



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 16 January 2013

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ECONOMY, ENERGY AND TOURISM COMMITTEE

2nd Meeting 2013, 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)

*Margaret McDougall (West Scotland) (Lab)

*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

James Alexander (Scottish Council for Development and Industry)

Stephen Boyd (Scottish Trades Union Congress)

Lesley Giles (UK Commission for Employment and Skills)

Dr Paul Sissons (Work Foundation)

Dr Patrick Watt (Skills Development Scotland)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 16 January 2013

[The Convener opened the meeting at 10:31]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the second meeting in 2013 of the Economy, Energy and Tourism Committee. I welcome all our witnesses and remind everyone to turn off their mobile phones and other electronic devices, please.

Agenda item 1 is to decide whether to take item 4 in private. Do members agree to do so?

Members indicated agreement.

Underemployment Inquiry

10:32

The Convener: Item 2 is the continuation of our inquiry into underemployment in Scotland. As part of our investigation, we will take evidence from five organisations in a round-table format.

It is probably easiest if we go round the table and introduce ourselves. I am the committee convener and an MSP for Mid Scotland and Fife.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning. I am the committee's deputy convener and the MSP for Aberdeenshire West.

James Alexander (Scottish Council for Development and Industry): I am the senior policy manager for the Scottish Council for Development and Industry.

Mike MacKenzie (Highlands and Islands) (SNP): I am an MSP for the Highlands and Islands region.

Chic Brodie (South Scotland) (SNP): I am an MSP for South Scotland.

Dr Patrick Watt (Skills Development Scotland): I am from Skills Development Scotland.

Rhoda Grant (Highlands and Islands) (Lab): I am a Highlands and Islands MSP.

Stephen Boyd (Scottish Trades Union Congress): I am from the Scottish Trades Union Congress.

Margaret McDougall (West Scotland) (Lab): I am an MSP for the West Scotland region.

David Torrance (Kirkcaldy) (SNP): I am the MSP for the Kirkcaldy constituency.

Lesley Giles (UK Commission for Employment and Skills): I am one of the deputy directors of the UK Commission for Employment and Skills.

Marco Biagi (Edinburgh Central) (SNP): I am the MSP for the Edinburgh Central constituency.

Dr Paul Sissons (Work Foundation): Good morning. I am from the Work Foundation.

Alison Johnstone (Lothian) (Green): I am an MSP for Lothian.

The Convener: Thank you very much. The others at the table are the official reporters, who are writing things down, and our team of clerks.

Members of the committee have just had an interesting private briefing from Scottish Government statisticians on the underemployment

rate in Scotland, out of which came quite interesting facts: there is no evidence that underemployment is in any way a uniquely Scottish phenomenon; and the figures for Scotland are pretty much equivalent to those for the rest of the United Kingdom, although the UK figures are higher than those for Europe as a whole. Last week, we heard evidence on that from Professor David Bell, who said that that is a feature of the UK economy that is different from those of other European economies, although there are other European economies, such as that of Spain—he gave that example—in which unemployment rates are much higher but underemployment rates are lower. There may be some connection between the two.

I was interested in the point in the STUC submission, which is a thorough piece of work, on the increase in underemployment. To kick things off, I invite Stephen Boyd to say something about the underlying reasons for the rise in underemployment. I was also interested to read that, although there is not much difference between the change in underemployment rates here and those in the rest of the UK, in Scotland, there have been steeper declines in total employment than in any other part of the UK, and steeper increases in unemployment, on the International Labour Organization definition. I would like us to get an understanding of some of the reasons behind that.

Stephen Boyd: On your point about Scotland's performance relative to performance in the rest of the UK and Europe, it is difficult not to repeat the explanation that David Bell provided last week. I read the evidence that he gave and noticed that he spoke about the different regulatory frameworks and different labour market structures in various nations. He described the UK as having the third-least stringently regulated labour market among Organisation for Economic Co-operation and Development nations and other developed nations. That is true. The degree of flexibility in the UK economy has enabled companies to retain or hold labour that otherwise they would have dispensed with, as has happened in other nations. Ultimately, we could argue all day about whether that is a good or a bad thing and whether we have the balance correct, but we probably still would not come to a conclusion.

On some of the other trends that we highlighted in our labour market report, which we published in October and which we have provided as part of our submission for today's meeting, frankly, the issue is tremendously difficult. I note that, last week, David Bell happily said in evidence a couple of times that he was not entirely sure why things had happened and, on this occasion, I am going to do exactly the same. However, we have highlighted the trends. There has clearly been

some kind of trade-off in Scotland relative to the rest of the UK. In Scotland, there seems to have been a greater propensity, at various stages of the recession since 2008, to let people go, whereas in the rest of the UK there seems to have been a greater propensity to hold people rather than make them redundant. However, it would be easy to overexaggerate those trends. I do not think that the Scottish and UK labour markets have diverged to a hugely significant degree.

The Convener: One thing that has been of interest to members, although we have really only skimmed the surface of the subject, is that there are clearly a lot of unknowns. We are keen to try to probe those as best we can.

I ask James Alexander, who is from an organisation that represents employers, to give us the employers' context in relation to underemployment and to say why employers are using it as a tool more often than they have in the past.

James Alexander: Underemployment is a challenging issue, although the first point in the SCDI's submission is that, for us, unemployment is a bigger issue. However, underemployment remains a significant issue for employers, individuals and the economy.

We have considered two types of underemployment. I know that underemployment in terms of time and hours worked is a key part of the ILO definition and something that the committee has been considering. Although that is a concern for the SCDI, in the few years since 2008, employers have been doing what David Bell described as labour hoarding—certainly, they have been trying to keep the skills in their workforce as far as possible, which will clearly be important when the upturn comes.

Employers have been working with their workforces and the unions in a way that has not been seen in previous recessions to try to find ways of avoiding redundancies. For example, they have considered opportunities for everybody collectively to work fewer hours but to keep more people in employment. That creates underemployment, but not as much unemployment, so I think that we would all support that.

The other side of the coin is skills underemployment. Scotland has been debating the issue of skills utilisation for many years—and since long before 2008. The challenge of skills utilisation is now more acute than ever before. Scotland has a good and positive education sector, but that is not feeding through to skills being used in the workplace and delivering the economic benefit that we would expect.

We need to do much more research and get more information, particularly through the labour market statistics, on where skills are being used and, crucially, where the public sector and others have invested in skills. People have invested their time and acquired skills, but their skills are not being used and are not delivering the benefits that those people would expect or that we would expect for the economy. That flows through to employers, who clearly have to look at the skills in their workforce. A range of work has to be done so that skills in Scotland are used more effectively.

The Convener: I should have said earlier that if anybody wants to contribute at any point they should just catch my eye and I will try to bring them in.

Would Paul Sissons like to say something about the Work Foundation and the impact that underemployment has on the workforce?

Dr Sissons: I will pick up on the point about what has been happening in the recession. It might be useful to think about how this recession is different from previous recessions. For example, wages have behaved quite differently. Real wages have fallen over the past four years, which is a trend that was not apparent in the 1990s or the 1980s.

