to have.

If we look at the overall reductions in the budget, we will see that there is a disproportionate reduction in capital expenditure. There is an 11 per cent real-terms reduction in the budget, but there is a 33 per cent reduction in the capital budget. In my judgment, that is the wrong balance to strike, so we have invested in further capital investment. The principal reason for that is that we think that that will have a greater economic impact than spending the equivalent amount of money on resource projects. The Office for Budget Responsibility has estimated that current resource spending has a fiscal multiplier of 0.6, whereas capital spending has a fiscal multiplier of 1. From that, I take it that there is a differential and beneficial impact from capital investment.

Not everything can be spent on capital investment, as it is clear that public services need to operate, so we have struck a balance. I think that the capital budget in 2013-14 will get to around £3.2 billion in total compared with the £2.3 billion that we were allocated by the United Kingdom Government. That will come about by a number of different steps: the non-profit-distributing programme, which will mean around £338 million of investment during 2013-14, the investment of £184 million in the rail network through the regulatory asset base, the resource to capital switch of around £243 million, and capital receipts of £77 million. Essentially, we are trying to follow the evidence and data from the OBR to balance our programme in such a way as to create a larger capital programme.

Alison Johnstone's second substantive point was about public sector pay. The pay settlement has brought to an end a two-year pay freeze for public servants. It has not brought to an end the pay freeze for all public servants, because I have continued to apply a pay freeze at the higher salary threshold, to those who receive above £80,000. A public sector pay freeze will still be in place for those who receive salaries of above £80,000, but we have relaxed some of the

conditions for those who are on incomes below £80,000 and put in place a modest pay increase. The pay increase has to be modest because putting in a larger increase under a fixed budget would result in more public sector employment loss, and if we did not undertake the resource to capital transfer that we are undertaking, there would be less impact on the Scottish economy.

I can give some comparative experience to the committee. The financial difficulties arose in 2008, and I took a decision that summer, with the agreement of the UK Government, to bring forward capital investment, which in essence depressed the levels of unemployment that we could have expected between 2008 and 2010. However, the minute the austerity programme started in 2010, we saw unemployment starting to rise again. I think that that is what we are seeing in our employment programme just now.

When the NPD programme starts to kick in for 2012-13, it will spend about £20 million, but in 2013-14 it will spend £338 million, which is a huge difference. I hope that that rise in capital investment will temper the rise in unemployment in Scotland. That is the balance that we have tried to strike between pay and capital investment.

Finally, on repair and maintenance, I accept Alison Johnstone's point about the impact of maintenance budgets. When we were constructing our capital programme, because it was reducing by about £1 billion, or a third, I had to revisit all the capital commitments that had been made and establish some priority in them. We said that a number of projects have strategic national significance: the investment in the Forth replacement crossing; the investment in the south Glasgow hospital; the school building programme; the local government capital budget, which of course enables quite a lot of pothole filling to be undertaken, if that is the choice being made; and the investment in Scottish Water.

We fulfilled our commitment to projects that we were legally committed to; I do not think that anyone would have welcomed our departing from legal commitments. We then put in an allocation for maintenance, recognising exactly the point that Alison Johnstone made, after which we contemplated new projects. Therefore, among our capital priorities, new projects were at the back of the queue.

If the committee looks at the decisions that I have taken in other allocations of resources for the different budget settlements, it will see that I have prioritised maintenance projects. For example, I prioritised the maintenance projects in the health service in my announcements on 8 February 2012 at stage 3 of the Budget (Scotland) Bill. Further, maintenance projects were approved in the cultural sector and a number of what I would

consider maintenance projects in the transport sector were approved to undertake small developments that will assist in improving the effectiveness of the transport infrastructure. If my memory serves me right, I think that, as a consequence of winter maintenance issues, I allocated unique pothole funds to local authorities. That is the priority that we gave to maintenance projects.

**Rhoda Grant (Highlands and Islands) (Lab):**

Could I just go back to the question that Alison Johnstone asked about leakage? We have had a fair amount of evidence in this session that the move from revenue to capital is cutting public sector jobs but not creating an equivalent number of, or more, jobs in the private sector, because of leakage. Have you carried out any analysis on the impact of that? What steps are you taking to stop it happening?

**John Swinney:** I have heard it said that resource to capital transfers have an effect on public sector employment, but I have a general point to make on that. I think that any neutral observer of the process who thinks that we can go through the budget constraints that we are going through without a loss of public sector employment is, frankly, living in fantasy land. I have been completely open with Parliament about the fact that, although the loss of public sector employment is regrettable, it is an inevitable consequence of the degree of fiscal consolidation that is being undertaken. I think that anybody who suggests that that can be avoided is deluding the public.

10:45

**Rhoda Grant:** I do not think that anyone was suggesting that that could be avoided; what was being said was that the move from revenue to capital spending was losing jobs in the public sector and was not creating the equivalent number of jobs in the private sector.

**John Swinney:** For the avoidance of doubt, I make the point that, in general, we simply cannot go through the type of fiscal consolidation that we are having to go through without the loss of public sector employment. Sadly, that is an inevitable consequence of what we face. By implementing pay constraint, the Government has protected public sector employment, and I pay tribute to public sector workers for the way in which they have co-operated with that process, albeit that they have understandably done so without much enthusiasm. I appreciate the commitment that public sector workers have shown in that respect.

On the wider issue of employment creation, if we look, for example, at the pattern of the construction sector in Scotland, we can see from

the most recent GDP stats for quarter 2 that there has been a welcome rise in construction activity in Scotland. That says to me that we are beginning to see the flow-through of the capital investment work that is required, which will create employment opportunities in the construction sector. We have a long way to go to achieve recovery in construction employment, given the degree of contraction that has taken place in the private sector over the past four years.

