The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 31 October 2012

Session 4

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DRAFT BUDGET SCRUTINY 2013-14 2089

ECONOMY, ENERGY AND TOURISM COMMITTEE
28th 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)
*Patrick Harvie (Glasgow) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*John Park (Mid Scotland and Fife) (Lab)
David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Graeme Bissett (Children 1st)
Dr Mike Cantlay (VisitScotland)
John Dickie (Child Poverty Action Group in Scotland)
Forbes Duthie (Highlands and Islands Enterprise)
Peter Kelly (Poverty Alliance)
Joan McAlpine (South Scotland) (SNP) (Committee Substitute)
Ken Neilson (VisitScotland)
Alex Paterson (Highlands and Islands Enterprise)
Judith Robertson (Oxfam Scotland)
Iain Scott (Scottish Enterprise)
Lena Wilson (Scottish Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 31 October 2012

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

10:00

Meeting continued in public.

Draft Budget Scrutiny 2013-14

The Convener (Murdo Fraser): Good morning, ladies and gentlemen. I welcome you all to this meeting of the Economy, Energy and Tourism Committee. I remind everyone present to turn off all mobile phones and other electronic devices.

We have apologies this morning from David Torrance. I welcome in his place Joan McAlpine. As this is your first time at the committee, Joan, I ask whether you have any relevant interests to declare.

Joan McAlpine (South Scotland) (SNP): I refer members to my entry in the register of members' interests and in particular to the fact that I write a column for the *Daily Record*.

The Convener: The first item on the agenda is to continue our scrutiny of the Scottish Government's draft budget for 2013-14. We have two panels of witnesses this morning. I welcome the first panel and briefly introduce them: Mike Cantlay, chair of VisitScotland; Ken Neilson, director of corporate services at VisitScotland; Lena Wilson, chief executive of Scottish Enterprise; Iain Scott, chief financial officer at Scottish Enterprise; Alex Paterson, chief executive of Highlands and Islands Enterprise; and Forbes Duthie, director of finance and corporate services at Highlands and Islands Enterprise.

Before we get into questions, I ask panel members by way of introduction briefly to say something about the Scottish Government's budget.

Lena Wilson (Scottish Enterprise): Good morning, convener and committee. Thanks for the opportunity to come back here. The fact that it is time to come to the committee to talk about our budget again makes me realise how quickly time passes.

Economic conditions remain tough and there is continuing pressure on public finances. I think that I have said before that we are prioritising our priorities; that is ever more the case. We have relentless focus on growth and prioritisation of our investments, but increasing collaboration with our partners for even greater impact.

I would say that our approach is working. We had turnover growth of £1.2 billion for the companies that we support, which is an increase from £800 million the year before. We are seeing an increase in exports of £733 million for the companies that we support, and we have had record levels of inward investment—£200 million last year—and 7,000 jobs, which is the highest number of jobs of any region in the United Kingdom. That relentless focus on growth is working.

We have seen some fantastic successes in key sectors, for example food and drink, where turnover is up 6 per cent, with record exports of £5.4 billion. In life sciences, in the face of tough competition, we have had some fantastic foreign direct investment with GlaxoSmithKline and Sigma-Aldrich, for example. In renewables, we have seen fantastic investments from Samsung, we have the world's first offshore wind test centre at Hunterston, and the UK catapult centre for offshore renewable energy, located at the University of Strathclyde in Glasgow.

Looking ahead, this year's budget is about allocating resources to drive economic growth, fulfil the Government's economic strategy and keep pushing for economic recovery. We will increase the account managed companies that we work with by 20 per cent—we have already added another 50 or so. We will open seven new offices in emerging markets around the world to take advantage of growth in those markets and we will increase our efforts to help companies to access finance. In the past six months, we have implemented a new service, which has helped another 232 companies to access nearly £10 million.

Finally, we want to ensure that there is absolutely no wrong-door approach. If Scottish Enterprise cannot offer something or should not be offering something, we want to ensure that there is a seamless approach and that there is no wrong door to come into in the public sector, particularly in the current economic climate.