The infrastructure around employment services has also changed quite a lot. The process of matching people back into jobs in the labour market when they become unemployed is happening a bit quicker this time around. People are taking the jobs that are available even if they are part time. That is another slight difference.

The Convener: Perhaps Leslie Giles would like to say something from the skills point of view. Is there an opportunity here for people who are underemployed to develop greater skills in the time that is available to them?

Lesley Giles: As others have alluded to, it is important to look at underemployment because although it is a natural feature of the labour market, the fact that it is increasing is particularly interesting. We need to think about the reasons for that. There are two aspects to it: the supply side and the demand side. On the supply side, it certainly comes down to the personal circumstances and skills sets of the individuals who are looking for jobs. Employment and skills services have an important role in working with individuals on those dimensions.

We think that, because people perhaps do not have the necessary skills set, employers are more likely to take them on for part-time work while they try them out. We are concerned about that phenomenon, which particularly affects young people who are leaving the education system. From our research, we have seen that employers

are particularly concerned about education leavers' lack of work experience. More needs to be done on that dimension to encourage placement schemes to enhance the basic platform of skills and experience that some of those young people have. There is a host of issues on the supply side.

Others have already mentioned an issue relating to the demand side, which is that it is all well and good to try to raise qualification levels and so on, but what management practices and business models are businesses using, and will they put skills to good use in the workplace? Will people have the confidence to develop their businesses in these harsh economic times? Those questions uncover a host of wider issues that the commission has been looking at to see how business confidence can be enhanced. Underemployment is a symptom of the broader challenges that businesses are facing.

10:45

The Convener: A couple of members have indicated that they want to come in, but first I ask Patrick Watt to say something about supply-side skills and how we ensure that those who are currently underemployed are skilled up so that they can make a full contribution in the workforce.

Dr Watt: The STUC submission says that the

"best solution for underemployment is a Government stimulus to help increase the demand for labour."

David Bell's argument is that there is "not enough demand" for labour in the Scottish economy. In that regard, as Stephen Boyd said, we are no different from the rest of the United Kingdom. The Scottish employer skills survey 2010 shows that attracting appropriately skilled staff is ranked seventh in the challenges for business, behind things such as cash flow, attracting and retaining customers, the economic downturn and increased costs and prices. The supply of appropriately skilled staff is, of course, hugely important, but so are other challenges facing businesses.

The committee is looking at the two dimensions of underemployment. We have some good evidence on underemployment as measured in hours, but the evidence is possibly less good on underemployment as measured by skills. I am sure that Lesley Giles can tell the committee more about the UKCES's employer skills survey, which says that there has been a "drastic" decrease in hard-to-fill vacancies from 37,000 in 2006 to just over 10,000 in 2011. The number of skills-shortage vacancies in Scotland dropped from around 23,000 in 2006 to fewer than 8,000 in 2011.

Skills shortages are hugely important. They occur in energy, oil and gas, engineering and so

on, and where they occur they bite, but skills-shortage vacancies have dropped substantially. The Scottish employer skills survey is therefore saying that, by and large, the market is meeting employers' demands for skills, and the UKCES's survey says:

"The research suggests that under-use of skills affects a significantly larger proportion of employers and their workforce than skills deficiencies do".

We might have to look at issues around skills when we are looking at underemployment, but the bigger issue is on the demand side.

Mike MacKenzie: With your indulgence, convener, I will be a bit controversial and play devil's advocate. There has been a bit of discussion about underemployment being a perfectly rational and reasonable response to the decrease in demand. Employers and the labour force seem to be saying, almost by mutual consent, "Rather than paying people off, let's just reduce their hours." However, in attempting to minimise the pain, in a sense, demand is lowered and, as has been pointed out, real wages have fallen. Obviously one of the big effects of underemployment is that incomes drop and demand is therefore lowered. Are we not consigning ourselves to a flatlining economy? We might be looking at a triple-dip recession. It might be controversial to say this, but is there a sense in which we are not allowing the creative destruction of capitalism to work? I do not know whether the Icelanders have thistles or nettles but they have really grasped the jaggy plant and their economy is now growing at 3 per cent. Are we giving a good response, and will it bring on or impede a recovery?

The Convener: That is a broad question to throw into the mix. Who would like to pick it up?

Stephen Boyd: I am more than happy to start off. The question introduces a range of issues. There is a fallacy of composition here. Yes, underemployment or labour hoarding can be a rational response for an individual firm, but if more and more firms do the same thing, it becomes a huge macroeconomic problem and plays into the deficiency in demand that we see at the moment.

Mike MacKenzie used the words "mutual consent" and James Alexander also referred to underemployment being a joint employer-employee initiative to meet the immediate problems of the recession. That was certainly the case during the very early days of the recession in particular, when we saw some specific examples, of which Alexander Dennis Ltd is probably the best example in Scotland. We all know that the company is hugely successful now, but in 2008 it was at imminent risk of going bust, and the employees went to—I think—a two and a half-day

week. That was difficult to negotiate, but people worked together and came to that solution.

Of course, the majority of workplaces are not unionised and in many workplaces we are seeing arbitrary cuts in working hours. When I visited a citizens advice bureau in East Kilbride in the early part of last year, I was told that the single most common reason why people went there was not redundancy but arbitrary cuts in working hours. Those cuts led to financial problems for people, which led them to seek advice from the citizens advice bureau. We should not overplay the consensual approach. Where it can be taken, it is hugely important and we should all welcome it, but we should recognise that much of what is happening is hardly consensual.

On the point about creative destruction, just before we came into the room we were talking about Robert Peston writing yesterday that we should welcome the demise of HMV for the precise reason that we are losing another zombie company. I think that that is one of the braver pieces that he has put on the web. There is a huge debate to be had about that subject. I am kind of cynical. There has been much on the subject in the *Financial Times* recently. It has been said that we need banks to be much harder and to begin to call in their loans. However, at present, without the banks then beginning to lend to companies that are doing better, I fail to see that ridding ourselves of all these zombie companies will precipitate a robust, demand-led recovery.

James Alexander: I have a general point on the economy and growth. The SCDI's objective as an organisation since the 1930s has been to create sustainable economic prosperity for Scotland. That is what we work towards. We work with a wide range of stakeholders from across civic Scotland to build the economy. That includes employers—big and small businesses—but also trade unions, charities and others.

We want the economy to grow through a range of mechanisms. For example, we believe that many Scottish companies can move more towards exporting, which would clearly have a positive benefit for the economy. We also want improvements in our infrastructure and connectivity across Scotland. There are ways in which we are working to influence the economic growth agenda, and skills are a key part of that.

I suspect that that does not answer Mike MacKenzie's question at all, but we are certainly working towards growth. The SCDI is working across Scotland to create growth, and if we are successful, that will tackle some of the challenges of underemployment and unemployment that businesses and individuals are facing.

The Convener: I will let Lesley Giles comment before Mike MacKenzie comes back in, because she wants to address his question.

Lesley Giles: I just wanted to comment on whether underemployment is an automatic, natural response. One aspect or dimension of the issue is to use the important labour market information that we already have and look at underemployment alongside other information that we have about employer practices. Through the UKCES's survey, we get a good sense of the markets that businesses are operating in, how the markets respond to those businesses and what management practices the businesses adopt. We can then start to think through the implications of that for the wider skills deficiencies to which Patrick Watt alluded, but also for the outcomes of effective skills utilisation and so on. We need to get better at understanding that.