As regards the leakage question, I suspect that it relates to the volume of activity that can be procured locally. The data on the public contracts Scotland site shows that 77 per cent of contracts that have been awarded through public contracts Scotland have been awarded to companies that are located in Scotland. I think that that is a much higher figure than has been achieved in other parts of the United Kingdom. The Government wants to maximise the economic impact of all our construction and procurement activity.

**Rhoda Grant:** I have a point of clarification on the 77 per cent figure. Does it relate to the value or the number of contracts?

**John Swinney:** It will relate to the number of contracts.

**Rhoda Grant:** Would it be possible to get the value figure? I understand that you will not have it with you.

**John Swinney:** I do not have it in front of me, but I am sure that we can get it for you.

**Rhoda Grant:** That would be useful.

I have a supplementary on the NPD programme. If I have got this right, you mentioned a figure of £20 million this year, which will go up to £308 million next year.

**John Swinney:** The figure for next year will be £338 million.

**Rhoda Grant:** Why has it taken so long to bring forward the NPD programme? We have talked about it for a while, and it looks as if it will make a real impact only next year.

**John Swinney:** When the UK Government decided to reduce capital budgets by £1 billion, I made it clear to Parliament that, essentially, I had two choices: to cancel a substantial number of capital projects or to convert them into an NPD programme that would take longer to put in place. Direct capital investment is the quickest way to put projects out the door. I am shifting resources from resource to capital because, that way, I can control procurement.

The NPD programme involves undertaking two streams of activity. The first is the design and procurement of the project, whether it is a college, a school or a road. Another substantive stream of

activity that is required is the collection of the finance and the design of the financial architecture, and that takes time.

I estimated to Parliament that the choice that we faced was either to cancel those projects in 2010, when the UK Government made its proposals, or to convert them into a programme that would take longer to implement. As the committee will see from the numbers, we will spend £20 million in 2012-13, £338 million in 2013-14, and £973 million in 2014-15. I acknowledge that the process takes time, but the alternative would have been for those projects not to have taken their course because of the reductions in capital expenditure that the UK Government proposed.

**Rhoda Grant:** I have a question on the enterprise budgets. You have talked about moving from revenue to capital and you have explained that you cannot move from capital to revenue, and that is fair enough. However, the enterprise agencies' budgets are increasing for revenue but decreasing for capital. I appreciate that they can and do move revenue into capital, but why are the figures laid out in the way that they are in the budget?

**John Swinney:** That is essentially because I have a finite amount of departmental expenditure limit capital of £2.362 billion in 2013-14, and that can only be allocated for capital projects. If I follow the rationale that I used in my answer to Alison Johnstone, I will go through a process of allocating that £2.362 billion according to a range of priorities: the strategic project priorities for the country; the legally committed projects; maintenance; and other projects that we could implement.

When I see opportunities for us to encourage a process of resource to capital transfers, I can enhance the level of capital budgets, so by setting the enterprise agencies' resource budget at the level that it is, we create flexibility to switch it into capital expenditure and to enhance that £2.362 billion capital budget.

**Rhoda Grant:** I understand that, but why is it laid out in that way in the budget? Why do the enterprise companies do the transfer from resource to capital rather than it being in the budget document?

**John Swinney:** Doing that is an implicit part of the financial plans of the enterprise companies. They will spend the same amount of money, whatever the sum is. The enterprise bodies and VisitScotland will spend £350 million in this financial year. That will be spent in its entirety and we can clearly demonstrate what has been spent as resource and what has been spent as capital. For the purposes of setting out the budget

document, I have to show that DEL reaches £2.362 billion because I am required to do that.

**Rhoda Grant:** That was the answer that I was looking for.

**John Swinney:** It took me a long time to get there, but there we are.

**Rhoda Grant:** That is the short answer.

**John Swinney:** Yes. The figures have to add up to that number.

**Rhoda Grant:** Thank you. I have just one more small question. Given that the enterprise budgets are falling overall when you take revenue and capital together, how will they support economic growth?

**John Swinney:** When we take into account the variety of budget streams that are going to end up in the enterprise companies' activities, their budgets are broadly comparable. The renewable energy investment fund, which arises out of the fossil fuel levy resource, will be predominantly spent through the enterprise companies. In addition, there are some in-year transfers that I make to enhance the budget position of the enterprise agencies, and I have undertaken those for 2012-13. I consider the budgets to be broadly comparable.

The enterprise agencies are being required to put a lot of pressure on their costs to maximise the effectiveness of their spend. I think that the level of funding that they have enables them to contribute significantly to economic recovery.

**Mike MacKenzie (Highlands and Islands) (SNP):** Good morning, cabinet secretary. I want to pick up on support for the construction sector. Office for National Statistics figures tell us, and have told us for some time, that the construction sector has been one of the hardest hit sectors. Given that construction seems to be one of the most ailing parts of the economy, how much has that coloured your thought on where to direct some medicine, as it were?

**John Swinney:** It has been uppermost in my thinking. When I look back to 2008, my assumption in the summer of that year was that the shuddering halt that had taken place in private sector construction activity in the country would in the short term be rectified only by public sector investment, which is why I brought forward capital investment—with the agreement of the United Kingdom Government—at that time. My expectation was that, by 2011, the private sector construction market would have improved enormously, with houses being built again and so on, and we could then pull back our support for public sector construction activity and repair the public finances.