Alex Paterson (Highlands and Islands Enterprise): Good morning. Thanks for the opportunity to come here. When I was here last year, I said that we had set out four priorities on which we wanted to focus our efforts. Over the course of the past financial year we did that with a fair amount of success. We exceeded all the outcome targets that we set at the start of the year and we managed to move forward a number of significant projects throughout the Highlands and Islands, many of them infrastructure projects related to energy, such as at Scrabster, Arnish and Campbeltown, and across a number of other sectors as well.

We had a good year for inward investment. Many hundreds of jobs were created through expansions of existing investors and through others moving into the area. We grew our account management portfolio, not just with companies but with communities, because community account management is central to what we do.

The budget paper that we have set out for this year is clearly focused on delivering the Government's economic strategy. We continue to pursue our four priorities, which we think are the right ones to pursue, but in doing so we are mindful that we must balance the short-term issues that affect the economy and the environment in which our businesses, social enterprises and communities have to operate with the long-term opportunities. We are therefore doing things to respond to the difficult period that our businesses are experiencing and to help them through it. However, we also need to keep our eye on the future and some of the really exciting opportunities that the Highlands and Islands has and will have over the next number of years.

Our budget is therefore trying to address the short-term issues that affect the economy and ensure that we take forward some of the exciting opportunities that exist. We set out in our operating plan this year some aspirations for what we would like the region to look like in 2020. For example, we are focused on being a digital region and an international player or centre in renewable energy, and having dynamic, strengthened communities.

We think that our plan is robust and that it will make a real difference to the Highlands and Islands economy. We want to be more effective as an organisation, but we are also focused on being more efficient. We are looking to do this year what we did last year and reduce operating costs and invest more of our budget in front-line delivery. As I have said to the committee several times over the past two or three years, we will make a real effort to bring additional funds into the Highlands and Islands, beyond those we get from the Scottish Government. We have made significant progress over the past couple of years in bringing in many millions of pounds over and above our grant-in-aid to supplement what we do and to support developments across the region.

Dr Mike Cantlay (VisitScotland): I visited the committee recently, so my introductory remarks will be brief. On that visit, we talked about the winning years and the concept of driving short-term growth in Scottish tourism using key projects through the period 2012 to 2014. We also talked about how well we were doing in that regard.

After having a difficult year in 2012 because of rain and recession, 2013 will be a crucial year. We will harness the power of the year of natural Scotland next year and will continue undertakings such as the “Brave” project. The message is that when the going is tough, the tough get selling. We need to position Scottish tourism hard in 2013.

The Convener: Thank you very much. You all raised a number of issues that I think the committee will be keen to pursue in questioning. We will start by looking at budgets and resource to capital transfers. I invite Patrick Harvie to start the questions.

Patrick Harvie (Glasgow) (Green): Thank you, convener, and good morning everyone.

When Mr Swinney launched this year's draft budget, he placed great emphasis on the issue of transferring from resource to capital. It is not the first year that he has done so, because the same emphasis was placed last year when the draft budget was published. If I remember rightly, when we had much the same panel or a comparable panel before us for last year's budget, the general view was that people would do a bit of that budget transfer from resource to capital, but that the Government was not very prescriptive about how much of that should go on and that it was nothing new, because that kind of flexibility had existed in the past.

First, I want to ask you not just whether the budget transfer is the right thing for you to do and what kind of capital expenditure you will undertake that you would not have done otherwise, but whether the Government is being prescriptive about the transfer and telling you how much of your budgets you should move about in that way. To whatever extent the Government is being prescriptive, has that been something new over the past couple of years or are you acting with the same flexibility that you broadly had before a political emphasis was placed on the idea?

Iain Scott (Scottish Enterprise): I am happy to try to answer that on behalf of Scottish Enterprise. Committee members will see from our written submissions the increase over the three years of the plan in the amount that is being transferred from the resource fund to the capital fund. We are doing that because of the overall decrease in the availability of capital funding in the Scottish budget as a whole, but we are managing to maintain the levels of expenditure on capital at £120 million or £122 million per annum.

We are not being told how much we should transfer, but we discuss our plans with the Government regularly, agree that they are sufficient and agree that the Government is happy with what we plan to do. There is, however, no absolute directive from the Government.