From the initial analysis that we have done so far—we used a survey that was published only in the latter part of last year, so there is still work to do—I agree with and emphasise Patrick Watt's point that underemployment as measured by proxies for skills seems to be greater than is suggested by the other indicators of mismatch and skills deficiency. There is a strong correlation between the product markets in which businesses operate and the skills profiles of their workforces. There tends not to be as much overskilling and underutilisation where businesses are in more complex product markets and have more highly skilled workforces. That is an important dimension of the issue.

There are also implications in the skills investment approaches that employers are taking. As we would expect, stronger investment patterns are associated with highly skilled areas and the targeting of work at professional workers.

If we take headline levels of investment across Scotland, we may find that nearly three quarters of businesses invest in their staff in any one year but, if we cut into the shape, nature and effectiveness of that investment, we immediately see that it reaches only half the workforce, goes only to more skilled workers and so on.

Such stories are important for us to understand by sector, by business type and by different geographies. Issues such as how employers are working singly and collectively through networks are all important dimensions to understanding what is going on and coming up with strategies and action that facilitate more effective working by workers and businesses and ensure that future investment is more effective and that workers are better deployed.

Dr Sissons: I will make a quick point about the language that we use. A number of distinct issues

come under the umbrella term of underemployment. In the UK as a whole, about 3 million people are hours underemployed but, before the recession, that figure was about 2 million, so there is a longer-term issue as well as a recession-related issue. The recession-related issue is linked to demand in the economy.

On the longer-term issue, the characteristics that apply to people who are hours underemployed are similar to wider issues that relate to low-paid, poor-quality work more generally. There are significant overlaps with the skills underutilisation point, but the concept is slightly distinct. It helps to have in mind the bits that policy levers might address, because the issues are not all the same.

The Convener: In due course, we will talk about what we can do about this.

Mike MacKenzie: As Stephen Boyd said, last week, David Bell was not really sure whether the situation was good or bad. The danger is that the committee recognises the phenomenon in its inquiry but does not learn much beyond that. Everybody seems to be a wee bit tentative about the issue. It is not that I am certain or that I advocate a particular course, but some commentators suggest that the economy could flatline for a decade or more at best. Perhaps we should think a wee bit more radically about some of the problems.

The Convener: We will leave that hanging in the air for the moment, because other members want to come in.

Dennis Robertson: I will go down a completely different line and ask about education at colleges and universities. Lesley Giles made a point about work placements and work experience. Is enough being done on that? Is there enough engagement with colleges, universities and schools to ensure that the people who come out at the end—whether those are people with a degree or just people with an appropriate skill—meet the need in the market?

Dr Watt: Before I answer Dennis Robertson's question, I will talk about something that we can do for employers. In any advanced country, the skills and training system is inherently complex and dynamic—it continues to change. That means that it is difficult for employers to have a handle on how the system works.

Two things can be done. People can try to simplify the system, which carries the danger of oversimplification, or they can do what we have done and build something for employers such as our skillsforce. If an employer wants to recruit someone or train an existing member of staff and wants to know what the national and local offers are and how they can be put together, our

skillsforce deals with that—it helps employers to cut through the complexity.

11:00

I have a particular interest in the matter. Every two years we have the large-scale survey from the UKCES, which gives us really good evidence. Working with James Alexander in the SCDI and the chambers of commerce, we produce a pulse survey every quarter, trying to take a temperature test of what businesses are saying.

I have a couple of things to say about school leavers, their understanding of the world of work and Dennis Robertson's question. From the evidence, two thirds of employers who recruit school leavers think that they are well prepared for the world of work. Let us therefore be clear about where we are. When employers think that young people are not well prepared, that is really to do with issues around their maturity and the young person perhaps having a lack of understanding of the world of work.

Dennis Robertson: Is that gender specific?

Dr Watt: I am not sure.

Dennis Robertson: I just wondered.

Dr Watt: The other issue is the employer's perception of the young person's attitude, personality and motivation. I hasten to add that none of those is a skill.

Things such as the my world of work website encourage young people to get a better understanding of the world of work. That is part of a blended careers information, advice and guidance system in which face-to-face meetings are available if people want them, there is a telephone number as well as the website, and the service is delivered through partners. We need to ensure that young people's individual aspirations are tempered by an understanding of what the opportunities are out there.

James Alexander: The question is a good one. In this committee and elsewhere, we have talked about what are commonly called "soft skills". We believe that they should be regarded as far more important than they have been. We are talking about business skills and skills for employment and the economy. Team working and the ability to present sales, for example, are vital skills.

That links to something that Lesley Giles said about work experience. Some of those skills can be gained through work experience. They are certainly gained through employment, which is why underemployment is preferable to unemployment. Underemployment allows people the opportunity to gain wider business skills or other skills to use in the workplace. There are also

opportunities in work experience programmes and elsewhere, through course assessment mechanisms, for example. I know that work is being done on that and that Skills Development Scotland and the colleges and universities are working on it, but a lot more could be done to develop all the skills that employers need to ensure that, once a person has left school, college or university and gone into a workplace as an employee, they are immediately able to be of bottom-line benefit to the organisation that they enter. Currently, in light of where the economy is, employers—particularly small employers—cannot afford to take people on if, even within the first 12 months, they will not be of bottom-line benefit in relation to what the organisation or company is trying to achieve. That is why it is crucial that work experience and soft skills are embedded in curriculums.

Dennis Robertson: I am particularly concerned that it seems to be accepted overall that the vast majority of those who are underemployed are women. There may be particular reasons for that, but do you want to comment on the issue? I find it quite disturbing that it seems to be accepted that underemployment is gender specific. Perhaps Stephen Boyd would like to comment on that.

Stephen Boyd: I am not sure that that is entirely true. The component of the underemployed who are in part-time work overwhelmingly consists of women, but a significant proportion, who are males by a significant margin, are now reporting underemployment while they are in nominally full-time occupations. In looking at underemployment in the round, it is not necessarily true to say that it affects women significantly more than men.

Dennis Robertson: We have statistical evidence that suggests that more women are underemployed. I am concerned that that seems to have been accepted when the figures have been presented.

Stephen Boyd: I am not sure that my statistics necessarily tell the same story. I do not think that the various and significant problems that women currently face in the labour market are accepted by the STUC or, to be fair, by the Scottish Government. We had the women's employment summit in September last year, from which a range of activities flowed. There are now five working groups, and there is a lot of serious activity in Scotland to try to overcome the particular barriers that women face in the labour market.

Lesley Giles: On the general point, some of the debates about differences between the genders in their experiences of underemployment have arisen because certain statistics are more widely known. In particular, underemployment as expressed in

terms of people who want to work additional hours is one dimension that has been heavily debated and promoted historically.

As the labour market is a dynamic thing that changes, there will always be a degree of skills mismatch, of which underemployment is one element, and that is not necessarily bad. However, what is grabbing attention at the moment is that underemployment has reached certain levels and has grown over time, so we need to think about how the market is working and whether that indicates a more significant market failure.