It has not worked out like that, of course. I have freely acknowledged to the Parliament that that was one of my estimates that I did not get correct. The budget therefore has a focus on enhancing the capital programme and undertaking the shift to capital investment, and that focus is an implicit part of all that we have been doing. We have done a variety of things. For example, at stage 3 of the Budget (Scotland) Bill for 2012-13, I allocated more resources to housing and a number of transport improvements, and at the end of June I announced some further investment in housing and regeneration projects. In addition, we have the Inverness campus project, which is in the area that Mr MacKenzie represents, along with the West Highland College project in Fort William. All those projects are designed to try to assist with the development of construction activity in Scotland.

**Mike MacKenzie:** I turn to the notion of leakage. The very concept causes me some concern, and I wonder whether you share that concern. Throughout history, when times have been difficult during recessions, there has been a tendency for countries to think in terms of a degree of trade protectionism. The effect of that unfortunate tendency has always been to restrict trade and therefore slow down growth rather than accelerate it. Do you share my concern about that?

Also, do you agree that, if we accept that concept of leakage, it is also possible in the context of revenue expenditure, as consumers choose to spend money on products that are imported rather than on products that are manufactured here? In a sense, the concept of leakage is perhaps a bit of a red herring, and may be unhealthy. What are your views on that?

11:00

**John Swinney:** The Government's economic strategy is clearly focused on the internationalisation of business activity in Scotland. There is a heavy emphasis in the budget statement on ensuring that we maximise the opportunities for Scottish companies to contribute to the wider growth of the international economy. For example, ministers are regularly involved in the promotion of Scottish business opportunities overseas. I was in Japan and South Korea earlier this year as part of sustained work to expand our presence in those markets. The culture secretary has just got back from a trip to India with some significant business prospects. Scottish Development International is immersed in activity to promote Scottish goods overseas.

The whole concept of maximising our international business presence is an important part of our economic recovery strategy. I do not believe that the solution to all our economic ills lies

purely and simply in this country. We must be involved in wider markets so that we can trade our way out of the challenges. Some of the data shows excellent success, particularly in the food and drink sector, where performance has been exceptional.

**The Convener:** Before we leave the topic, I ask for clarification on a point that you made earlier. You referred to the OBR figures on the multiplier effects of different types of spending. If I heard correctly, you said that the multiplier for resource spending is 0.6 and the multiplier for capital is 1. Does the multiplier for capital apply irrespective of any resource spending that it displaces?

**John Swinney:** I was making the comparison between spending a pound on capital and spending a pound on resource. If we spent the pound on resource, there would be a multiplier of 0.6; if we spent it on capital, there would be a multiplier of 1. The pound can be spent only once, and it delivers a greater economic impact if it is spent on capital.

**The Convener:** So, there is no differentiation between the types of capital that you could spend it on.

**John Swinney:** Not in the details that I have seen from the OBR. There are different choices to be made—I went through some of that with Alison Johnstone in discussing repairs and maintenance versus new development. However, that analysis gives us an indication of the comparative benefit of capital investment and, as a consequence, enables us to form a view on the correct balance to strike between the levels of resource and capital expenditure, where we have the flexibility to exercise such a balance.

**Dennis Robertson:** I have a quick supplementary question specifically on the construction industry. Are you continuing to have dialogue with the UK Government on the ways in which you can inject new life into the construction industry, and are you prepared to share that dialogue with us?

**John Swinney:** That dialogue takes a number of forms, including that of our pursuing the argument that the United Kingdom has got the balance wrong in terms of the reductions in capital expenditure, and we are making the strong argument for capital budgets to be enhanced. We also have dialogue around some of the initiatives that have been introduced by the UK Government such as the guarantee schemes that were announced in the budget in March. We are exploring the relevance of those schemes for projects in Scotland. That is an example of active dialogue with the UK Government.

The UK Government is also speaking to us about some of our successful initiatives. For

example, the national housing trust has been a source of great interest to the UK Government because, with imagination and innovation, we have been able to reduce dramatically the amount of public sector commitment that is required for house construction in that model. The trust has attracted a great deal of interest, and that is another active dialogue that we are pursuing.

**The Convener:** We will move on to talk about infrastructure investment plans.

**Rhoda Grant:** Will the current level of investment in broadband and digitisation be enough to deliver the Government's promise of a

"world-class digital infrastructure in Scotland by 2020"?

**John Swinney:** This is an area where the Government is not involved in the process exclusively; a substantial amount of private sector investment is involved in rolling out broadband and improving broadband capability in Scotland. I have gone through this with committees before but I am not sure whether I have gone through it with the Economy, Energy and Tourism Committee—I suspect that I have. We have to be very careful about what we consider should be done by Government and what we consider relevant for the market to do.

The Government's approach has been to acknowledge that in parts of the country it will be economically unsustainable for private sector companies to take forward broadband enablement without public sector investment. Consequently, the Government has stepped in with investment resources to enable that work to take place. The earliest and principal part of that will be the procurement of the Highlands and Islands broadband project, which we expect to be let in December.

The short and blunt answer to the key question is that I do not want to have to pay for anything that I think the private sector should pay for. That should not be a particularly surprising position for Scotland's finance minister to occupy. I accept that part of the process must be paid for by the public purse, but I do not want that part to be any larger than is necessary, given the scale of private sector opportunity that exists here.

**Rhoda Grant:** I agree with that, but do you believe that enough investment from the public purse is going in to deal with the areas where, frankly, the market fails?

**John Swinney:** Yes, I do.

**Rhoda Grant:** Moving on, it would be useful to have a note of what efficiency savings the Government sees in the budget. One imagines that digital provision of services will form quite a large part of that. Going back to your previous answer, are you concerned that some

communities will be excluded because of the lack of good broadband provision? An example is the rural development programmes for which applications were made online. A huge number of people who would have applied for that funding did not have access to broadband.

**John Swinney:** We are operating on the basis that I expect public bodies to deliver 3 per cent annual efficiency savings, which is a necessary part of the times in which we live.

Rhoda Grant is absolutely correct that a major pillar of what we are setting out as our approach to public service reform is dependent on more effective use of technology in the delivery and application of public services. If we take that view, we have to follow it up by making sure that those public services are accessible to members of the public in their localities and that we increase the level of digital uptake by members of the public. We must also increase digital participation levels, which is an inherent part of the Government's announced digital strategy.

I see the sustainable delivery of public services being enhanced by the utilisation of technology. In some of the areas that Rhoda Grant represents, the application of technology has resulted in much better delivery of public services that ordinarily might have been challenging to deliver. I am thinking of telehealth services or other techniques that are used in different parts of the country. Digital activity has a huge part to play.

When I look at how digital activity has increased in many parts of the country, I see that there are clearly enormous opportunities for us to make more of the process. That will be an inherent part of the strategy that we take forward.

There will of course be areas where people face a challenge in accessing digital activities. When the Government set out its hard-to-reach programme for people who had difficulty getting broadband because of their remoteness from exchanges or because of topography issues, we still found people for whom, despite tremendous efforts, it was difficult for us to engineer a solution that could get broadband to their locality. There will be some instances in which fulfilling people's expectations will be a challenge.

**Rhoda Grant:** Are you confident that in time you will be able to do that?

**John Swinney:** Yes. I should perhaps put in the technical caveat that despite money being available for the roll-out of broadband to hard-to-reach areas, there were still some properties that we could not enable because of geography and topography—it just was not possible to get the service delivered in a credible fashion. That is to do with technical issues, not availability of money.

**Chic Brodie:** I will follow that up. My point is not so much about digital infrastructure as about systems in the public sector that feed off that in relation to information and communications technology contracts. Earlier this year, when we were going through the Land Registration etc (Scotland) Bill, we looked at the horrendous overspend on the Registers of Scotland ICT contract. Just yesterday we had an announcement about how the 10-year system in VisitScotland is now not going to provide online booking facilities. It is estimated that that system may have cost us £30 million over the past 10 years.

I am not sure whether this is a question or a request, but I do not know if you know how much we spend on ICT across the public sector—I suspect that you do not. Would it be possible to look at that expenditure on an a priori basis and consider whether we are getting value for money and whether contracts that were signed some time ago are now giving us the efficiencies that we need in the public sector?

**John Swinney:** John McClelland undertook a comprehensive review of public sector ICT for the Government and reported in 2011. He gave us a clear direction to pursue in relation to the aggregation of contracts, how we should undertake the procurement process and how we can deliver greater value. I assure the committee that Mr McClelland's recommendations are very much being pursued as part of the Government's public sector reform strategy, so we have those issues well in hand to ensure that we deliver greater value for money.

On the specific point about the VisitScotland system, the issues are more to do with the trading basis on which the VisitScotland system is offered, which requires discussion with the European Commission. It is a rather complicated point that is not necessarily about the technology system; it is more about the role that is envisaged for that technology system, which is a slightly different question.

**Chic Brodie:** I will perhaps follow that up later because I am not sure, given the definition that VisitScotland has given in its blurb about why it pulled the system, whether the state aid implication is any different from that in relation to Scottish Enterprise.

I have another question on VisitScotland.

**Dennis Robertson:** May I ask a short supplementary question?

**The Convener:** I will let Dennis in. On ICT systems, I have just been advised that the Public Audit Committee is looking at that area more generally, so I would be grateful if members could relate their questions to the budget.

**Dennis Robertson:** With reference to the budget—[*Laughter.*] I have a short supplementary for you, cabinet secretary. You mentioned telehealth and connectivity to Rhoda Grant. Do you see that as an area of preventative spend? If we put money into hard-to-reach and remote areas, there could be a huge public saving. People could use Skype for out-patient appointments for instance, with no travel involved.

11:15

**John Swinney:** There are huge opportunities there. Some of those developments are already happening. People are avoiding the long journeys that they would ordinarily have had to take to get hospital treatment or interact with public services in other ways because of the availability of technological alternatives. Technology is becoming a mainstay of our approach.

I am looking at the fact that a colossal amount of data is now available to everybody, through the phones that we use and all the information that is whizzing about. I am taking forward work to ensure that we utilise that information much more readily. I attended a fascinating presentation relating to an area that is perhaps relevant to Mr Robertson's constituency, where data from smartphones and all sorts of other sources are helping transport planning in and around the city of Aberdeen by giving people warnings about which routes are busy and which are quiet. Such things are happening more often. I was offered a journey time on my way home last night that would have got me from the southern outskirts of Perth to Pitlochry in 33 minutes if I had wished to do that, but I was not going in that direction. There is a tremendous amount of information that can be used to enhance public service provision and detail. It is a welcome process.

**The Convener:** Mr Brodie, do you want to come back in?

**Chic Brodie:** I want to ask a question on air passenger duty.

**The Convener:** We can come back to that if time allows.

There are a couple of areas that I want to cover, the first of which is the issue of the strategic forum. The Government's budget proposes to make savings of £25 million through the strategic forum in the next financial year. We had the enterprise agencies before us last week. In response to a question, they said that they did not yet know what they were expected to contribute to that £25 million.