A particular point to emphasise is that, as I suggested in my introductory comments, although there are general elements of underemployment, it is important to be careful that a general national picture does not lead to blanket responses in our actions—that is what I was getting at in referring to different stories. There is a need to unpick the different dimensions of underemployment.

Historically, underemployment perhaps affected more women because, having more caring responsibilities, women were more likely to shift into more flexible forms of employment, but another development over time has been that men are experiencing underemployment as much as women. There are different dimensions to the nature of underemployment. Some of that is associated with the recession and has a more demand-driven cause, in that businesses are experiencing difficulty and are taking an alternative approach in their business strategy. That perhaps illustrates the different dimensions to the issue, and it is important that we really dig into it and understand it.

To enhance our understanding, we need to draw attention to the other indicators that exist. We have mentioned the UK Commission for Employment and Skills employer skills survey, which provides an indicator that allows us to understand underemployment more from a skills perspective, but I will emphasise two other measures of underemployment.

The first measure—it has had various titles and I am trying to remember what its latest title is—is the work skills in Britain survey, which is a survey of individuals that has existed since 1986. It was last carried out in 2006, but the UK commission has recently provided support for an update, whose results will come out in the spring. The work skills in Britain survey asks individuals who are connected to the workplace to give their perception of employment. The questions are asked in such a way that they are not leading questions; they try objectively to find out what qualifications and skill levels the respondents have and what the minimum requirements are for the jobs that they do. Over time, that survey has shown that the skills surplus or overqualification is

increasing as a dimension of the UK labour market. That is another important information source to bring into the debate.

The second information source, which takes us right back to the beginning of our discussion in that it compares the UK with the rest of Europe, is the PIAAC survey—if I remember correctly, that stands for programme for the international assessment of adult competencies—which is run by the OECD. That survey is similar to the skills survey that I mentioned, but it involves 20 or so other OECD member states. The PIAAC survey results will come out later this year and will be quite important in helping us to set the UK labour market in a much wider global picture, so that we can really understand what is going on here.

While I am hogging the floor, let me mention the work experience dimension quickly before I shut up. We know from one of our employer survey sources that about a quarter of businesses say that they offer some kind of work placement or work experience opportunity for young people. As with all those statistics, it is a matter for debate whether that is good enough and what it actually means. From wider labour market evidence, there seems to be a degree of collapse in opportunities in the labour market for young people more generally. Therefore, we may want to look at, or keep an eye on, that area of practice.

One dimension is the importance of promoting the issue. In the context of growing youth unemployment, it is important that employers have good objective information that draws attention to some of those things. We have been working on trying to incentivise a wider call to action to promote knowledge of the issue's existence. That is one dimension for employers to think about in relation to their future practices.

The Convener: Various members want to contribute to the debate. I will take a couple of points from members and then go back to that discussion.

Rhoda Grant: Can I change the subject slightly to look at the issue from another angle?

The Convener: Yes.

Rhoda Grant: I will ask about the impact of underemployment. On the face of it, we might say that underemployment has to be better than unemployment. However, the evidence shows that underemployment leads to deskilling, and people who do not use their skills properly can end up in jobs where they are paid less for those skills. As well as that impact, underemployment can contribute to poverty when people cannot bring home the same level of salary as they had previously. All that continues while people are in work. Does underemployment have a better long-term impact on a person than unemployment has?

Given that underemployment may continue for even longer, could its impact be just as bad? Is underemployment a better thing or not?

The Convener: I ask people to hold that thought for a second while I bring in a question from Chic Brodie.

Chic Brodie: I will pick up on a comment that Lesley Giles made. Underemployment is unacceptable. She talked about the UK labour market and youth unemployment, but—although some people may not like it—Scotland is now different from the rest of the UK. For example, we have a youth unemployment minister who has support across the Parliament to create programmes. Lesley Giles alluded to the fact that we should create such programmes, but in fact we are already doing that. However, the problem in relation to Scotland being different is the approach to macroeconomics and how we stimulate demand.

Patrick Watt mentioned that demand for labour in the Scottish economy is depressed, but I tend to think that the problem is at the other end of the spectrum. We are short of 60,000 engineers, we are increasing our exports over the next four years and we are doing various things in capital investment that, even with leakage, will generate demand in the economy.

As part of a cultural shift, we are also seeing a fairly dramatic shift towards social enterprises and self-employment, which I believe is happening more in Scotland than in the rest of the UK. Why is that? Do you have any views on the macroeconomic challenges that face us?

The Convener: Those were a couple of disparate points. Rhoda Grant's question was whether, given its impact on individuals, underemployment is a good or bad thing compared with unemployment. Chic Brodie's question was about macroeconomic challenges and mismatches in the labour market—

Chic Brodie: I also mentioned self-employment.

The Convener: He also asked about the rise in self-employment. Perhaps we could start with Patrick Watt.

Dr Watt: On the specific point about engineering, I said that there are skill shortages in Scotland in particular areas and sectors. That is why SDS has sector skills investment plans—you may be familiar with them. The idea is that we engage with businesses and gather evidence on their plans for growth, the role of skills and training in those plans and how we can ensure that the system in Scotland is co-ordinated so that it provides for a sector's needs.

I will duck out of the question on macroeconomics, as I do not think that that sits well with the skills agency.

Dennis Robertson: I suppose that it does not, but the energy skills academy is probably a relevant example.

11:15

Dr Watt: Absolutely—that relates to the first energy skills investment plan. There are initiatives to which SDS can contribute, and it can help to co-ordinate activity.

The Scottish and English systems are different, particularly on skills. Early in 2012, when we asked modern apprentices what they thought about the programme, the results were generally positive. There has been a big discussion about what happens to those apprentices when they leave the programme, and we will publish something about that later this month.

James Alexander: Rhoda Grant asked whether underemployment is worse or better than unemployment. One of the well-known mantras on getting a job is that the best way to get a job is to have a job already. That goes back to the point that I made earlier—that the best way for somebody to develop the soft or business skills that they need in the workplace is to be in the workplace building those skills and getting the experience.

In our submission, we say that our education sector should respond flexibly and allow those who are underemployed—particularly in part-time employment—and who have a bit of time to spare and have said that they would like to do more hours but are not doing them to use that spare time to develop new skills and gain new qualifications that could allow them to get a better job than their present skills would allow. That is one way in which the education sector can respond.

Another way in which the sector can respond demonstrates one of the sector's strengths and picks up the macroeconomic challenges. Colleges and universities always look around them at the skills that local employers and other organisations across the country require—the college sector is good at that—and they can respond quickly to those needs. That is positive. We are working with Skills Development Scotland and others to promote the links between employers and the education sector to try to ensure that the offering from colleges and universities matches employers' needs as closely as possible.

I did not have a chance earlier to pick up the gender issues that Dennis Robertson raised. There is an important gender dimension to

underemployment. Professor Bell's submission refers to men's underemployment being a key challenge. In his evidence to the committee, he talked about the challenges that women face. Some really significant gender issues relate to underemployment and we do not really know how to address them. The committee could commission or ask for further research on that—further research is definitely required.