My question is in three parts. First, when do we expect the enterprise agencies and the other forum partners to be told what their expected

contribution is? Secondly, how do you expect them to make those savings? Finally, in the current financial year, the projected savings are £20 million; what progress has been made towards meeting the target?

**John Swinney:** On the first point, those discussions will be concluded before the start of the financial year. The strategic forum partners will start the financial year with their assessment of how those savings will be delivered.

In answer to the second question, the issue of how to make these savings is fascinating. The exercise is designed to drive a process of collaboration between the strategic forum partners. The last thing that we should have is a situation in which those five organisations—which are working in the same sort of space in terms of infrastructure, people development and strengthening the Scottish economy—are operating in compartments and there is no cross-fertilisation of their work.

Therefore, we are working to achieve an atmosphere of intense collaboration between those organisations that delivers a greater impact from the money that has been spent, which enables us to produce savings. I can give the committee one very current example of that. The funding council is leading on a project to develop innovation sectors in different parts of the country. That would be labelled a funding council project but the enterprise agencies are immersed in it because it cannot possibly happen without the immersed participation of the enterprise companies.

With regard to innovation policy, HIE, Scottish Enterprise, the funding council and the institutions have a vested interest in ensuring that we successfully take forward innovation activity and, instead of concentrating on what individual bodies might produce, I am trying to create broad projects that deliver greater value and effectiveness. As a consequence, savings will be generated and impact will be greater.

**The Convener:** I am sorry to interrupt, cabinet secretary, but how might savings be made from going down that road? The allocation in the departmental budget represents a £25 million saving. I understand that what you suggest might well be a more efficient way of doing things, but how might savings be made from it? After all, you have reduced the amount of money that can be put in.

**John Swinney:** By getting organisations to combine and work together on a more focused area of policy such as innovation, we can generate more impact than if we simply allow each organisation to pursue its own little furrow in the areas of innovation in which they are all,



understandably, involved. Indeed, I would be horrified if that were not the case. As they are able to combine resources and therefore have greater impact, they can save money that would have been spent had they pursued these opportunities in their individual compartments.

I also point not only to a whole variety of projects of that character but to what Skills Development Scotland, for example, is doing. Last Friday, at Motherwell Bridge Ltd, the organisation launched my world of work, which is a tremendously vibrant interactive tool for employers and individuals trying to get into the labour market and which creates the bridge that I mentioned earlier between skills and employment opportunities in the labour force. Although the project comes under the SDS umbrella, it has clear implications for Scottish Enterprise and HIE. Indeed, both are involved in its compilation and it will save resources that they would ordinarily spend on some of these areas. Those are the kinds of interventions that we are looking at. The latest budget monitoring that I have suggests that, in the current financial year, £15 million-worth of savings has been achieved, with £5 million to be determined between now and the end of the financial year.

**The Convener:** Thank you for that.

We have taken a lot of evidence from various business organisations about the impact of business rates. Although there was a lot of support for the small business bonus scheme and its impact, concern was expressed about the public health levy and the reduction in relief for empty properties. I am sure that you are familiar with all of those issues, but those who gave evidence also highlighted the fact that in the draft budget there is a projected uplift of £400 million in the revenue from non-domestic rates over the next two years, at a time when the economy is not expected to grow dramatically. Where do you expect that additional sum to be generated from?

**John Swinney:** The committee will be familiar with the fact that the Government undertakes a rigorous annual process of estimating business rates income in consultation with valuation services around the country. As a consequence of that, I make assumptions about the level of business rate activity that will be generated.

A substantial part of the increase in the level of business rate income comes from the application of an inflation indicator, which is the retail prices index for September. The figures for the growth of business rate income in Scotland and the figures for what is expected in the rest of the United Kingdom are broadly comparable, with the exception that the public health supplement leads to a slightly higher figure in Scotland. It is purely and simply the public health supplement that

accounts for that difference in performance. In essence, the business rate income is a product of the valuation base and the inflation uplifts. Obviously, that is tempered by my estimates of the uptake of reliefs, the performance of the valuation appeals system and an assessment of economic buoyancy.

**The Convener:** Has the Scottish Government made any assessment of the impact that that £400 million increase over two years will have on the wider economy or on employment in those private sector businesses?

**John Swinney:** The revaluation that took place in 2010 creates the valuation base and the only factor that is changing in the calculation of business rates for which individual businesses would be liable is the application of the inflation uplift. I have undertaken no specific analysis of that factor, given that it is an annual uprating in the non-domestic rates income assessment.

**Mike MacKenzie:** I am sure that it will come as no surprise to you, cabinet secretary, to hear that, when Stephen Boyd of the STUC spoke to the committee, he said that he was not a fan of the small business bonus, whereas Colin Borland of the Federation of Small Businesses said that he was a fan. Will you reiterate to the committee the reasons for continuing with the scheme?

**John Swinney:** I have heard both gentlemen express their opinions frequently on that subject, so I am familiar with the arguments.

The Government introduced the small business bonus scheme specifically to assist in providing investment and development opportunities for the small business community, which is, of course, located in every part of the country. The system has delivered substantive continuity to the small business community, given the economic difficulties that have been experienced, and the Government believes that it forms part of a welcome strengthening of Scotland's small business base. The latest statistics, which were published on 24 October, showed that 89,087 premises had had their business rates removed or reduced as a consequence of the small business bonus scheme. That is an increase of 4,000 on the previous year, which is welcome progress.

**John Park (Mid Scotland and Fife) (Lab):** I, too, have been an interested follower of the debate between Mr Boyd and Mr Borland over a period of time.