Chic Brodie: I am slightly surprised that you did not address self-employment, given where you are employed. Why has there been a cultural shift towards self-employment? Is it because small businesses that want to take on more people cannot do that because of the current economic circumstances? I have my own views, but I want to hear what you think.

James Alexander: Self-employment has always been a factor in this economy and many others. Perhaps it is increasing. People have seen opportunities to become self-employed. People who perhaps previously regarded themselves as overemployed or who worked more hours than they wanted to do have seen self-employment as an opportunity to reduce their hours. People who have retired or who want to take early retirement have a huge number of skills. Becoming self-employed has enabled them to continue to use their skills while working fewer hours. There is a huge raft of reasons for self-employment and I do not claim to have all the answers to your questions.

Stephen Boyd: In answering Rhoda Grant's questions, I will go back to an earlier question from Mr MacKenzie. He asked whether we were all prevaricating about whether underemployment is good or bad. I am happy to report that we think that it is unambiguously bad that there are 240,000 people in Scotland who cannot work the hours that they want to work.

We cannot draw from that the conclusion that every response to underemployment that has been implemented since the recession is wrong. I think of the workers at Alexander Dennis, who came to a negotiated settlement that works for them and management. However, if we are underutilising what politicians of all stripes regularly tell us is our greatest resource—our people—that is a problem for the whole economy.

The Convener: I am sorry to interrupt, but a question that was raised in David Bell's evidence last week was whether, if the alternative to underemployment is unemployment, as it is in other European countries, it is better to have people partly employed—which I think is the point that James Alexander made—or for them to be unemployed.

Stephen Boyd: I was just about to come on to that in response to Rhoda Grant's question about the effects on individuals. If push comes to shove, we will probably all argue that in most cases it is better for someone to be employed rather than unemployed. However, the problem is that, although the research that tells us why unemployment is such a bad thing for individuals is well understood and although there is a massive and continually accumulating body of evidence on that, there is also an accumulating body of evidence that demonstrates how bad for individuals bad jobs are. Being stuck in a rut of bad or insecure and low-paid employment or in a cycle of bad job, unemployment and bad job has similar effects on individuals as do periods of long-term unemployment with regard to skill erosion, health, life prospects and so on.

I do not have Scotland-specific figures on the issue, but I can tell the committee that the UK has more low-wage, insecure jobs than any other developed country, apart from the United States. That is a major problem and it brings us back to Paul Sissons's point that 2 million people were underemployed before the recession hit. The long-standing nature of the problem may reflect the fact that we were all probably much too complacent before the recession and that, when we looked at the headline statistics, we probably thought that the labour market was much tighter than it was. There has been much more slack for longer than most of us have recognised.

Drawing on evidence from the Chartered Institute of Personnel and Development and others, our submission makes it clear that we should all be worried about the rise in self-employment during the recession. It is certainly a component of the wider underemployment debate. The evidence suggests that people are not enthusiastic about choosing to work for themselves; they are simply trying to scratch a living doing what they used to do as employed individuals. They tend to earn less, work fewer hours and pay less tax.

Given the economic situation, it is not good that more people are earning less and paying less tax. If we try to pretend that the headline numbers of those moving into self-employment reflect some kind of entrepreneurial boom in Scotland, we are kidding ourselves. At a time like this, it is a sign of economic weakness rather than strength.

Alison Johnstone: Might the cultural shift become to an extent embedded and irreversible? When things start to pick up, will employers be likely to think, "I'd prefer two part-time employees to a full-time one"? What are the advantages and disadvantages of that for the employee and the employer?

I am interested in the question of self-employment. One would think that there were some benefits to broadening the type of people who would consider such a move but who might previously have never considered it. Taking on board the queries about taxation that have been raised, I wonder whether more support is needed. Is such support in place? Is there any evidence that self-employment is more likely to fail in the current economic position? I imagine that it would be very difficult to find figures on that, but do we have any such figures?

Even before we approach the current situation, I note that some women have taken a step out of the employment market because of childcare. If women find out that they will be, say, £30 better off at the end of the week by doing that, that will have a massive impact. I support James Alexander's view that there should be more research on such impacts.

I seek witnesses' views on the quality of the jobs that are available and the need to link grant support to the kind of jobs that are being offered. Do those jobs involve very simple, unskilled tasks and are they here only for a while, then they disappear? Do we need to take a national view on that matter?

Finally, I am concerned about the quality of statistics. Some of the submissions have suggested that we need more regular and up-to-date information and that sometimes there is a lag between getting the information at the UK level and getting it at the Scottish level.

The Convener: I invite comments from Paul Sissons on Alison Johnstone's range of points. Are we seeing a culture change? If and when economic growth comes back, will patterns of employment have changed? Will you also comment on self-employment increasing?

Dr Sissons: The short answer is that it is probably too early to say anything useful or interesting on the issue of culture change. In the United Kingdom more generally—David Bell's paper suggested that this was not the case in Scotland—underemployment started increasing from the middle of the 2000s, albeit relatively slowly, which suggests that there might be longer-term shifts in the position. However, I would not emphasise that too much.

We do not fully understand yet what is going on with self-employment, because there are time lags in the analysis of the data—it takes people time to analyse the detailed statistics. However, Stephen Boyd's point is correct in that the information that we have suggests that self-employment is often born out of necessity rather than choice. The self-employed jobs that are being created often tend to have relatively low hours and relatively low

earnings. We therefore need to be a bit careful about interpreting self-employment as either a strength or a weakness.

On the overall issues of job quality, the Work Foundation's research base concerns issues of job quality and improving it. There is a wider issue of job quality and low-wage work across the UK. A number of things could be done to address that, and tying grant support to a certain threshold of job quality, be that wages or opportunities for progression, can only be a good thing.

On the impact side of the issue and whether underemployment or unemployment is preferable, you would generally take the view that underemployment is marginally preferable to unemployment. However, for a number of reasons, the position for young people might look different from that for adults. We know that, for young people, lack of experience of the workplace is often a key barrier to getting into employment and moving forward, so some experience of the workplace—whether part time or full time—is useful for them. However, the situation might look slightly different for adults, because they are more likely to support a family, so household income will be important. If we look at what has happened to real wages, not only have hours gone down, but wages per hour have gone down, too. That is a kind of double whammy, and impacts on household finances are associated with that.

Another point, which Stephen Boyd made, is about the longer-term effects of adults entering low-wage or poor-quality employment. Some research suggests that a wage scar is associated with that. The impact on longer-term earnings of entering low-wage work is therefore not that dissimilar to the impact on longer-term earnings that unemployed people experience, so the longer-term trade-off is not quite clear cut.

As for data issues, regular labour market information is important. However, in relation to interpreting that, quite a lot of sampling error is associated with some of the labour force survey statistics when we get down to country level and break them down by small population groups. The issue is therefore not just having the data but considering how robust the data is and how it is interpreted.

The Convener: Does anybody else want to pick up on Alison Johnstone's points?

Stephen Boyd: I am happy to respond to those points. On the cultural shift, I agree with Paul Sissons that it is too early to say what will happen post-recession. My bigger concern is about whether we are embedding some of the shifts that were already beginning to happen before the recession, such as the casualisation of work and

the shift from previously permanent, well-paid, secure jobs to poorer-quality jobs.