I am sure that you accept that the pressures that businesses in Scotland face are similar to those that businesses throughout the rest of the UK face. The ONS figures for the number of businesses in Scotland, the number of employees employed in small businesses and the number of new enterprises over the period of the small

business bonus scheme appeared to show that Scotland does not compare well to the other home countries. Scotland has fewer businesses, fewer new start-ups and fewer employees in small businesses.

Do any other factors play into that? Is the small business bonus scheme having the impact that you would have hoped on the situation?

**John Swinney:** I had better tread warily in what I am about to say. There are some statistics that are either out or about to come out.

**John Mason (Scottish Government):** They are coming out.

**John Swinney:** In that case, I had better tread very warily. Those statistics might help Mr Park in his analysis.

If we look at the issue for the communities that we represent, I think that we can see the challenges that exist for small companies the length and breadth of the country. It strikes me that the small business bonus scheme is an intervention that can have an effect right across the country in assisting with the strengthening of the business base. Why is that important? There is a debate about how broad the NPF's assessment of practice and form is. One of the NPF's requirements is that we tackle issues of regional equity. Doing things that have an effect in all localities and give them all some practical assistance in strengthening their business base is one of the key components of the small business bonus scheme.

11:30

**John Park:** On the NPF, will you look at the figures to assess the impact that the small business bonus scheme has had in fragile rural communities?

**John Swinney:** We will look at that in the round. The NPF gives us an assessment of our general progress as a society and some of it will be influenced by the work of the business gateway, some of it will be influenced by the application of the small business bonus scheme and some of it will be applied by the work of our further education colleges. It is difficult to disaggregate all of that to say which investment created a particular return. However, looking at it in the round, we get a picture of the overall effect of the Government's interventions and those of other partners on the wider set of indicators.

**The Convener:** I am conscious of the time. We still have three basic areas to cover, if we can: procurement, poverty and climate change.

**Marco Biagi (Edinburgh Central) (SNP):** You have already touched on this issue, cabinet

secretary, with regard to the proportion of contracts going to Scotland-based businesses, but could you address the issue of contracts going to smaller businesses and, in particular, the issue that was raised by the FSB? Clearly, the procurement reform bill will address procurement, but the FSB has suggested that steps could be taken to align better the £9 billion spend on goods and services, which is implicit in the budget, to smaller businesses. I am interested to hear what the Government is doing to increase the proportion of that spend going to small businesses.

**John Swinney:** I am not sure that I have the latest small business proportion of the business data with me, so if the committee will forgive me, I will write to it about that point. I have a number in my head in that regard, but I hesitate to give it, because I am not sure that it is correct. It is better that I err on the side of caution and not give it.

Our biggest step in this area is the creation of public contracts Scotland as an open website that is free for companies to register on. The challenge is for us to ensure that all public sector contracts are advertised on that portal. I have anecdotal evidence from my own experience of examples that have worked extremely well for people, who have seen contracts conveniently and readily advertised in that fashion and who have been able to respond to that and secure the necessary work. We are constantly looking for ways to ensure that public contracts Scotland can be strengthened as a way to secure activities.

I now have some numbers that I can give the committee. Of the businesses winning contracts through public contracts Scotland in the past financial year, 79 per cent were registered as small and medium-sized enterprises.

**The Convener:** Mr Biagi, do you want to go on to the poverty questions?

**Marco Biagi:** Yes. The issue of preventative spend has come up today, but only briefly and in relation to information technology. Until recently, it was one of the big phrases that were associated with Government spending. How do you see the budget contributing to the much-heralded shift towards preventative spending?

**John Swinney:** It contributes in a number of ways, the most well advertised being the three change funds for elderly care, early years and reducing reoffending. When I appeared before the Finance Committee in Hawick on Monday, I made the point that I would be dissatisfied if public servants thought that preventative spending was to be undertaken only with those three change funds.

In Scotland, more than £20 billion of public expenditure, which is £60 billion over a three-year

period, is being deployed through health and local government. We should consider how effectively that can be configured to deliver preventative spending interventions.

There will then be other issues. The additional resources that I announced in the budget statement that will be deployed on cycling are another example of preventative spend. If we encourage people to adopt a healthier lifestyle by cycling in their leisure time or cycling to work, we take on an obligation to create a better environment in which people can undertake that activity, although I readily acknowledge that the infrastructure needs to be improved, which is why we have also put more resources into that area.

In the budget, there will be interventions on energy efficiency, for example, which will help the preventative spend agenda by reducing ill health, on cycling and improving exercise, on reoffending, on the early years, and on care for the elderly. I would also contend that some of the employability programmes are preventative spend. If we can make an employability intervention and support someone who has just lost their job to get back into a job within a couple of months rather than leaving them to go through a prolonged period of unemployment, the public sector will not have had to carry a large financial burden, and, crucially, we will have created a better outcome for that individual, whose self-esteem and wellbeing will be better if they are in work than if they are unemployed.

There is a range of different interventions to support the preventative spending agenda and they are not just contained in the three change funds.

**Marco Biagi:** You make a good point that preventative spending goes beyond the change funds; it would have to because of their size. Does that present any difficulties for evaluating the impact? The one advantage of keeping spending in a silo is that we see the effect that it is having and whether it is working, but you are talking about a major shift across the whole of the spend, and that will raise issues for the Government and the Parliament. How do you intend to evaluate the success of preventative spending?