The CIPD's work on self-employment highlighted the fact that the self-employment that we have seen since the start of the recession is concentrated in sectors that do not have a history of self-employment, such as education, information technology and finance. Our concern about the finance sector, which we certainly hear from colleagues in the sector, is about its continued shift towards less secure or less well-paid employment, which is really quite remarkable and worrying.

There are other sectors in Scotland that have tended to provide good-quality employment in the past, such as journalism. There might not be much sympathy around the table for journalists—I am not sure. Journalism used to provide decent employment in Scotland, with good-quality jobs, but it is now very casualised. Teaching is continually shifting towards casualisation, and we are even seeing that in sections of the transport sector, with the shift towards zero-hours contracts and so on.

As we all agree that this is primarily a demand-side problem, it would have been interesting to have Scottish Enterprise with us at the table today. It might have been able to comment on what it would mean for firms if we tied in job quality to any incentives that are offered in relation to foreign direct investment in Scotland.

11:30

I have a couple of quick comments on other things that have been mentioned. In our submission, we made a couple of points about the quality of statistics. I put it on the record that the Scottish Government has really led the field in that area. I know that Sian Rasdale has given evidence to you before. The work that the Scottish Government has done on the local area labour markets report—information that has not been published anywhere else in the UK—is much to be welcomed. The Office for National Statistics has published one detailed report on underemployment, but we want that work to be built on to provide something that is much more regular and up to date. We can then start to have a better-informed discussion.

Alison Johnstone talked about women leaving the labour force. The most recent set of employment statistics for Scotland, which was published on 12 December, was really quite remarkable. We saw a big fall in unemployment—by 19,000 over the quarter—as well as an even bigger fall in employment and a huge rise in economic inactivity that is concentrated on women. It would be dangerous to read too much

into one set of statistics such as that but, if the trend of women leaving the labour force altogether continues to that degree, we will all have to be careful in what we say about falling unemployment, because if what is happening is really just women leaving the labour force, that is not a good thing.

The Convener: Margaret McDougall has been very patient.

Margaret McDougall: Thank you. We have heard quite a lot about the programmes that are available to try to get people into work and to address the skills mismatch. What more can the Government do to support jobs by providing programmes? Early evidence suggests that direct support to employers is working; for example, the mechanism that is being used in Germany has proved to be successful. What does the panel have to say about that?

Dr Watt: Decisions on such mechanisms are policy decisions for the Scottish Government. One thing that we need to think about—it is really important, particularly when we engage with young people—is that there may well be a gender issue in underemployment. That has been picked up on today. The European Commission's measure is that it asks part-time workers whether they would like to work more hours, so it is relevant that there are more female part-time workers.

We do something with the skills committee called "skills in focus", within which experts talk to invited audiences and we publish the papers on our website. Paul Sissons will on Friday be doing a talk on low-wage workers. In one session, Alan Felstead picked up on the issue of underemployment of young people and the cycle of periods of no work and low-paid, low-skilled work, which relates to the point that Stephen Boyd has made today about the effect that that might have on people's long-term careers, which is—this was Chic Brodie's point—why we have a youth employment minister in Scotland.

For young people, rather than a skills agency talking about trying to stimulate demand, we should be looking at what we mean by "a good job". We know that, in the round, only one of the top five characteristics of job quality is extrinsic; it is job security. The others are being able to use your initiative, doing work that you like doing, the opportunity to use your abilities and having friendly people to work with. Those things vary by hours worked, by gender and by the worker's position in the occupational hierarchy. In the summer, we will find out from the survey whether they also vary by position in the economic cycle.

What makes a good job depends on people's individual aspirations. There are not necessarily sets of good jobs and sets of bad jobs. It is a

question of self, strengths, horizons and networks. We need to encourage young people to think about what they are interested in, what they are good at, what jobs are out there and how they can make themselves suitable for them.

The Convener: I will throw a couple of questions into the mix. I am conscious that although we have been running for more than an hour there are two things that we have not touched on yet. The first is the question of productivity, which came out of our discussion with David Bell last week. It goes without saying that full employment would be a much more productive alternative to underemployment, but are people working shorter hours than they would like? Are people unproductive? Some evidence suggests that having part-time workers can be more productive than having full-time workers.

Secondly, if we believe that underemployment is a bad thing, what can we do about it? Obviously, the long-term and fundamental solution is greater demand within the economy. However, short of that, what policy changes—if any—might help?

Lesley Giles: I will give an initial reaction on whether the impact of underemployment is a bad thing and whether it affects productivity and performance.

As I said earlier, the drivers are many and various. Clearly, there are aspects to underemployment that are not good, including such things as Stephen Boyd alluded to—casualisation of work and lack of good-quality work. Often associated with that, if full and effective use is not being made of workers' skills, is the impact on performance.

We must take into account the future nature of work, which is a global challenge. We are already seeing that in the character of the labour market and the growth of small businesses and how they dominate the scene. Most employment is still in large businesses but—I was looking at the statistics before coming here—something like 60 per cent of businesses in Scotland have one to four employees, and only 5 per cent have more than 15 employees.

As I say, those changes will increasingly be part of the character of the future labour market, so people will have to make business choices because we will have micro freelancers, entrepreneurs and professionals. Any debate about the future represents a challenge to business practices—even in relation to where we are now—in respect of businesses' management models and how they are adapting, and in respect of the traditional full-time employee and the practices that are used to manage those employees, because that will not be the dominant model.

Coming at underemployment with the future orientation of business practices in mind is just another dimension to throw into the thinking. That draws me back to the point about not just thinking generally that underemployment is a bad thing, but that there are different dimensions, characters and causes to it. We must understand that and develop those stories because that is important.

The Convener: Does anyone have any thoughts on policy changes that might assist?

Lesley Giles: Are you looking at me?

The Convener: You were on the spot, so I thought that I would ask you.

Lesley Giles: I conveniently looked away at that point.

From the UKCES's perspective, a key dimension is—we are all in agreement—demand. We are working through our commissioners, who are leading players from business and so on, to get employers to own the agenda and to lead on some of the dimensions to which I have referred. We are running a number of investment or challenge funds to get employers to come forward with propositions on how they might do things differently.

We are thinking about the operation of the skills system in its widest sense. The UKCES has been set up as a social partnership to work with Government and to influence and shape the publicly funded system and policy environment, but we are also working to ensure that that works effectively with private investment. In that sense, we are trying to secure greater employer engagement. Part of the answer is that we get employers to step up, to provide strategies for the long term about what they are seeking to do, to understand the challenges and barriers that they are facing and to strengthen collaboration.

Collaboration is a key dimension of this issue—collaboration with Government and, through business networks and local communities, with other local suppliers and providers that can help employers to do effectively what they need to do. Some of our employer survey evidence suggests that, for a variety of reasons, employers are not necessarily making use of publicly funded skills and employment services and are often going to the commercial sector. The issue is not totally clear-cut, because programmes are sometimes delivered by commercial bodies, but that is an important dimension in terms of the need to strengthen collaboration. In that sense, the matter relates to the kind of broader policy complex in which the committee is operating.