**John Swinney:** It is not difficult to evaluate. As an example, I will take an issue that the media ran this morning—the Audit Scotland report on reoffending. Reoffending levels are at their lowest for some considerable time. I would have thought that that was something to celebrate, rather than something depressing, as it seemed to be in the report that I heard. Maybe that was just the BBC's interpretation; I will have to go and read the report—I just insert that caveat. I have got that off my chest now.

I am quite sure that I could construct a model that says that, if the Government was not having the effect on reducing reoffending that it is having, the prison budget would have to be significantly higher than it is. There is a direct correlation between our ability to reduce reoffending and feeding fundamentally negative costs within the budget. I mean no disrespect to the fine people who lead and run the Scottish Prison Service, but I want to spend less money on it because I consider it to be money badly spent. I would much rather spend it on more productive outcomes.

We can consider other indicators. For example, the other day, I was looking at an interesting analysis of the number of geriatric bed nights in acute hospitals, which has fallen dramatically in recent years. If we were not presiding over that fall, each year that a geriatric patient spent in an acute setting would cost us £82,000, whereas the average care package in the home costs about £5,000.

I suppose that part of my answer to Mr Biagi is about demand reduction. We can spend money to support people more effectively or reduce spending on things on which we do not particularly want to spend it, such as the incarceration of individuals.

**Marco Biagi:** Could you envisage such an exercise taking place? Perhaps it would be reminiscent of what the Scottish Futures Trust has done in quantifying its impact.

**John Swinney:** There is certainly analysis to be done. Some of it flows from the national performance framework, through which we can see, at a societal level, the change that is taking place or the progress that is being made. However, it could be undertaken in some of the specific compartments about which we are talking. The ones that I mentioned are, perhaps, substantive examples of how it could be done.

**Alison Johnstone:** Last year's Economy, Energy and Tourism Committee report on the budget noted

"the findings of its predecessor committee in previous draft budget reports, where it recommended 'investment could be in the order of £100-170 million per year'"

to eradicate fuel poverty. Dr Dan Barlow highlighted in his evidence analysis that

"about £6.3 billion in total needs to be spent if we are to improve homes and ensure that fuel poverty is eradicated in Scotland by 2016".—[*Official Report, Economy, Energy and Tourism Committee*, 24 October 2012; c 2064.]

Can the cabinet secretary offer the committee evidence to show that the fuel poverty investment proposed in the draft budget is adequate to enable us to meet the 2016 target?

**John Swinney:** We have to consider that in two compartments. One is the expenditure that the Government puts in place directly, and the other is the expenditure that it encourages or motivates through some of the energy companies' energy efficiency schemes.

I will start with the Government's expenditure commitments. I readily concede that fuel poverty is one of the subjects that does not emerge from the presentation of the budget documents in a crystal clear fashion, but I will try to provide the committee with that clarity.

The funding that is available to tackle fuel poverty and energy efficiency comes from a number of elements. The first is the £65 million that is spent on fuel poverty and domestic energy efficiency within the housing and regeneration budget. That is coupled to the £7.75 million that is spent as part of the warm homes initiative under the Scottish futures fund. That takes us to about £73 million. Let us go to the other budget lines. The energy efficiency budget in my portfolio is £17 million, so that takes us up to £90 million. The budget for the green deal is £14 million, which takes us to £104 million. There will also be various other measures that, I suspect, will have an effect on the debate. Therefore, Government expenditure on energy efficiency and fuel poverty can now safely be said to be more than £100 million.

In recent years, we have responded to the criticism that Scotland is not actively aligned with, or more focused on, the energy companies' carbon emissions reduction target, or CERT, programmes. There is pretty good evidence that we are focused on those. For example, in 2008-09 about 80,000 homes in Scotland were the subject of professional cavity wall and loft insulation measures, but that increased to 148,000 in 2011-12. Scotland's proportion of the total CERT measures undertaken in the UK has risen from 6.6 per cent in 2008-09 to 11.8 per cent in 2011-12. The criticism that things were not happening properly and effectively in Scotland and that we were not getting our fair share was perhaps valid in 2008-09, but I think that we had remedied that by the time that we got to 2011-12. The general programme of activity is now reaching a level at which I think we can be confident that we are moving in the right direction.

I can tell the committee that the Government acknowledges the need for sustained support for this exercise, both in this and in future budgets. That is reflected in our commitment to the warm homes fund, which has a long-term character about it.

11:45

**Rhoda Grant:** Cabinet secretary, you mentioned a number of schemes, including warm homes, energy efficiency and the green deal. Those schemes are not targeted specifically at the fuel poor but go much wider. Do you have figures on the proportion of those schemes that go to the fuel poor?

**David Wilson (Scottish Government):** We can provide more detail on that. Some of those schemes have different elements of targeting, and we can set out that detail for you.

**Rhoda Grant:** I have another supplementary question on the CERT scheme. There are real concerns that CERT does not apply to people who are off the gas grid. What steps are being taken to sort out that problem?

**John Swinney:** It is important to look at the combination of interventions. If we look at just one and not at the totality, we lose the effect of all the measures combined. The combination of all the measures gives us an option that I think is relevant for every householder in every circumstance. Although those who are off grid may not be covered by the CERT programme, they will be covered by elements of the other energy efficiency programmes that the Government is taking forward.

**Rhoda Grant:** The Poverty Alliance pointed out that there appears to be very little poverty proofing of the Scottish Government's budget. What account do you take of that when you are appraising policies and looking at the budget?

**John Swinney:** I have just mentioned one of the problems in the budget process, which is the need to consider how expenditure in a variety of areas can be aligned. I say that to acknowledge that there are a variety of ways in which you can approach analysis of the budget.