Looking at best practice in other countries, we can see that there are clearly things that the Government can do as a regulator, as a supplier

of services and as a buyer of services, and that there are other policy levers that could be nuanced to support some of that new action and the new approaches that are being trialled with employers. That would be how I would kick-start the discussion.

The Convener: Does Paul Sissons want to say anything about productivity or policy?

Dr Sissons: On policy, a number of things could be done. Ultimately, demand is pretty fundamental. In particular, it is clear that the fact that there are an additional 1 million people across the UK who are underemployed is a function of demand.

There are a few things that the committee can think about doing in the longer term. One involves developing career ladders or structured progression routes either within sectors or particular employers. With regard to the erosion of internal labour markets, which stops people from moving up the wage distribution scale, you could consider whether there are policy levers that you could use to negate some of that and allow people to progress.

We have figures on the stock of people who are underemployed, but we do not—especially since the recession—know enough about the dynamics within that. We do not know for how long people are underemployed or whether they are moving on to other things. We do not know, essentially, how much underemployment is temporary and how much is permanent. That information is important in policy terms.

Another important area concerns employer demand for skills and the use of skills, on which Lesley Giles touched. There are all sorts of things that you can do around that agenda, and UKCES is leading some of that.

Stephen Boyd: On productivity, the committee had a discussion with David Bell. I saw that you tried to dodge that one, as well. [*Laughter.*] To engage with all the complex arguments around the trajectory of productivity at UK level during the recession is difficult, especially in the time that we have available today. The issues are hugely complex.

On a wider point about productivity, given that a great deal of our discussion today has been on skills issues, it is important to put on record the fact that less than 20 per cent of the UK's perceived productivity deficit, in relation to our major competitors—the US, Germany, France and so on—is attributable to lack of skills. The vast bulk is down to a dearth of investment in equipment, research and development and infrastructure. We need to be clear about that.

Much of Scottish industry is based in the low-innovation, low-wage, low-productivity sectors. In those sectors, the answer to competitive pressures is to intensify work. That might be why some firms who employ people on a part-time basis become nominally more productive. The key questions are whether that is fair on the workforce and whether it is a sustainable business strategy in the longer term.

With regard to the short term, you would expect me to say that we need a significant boost in demand, for the reasons that Paul Sissons outlined. With regard to the long term, I agree with much of what Paul Sissons and Lesley Giles said. In broad terms, at Scotland level it would help if quality of work became more central in economic development discussions in Scotland, which it has not been before now. One of the first things that I did when I took up my post in the STUC in 2004 was to attend the launch of the "Framework for Economic Development in Scotland", which was a lengthy document that was all about how Scotland could improve its productivity, but there was not one mention in the document about the people who were meant to become more productive and how they were to be managed and engaged with. It was a really appalling document.

We have made progress since then. The skills utilisation agenda, which has been mentioned a number of times, was positive, but we must recognise that it did not really go anywhere. I am not sure quite where it sits at the moment. In the early days we were heavily engaged through the leadership group and the cross-sectoral network, but I cannot point to any significant policy measure that emanated from that work. Perhaps we could revisit that urgently.

11:45

The Convener: It would probably be unfair to ask Patrick Watt about policy changes. Do you want to talk about productivity?

Dr Watt: It would be completely unfair to ask me about policy changes, so thank you for not asking me about that.

I agree with a point that Stephen Boyd made: the drivers of productivity are competition, innovation, entrepreneurship, capital investment and skills. If skills make up 20 per cent of the gap, what makes up the other 80 per cent? Skills are really important, but so are a host of other things, as I have said.

We can think about why productivity is important. If we increase productivity in terms of output per hour worked, we become a richer country and we can think about how we distribute that wealth. We must get more people into work and ensure that they work the hours that they want

and that those hours are as productive as possible. That is a really big challenge, which is not Scotland specific.

James Alexander: I echo what has been said. The Government has a lot of control over all the levers that are required to grow the economy—

Chic Brodie: Which Government?

James Alexander: I am not going there.

Chic Brodie: Did you mean “Governments”, plural?

James Alexander: All levers should be used to best effect to create maximum growth in the economy.

The Convener: That was a diplomatic response.

Dennis Robertson: My question relates to productivity. James Alexander said that people who are underemployed could take the opportunity to upskill themselves by going to college and so on. Do you agree that employers have a responsibility to second people to courses, instead of their expecting employees to seek opportunities to upskill?

James Alexander: That is a good question. The work that we did with employers across Scotland—it was on youth unemployment, but the position for underemployment is similar—showed that employers are keen to build the skills of their workforce and are committed to that. Employers would welcome the opportunity to do more to engage with the college and university sector.

Dennis Robertson: Would employers pay for courses?

James Alexander: The issue with a lot of the courses that colleges and universities run relates not to who pays for them but to time and promotion. Employers can work with Skills Development Scotland and use the our skillsforce website, which is a key resource.

Dennis Robertson: Would an employer pay an employee to take up such opportunities?

James Alexander: The challenge is that, if somebody is employed part time, that is probably because their employer cannot afford to employ them full time. We need the publicly funded education sector to work with employers and we need employers to work with that sector—I recognise that it is a two-way street—to ensure that part-time employees can use their remaining time to do training.

The employer needs to allow time for training, and the time when someone works must fit in with how the college sector operates. The college sector also needs to work flexibly to meet

employers’ needs. Employers want to work with, and are working with, the education sector and Skills Development Scotland. The more we can build on that, the more effective we can be on skills and productivity.

Dennis Robertson: To be fair and balanced, I ask Stephen Boyd to respond.

The Convener: Stephen Boyd was keen to come in.

Stephen Boyd: A question was asked earlier about Germany. In the recession’s early stages, Germany’s response was all about managing underemployment and ensuring that periods of downtime were used for upskilling. That has been tremendously successful for Germany in its period of upturn.

In the recession’s early stages, Wales implemented an interesting German type of model called ProAct, but I am not sure what stage evaluation of it has reached. The steel and engineering sectors in Wales had been badly hit and that programme involved subsidising employers to retain staff and to retrain them in periods of downtime.

We discussed such an initiative with the Scottish Government, but it is—understandably—concerned about the high rates of dead weight that seem to be wrapped up in such programmes. Our argument, which has been borne out since, is that that must be balanced against the positive longer-term impacts. Quite a high rate of dead weight might have to be accepted if that stuff works and ensures that we are well positioned when the economy recovers.

The Convener: We have had a good discussion, which we need to draw to a close. On the committee’s behalf, I say an enormous thank you to our panellists who have come in to help with our discussion. The more we dig into the issue and the more contributions we hear, the more questions are raised. I will be interested to see what conclusions we reach in due course.

11:50

Meeting suspended.

11:56

On resuming—

European Commission (Work Programme)

The Convener: Item 3 is the European Commission work programme. Chic Brodie is our European reporter, and we have a paper from him with some recommendations.

Chic, do you want to say anything about the paper?

Chic Brodie: I thank Jane Williams, our clerk, for being supportive at the meeting in Brussels—she lost my briefcase, but that is another story.

The Convener: I think that that was your fault.

Chic Brodie: No, it was not, actually. Anyway, she guided me happily through the meetings that we had.