The Parliament has required me to present the budget in a consistent fashion to allow comparison from year to year—which is important and correct—and it has also required me to undertake an equality impact assessment and a carbon impact assessment, both of which I welcome and pursue. The equality impact assessment requires us to go through a process, stage by stage of the budget, in which we assess the impact of our measures on equalities. Clearly, poverty is a central part of that assessment. I think that the equality impact assessment of the budget covers the issues that Rhoda Grant has raised on behalf of the Poverty Alliance.

**John Park:** It is living wage week this week, and it has been in the news a lot. Everyone welcomes the political consensus around the living wage and the steps that the Scottish Government

has taken to address it with its directly employed staff. However, the figures show that 400,000 people in lots of organisations in Scotland are still not covered by the living wage. We received evidence from Unison, for example, that highlighted the impact of in-work poverty on the people it represents. With that in mind, cabinet secretary, what steps have you taken to promote the living wage, not just to those who are directly employed by the Scottish Government, but more widely across departmental budgets and among recipients of the Scottish Government's budget?

**John Swinney:** Any employee of the public sector under the auspices of the budget for which I am responsible is required to be paid the living wage, with the exception that I cannot require local government to apply it. I have obviously discussed the living wage with local government and a rising number of local authorities are now paying it.

The different organisations that are funded by the budget are required to pay the living wage. I announced this week that we would accept the Living Wage Foundation's analysis and pay the living wage of £7.45 per hour.

**John Park:** Local government has taken some big steps towards paying the living wage, and I agree with the cabinet secretary's analysis that the majority of councils in Scotland are either there or on the way there. In the round, you have discussions on the settlement figure and local government priorities, and there is a financial aspect as well as a policy aspect to those discussions about outcomes. Are you now having formal discussions with local government about the living wage and pay policy? If you are not having such discussions, given the Government's position on the living wage, will you be doing so in future?

**John Swinney:** I must establish a clear distinction here. I have had discussions with local government about the living wage as part of our regular dialogue. I consider that dialogue to be formal, but private, and with the exception of what I say at parliamentary committees, I do not make many public pronouncements about what I think local government should do. We have our way of working with local government. So although I might have had a conversation with local government about the living wage, I am in no way involved in setting local government pay policy. I might say, "You can see that I am applying the Scottish living wage; I think it would be a good idea if you did so," but I am in no way taking part in, intruding on, or trying to direct local government pay negotiations. I have got enough to worry about in life.

**John Park:** My final point goes back to Marco Biagi's point about some of the levers that are available to Government, particularly in

procurement. The cabinet secretary will be aware of the wider debate around competence and the power of the Scottish Parliament and the Scottish Government to do certain things to force employers to pay the living wage through public sector contracts. That considered, as well as levers such as community benefit clauses or engaging living wage employers—95 per cent of the companies that the Olympic Delivery Authority engaged were living wage employers—could the Scottish Government do more to promote voluntary payment of the living wage across the private sector?

**John Swinney:** Yes, I am sure that there is more. It is good to send a clear signal—as the Government is doing through clear and decisive leadership on the issue—that we pay a living wage, that we think it is a good thing if everyone else pays a living wage and that we expect that approach to be reflected in those organisations that tender for public sector work.

However, we must be careful, as we are required to take a dispassionate approach to the procurement of Government services. We can set particular conditions, but it is pretty clear that we cannot set a condition to make it mandatory for the living wage to apply to contractors. However, that does not prevent us from issuing a generic message, and encouraging contractors to pay the living wage as a positive contribution to economic and social wellbeing.

**The Convener:** The final question is from Alison Johnstone, on climate change targets.

**Alison Johnstone:** As we know, the Government failed to meet its first annual target under the Climate Change (Scotland) Act 2009. Ministers therefore need to revise the report on proposals and policies to make up the lost ground. The revised report should set out how that will happen, and what short-term actions will be taken and how they will be funded in the coming financial year.

Previous reports from the EET committee, the Rural Affairs, Climate Change and Environment Committee and the Finance Committee have all agreed that it would be helpful if the RPP and the budget were aligned so that scrutiny of the two together was possible.

We have heard the reasons why RPP 2 will not be published until the end of the year, and I would be grateful if the cabinet secretary could advise us on that. How do you know whether you are adequately funding the actions that are needed to make up the lost ground when the policy changes have not yet been decided or published?

**John Swinney:** We have to achieve a level of synchronisation in all our interventions. The direction of travel that the one-year budget

represents is consistent with the direction of travel that was set in the spending review, when we designed the outlook for public expenditure over a three-year period. We did that in the context of RPP 1 and we were able to design the nature of our interventions.

The budget for 2013-14 has been set in that context, and we must ensure that the steps that we take are similarly aligned in that respect. A lot has been achieved on emissions reduction. Emissions have fallen by 24.3 per cent since 1990, so we are more than halfway towards achieving the reduction of 42 per cent by 2020.

We have covered quite a bit of ground today in a variety of different areas such as energy efficiency, sustainable travel activities and the development of a low-carbon economy, and there are clear opportunities for us to make a positive impact on the emissions targets.

My discussions with the relevant climate change ministers and the discussions that they have right across the Administration will be important in ensuring that we take adequate steps to tackle that issue in the most effective way that we can.

**The Convener:** In view of the time, we must draw matters to a close. I note that other members wanted to ask questions, but we could not get to them given the time. I am conscious of the cabinet secretary's diary, and grateful to him and his officials for giving up their time to come along and answer our questions fully.

The committee will now move into private session.

11:59

*Meeting continued in private until 12:59.*

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

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