The paper that is in front of the committee covers two things. One is the priorities from the European Commission work programme that we should submit to the European and External Relations Committee. The recommendations are fairly simple and easy to read, and annex A to the report indicates those eight areas. Two of the eight proposals require some real monitoring. The annex also highlights those on which we should keep a watching brief, such as the annual growth survey and long-term finance. I will not go through all of them, but the key ones on which I suggest we need to keep an eye are energy policy and the funding of European economic governance.

I do not know whether members have any questions on that element. As I said, it is fairly simple.

The more substantive part of my report concerns our meetings with two directorates-general in Europe—DG enterprise and industry and DG energy. I will not go through everything, but there are some fairly major highlights, particularly the discussions with the official from the small and medium-sized enterprises access to finance unit in DG enterprise and industry.

As we all know, the Commission deals directly with member states, of which, at this moment, Scotland is not one. Items that might require further action were raised. I ask the committee to allow us to continue with some further correspondence with DG enterprise and industry, particularly the SME unit, before we make any public pronouncements.

12:00

The interesting part about the discussions with the SME unit was that, believe it or not, each member state has a small business envoy. In our case, it is the director of enterprise at the Department for Business, Innovation and Skills—BIS—in Westminster. We have suggested that, as Scotland has 350,000 small businesses, it might be worth while Scotland having its own small business envoy. That will be a matter of discussion with BIS.

The second fairly significant element is that the enterprise Europe network has SME panels that are used to consult SMEs on policies and future legislation. Again, because of the 350,000 SMEs that we have in Scotland, we thought that it might be of benefit for one of the panel meetings to be held in Scotland in the near future.

The third item of significance from the SME discussion concerned access to finance. It transpired that, for the current seven-year period, Europe has €1.2 billion available through the SME funding and guarantee finance programme to cover SMEs throughout Europe. That is significant. We are required to have an intermediary who can disburse those funds, and it generally tends to be a venture capitalist or a bank. I have talked to the banks and discovered that we appear to have only one intermediary. The banks have their own programme that is supported by the Westminster Government and, so far, only one bank to which I talked was aware of the European programme. We need to have further discussions about that before we make any huge pronouncement.

The report on the renewables briefing is fairly comprehensive. It was extremely interesting to hear about what is happening throughout Europe, particularly on connectivity of the grid between countries such as France and Spain. We also discussed the use of biomass, a proposal on which will be published soon.

Thanks to Jane Williams, the report in the paper is fairly comprehensive. I will take any questions. There is a lot to be discussed and, if I may say so, convener, a requirement for more interaction between us and the European and External Relations Committee on the areas that we have suggested in the paper—that is, SMEs and energy.

The Convener: Thank you for that summary and for your efforts in Brussels on our behalf, notwithstanding the loss of your briefcase.

Chic Brodie: I should add that I had an email on Sunday from some gentleman who said that he had lost his briefcase or had it stolen in Cyprus. He asked whether I could give him any tips on what he should do.

Dennis Robertson: Don't lose it a second time.

Chic Brodie: I immediately advised the authorities here to engage in case he has got his hands on some of my papers.

The Convener: I am not sure why he asked you.

Chic Brodie: There were two copies of the renewables report in the briefcase. The fact that people want to steal it shows how exciting it is.

The Convener: That is clearly what they were after.

Does anybody have any questions for Chic Brodie or any points that they want to make on the paper?

Alison Johnstone: I have a question about the proposals in the paper—it may be more of a question for Jane Williams.

I want to understand the difference between monitoring and keeping a watching brief. Proposal 8 mentions opportunities for the production of unconventional gas. I do not support that, but that is not what the discussion is about. I want to know why a watching brief is recommended for that whereas the recommendation on proposal 5 is that we should monitor European energy policy in the context of our work on energy policy.

Are we basically saying the same thing there? Will we keep an eye on both developments to the same extent?

Chic Brodie: Jane Williams or the convener might want to comment, but I think that the issue is that to take action on all eight proposals would be more than a full-time function. We have looked at the proposals. We will monitor and, if we find anything critical, I will feed that back to the committee. We decided that, on two issues, we should recommend to the European and External Relations Committee that we do more than monitor, but actually engage. Is that fair, convener?

The Convener: Indeed. Alison Johnstone is absolutely right that there is not an awful lot of difference between monitoring and keeping a watching brief. Chic Brodie makes the fair point that the committee has a limited amount of resource to follow a broad range of policy areas. Therefore, the paper tries to identify where the priorities should be in our workload. It is entirely up to members to decide whether the recommendations in the paper are correct and what we want to do. It is worth saying that any European Union legislation that is relevant to any of the areas will be flagged up to the committee via the European reporter, so we will get plenty of advance notice of anything relevant that is coming.

Alison Johnstone: I just wanted to check that we will keep an eye on the issue of unconventional gas.

Chic Brodie: It is a good point. As we monitor the situation and keep a watching brief, if something of significance arises, we are duty bound at least to raise it with the committee, and if we feel that further action needs to be taken, we should certainly do that through the committee and with further interaction with Europe.

Margaret McDougall: On SMEs, I do not know what the procedure is, but I wonder whether the committee should write to the Scottish Government and the cabinet secretary to ask what is being done and whether we can do more to raise awareness among SMEs of the available funding. Should we also write to the banks? Chic Brodie said that he has spoken to banks, but surely that should be done through the committee.

Chic Brodie: I agree that we need to approach the cabinet secretary and I take the point that the committee at some stage might want to write to the banks. However, I seek the committee's agreement that we should seek more information before we say formally to the cabinet secretary what we want him to do. The meeting that I had was only 40 minutes or three quarters of an hour.

The Convener: To pick up on Margaret McDougall's point, is it the case that you already plan to discuss the issue with the cabinet secretary?

Chic Brodie: Yes, but we need more information, and that will certainly be brought back to the committee.

Rhoda Grant: Is it not worth asking what people's views are, because they might be working on that and they might give us information that helps us to make a decision? They might already be aware of the issue and have work in train, so it seems a bit daft—

Chic Brodie: Forgive me, but perhaps I should have expanded on that. The rationale for me talking to other bodies is to try to discern who knows what. The information that I have so far from discussions with civil servants and the banks is that there is little awareness of the access to finance programme. As far as I know, we do not have a small business envoy—unless someone can name them—and there has been no proposal on that. Ultimately, a proposal for panels and business envoys and so on should go from the cabinet secretary to the relevant director general.

The Convener: I suggest that Chic Brodie continues to work on the issue and reports back to the committee on where the discussions are going. Rhoda Grant and Margaret McDougall have raised a fair point. A pot of money is available, but

people are not aware of it, and it is perhaps unfortunate that Scottish SMEs are losing out. However, we need more information, so it would be helpful if Chic Brodie could report back to the committee.

Chic Brodie: Okay.

The Convener: As there are no more points, do members agree to the recommendations on page 2, which are to adopt the priorities in annex A and forward them to the European and External Relations Committee; to ask the European reporter to continue to monitor developments on EU policy making and to report back; and to continue to consider any relevant EU issues?

Members *indicated agreement.*

12:10

Meeting continued in private until 12:37.

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