You asked whether this is new. As I think I said last year, we have done it in the past, but not to the extent that we have had to do it over the past three years. However, our flexibility to move from the resource budget into the capital budget is pretty much the same as we had previously.

Patrick Harvie: Although the extent of the move is greater, is your own decision making directing that shift, rather than the Government telling you how much you should transfer from resource to capital?

Iain Scott: Yes. We put our plans to the Government, discuss them with it and it confirms that it is happy with them, but it is our decision to transfer the funding in the first place.

Patrick Harvie: Is that similar to the picture in the other agencies?

Forbes Duthie (Highlands and Islands Enterprise): Indeed. It is similar to the picture in Highlands and Islands Enterprise.

The other aspect of the situation is that the additional funds that the Government is making available through the shovel-ready initiative are basically capital in nature. Recognising that opportunity, we have actively pursued those funds and been successful in getting additional capital through the initiative. The funds are for essential capital projects and mean that we do not have to wait until the following year. It is useful to have the flexibility to move from revenue into capital and make those projects happen sooner rather than later.

Patrick Harvie: You referred to shovel-ready projects. I said to my committee colleagues earlier that that phrase is on the buzzword bingo board in my office—it is used frequently in the debating chamber. I am curious, however, that it seems to be talked about only in positive terms in this country. In the US, it is used more disparagingly for projects that get the go-ahead just because they are ready to go, rather than because they are necessarily in the longer-term strategic interest.

Forbes Duthie: The projects that we proposed were projects that we already wanted to do. It was just a case of having to manage the capital available, so they would have happened later. The moneys became a welcome opportunity to accelerate the spend for the Forres business park and the Inverness campus.

I would not see the shovel-ready projects as negative in any sense. They are very positive to our mission and are welcome.

Lena Wilson: My point ties in well with Patrick Harvie's last point. As I said last year, I want the committee to recognise that capital expenditure for its own sake is not necessarily a good thing. None of us is moving in that direction. Any capital expenditure is in line with our strategic priorities—the measures that will have the highest economic impact. That is certainly what Scottish Enterprise continues to do. Most of our capital expenditure is directed at supporting the internationalisation or growth of companies. It sits at around 40 per cent of our budget, which it has done historically.

Ken Neilson (VisitScotland): VisitScotland has a much smaller capital budget, but we look to vary it as has been described. This is the first year that we will have done that to a reasonably significant level. The principal reason for doing it is to improve the visitor information centre infrastructure throughout Scotland. We will invest in that infrastructure to bring the centres up to a better standard.

Patrick Harvie: What is taking the hit? If there has been an increase over the past few years in the level of shift from revenue to capital budgets, what are you not able to do that you might previously have done with money in the revenue side?

Ken Neilson: Before, we had a maintenance budget. We are trying to transfer away from maintenance into long-term improvement. We are not switching like for like exactly; we are trying to ensure that we do not need such a continuing programme of maintenance and that we fix the problems once and for all. We are spending that cash so that we do not have to continue with the same level of maintenance. We are trying to fund most of that by transferring a similar budget across.

Patrick Harvie: Does spending more on the capital side not increase your future need for maintenance?

Ken Neilson: No, I do not think so.

10:15

Alex Paterson: I support what has been said already. Our capital targets are typically set quite low in recognition of the fact that we will be moving more money into capital. We have a prioritisation framework that sets the guidelines for what we want to invest in, and a lot of what we want to do for the region is capital projects. We cannot develop a renewables or life sciences sector without a lot of capital spend.

In response to the question of what we should stop doing, I will say that we should not stop doing anything. Rather than stop doing things, we go out and get other funds. In the past financial year, we brought in more than £10 million of funds from Europe and other sources to do things that we wanted to do—for example, to support our management leadership programme and our graduate placement programmes. My view is that we should not say that we will stop doing things. We need to prioritise what we do, but let us go and find other sources of funds—which exist—to enable us to do what we want to do. We have already been successful in achieving that.

Lena Wilson: I will add to what Alex Paterson has said, not repeat it. That dynamic management is really necessary. When we had this conversation last year, I told the committee that economic development does not begin on 1 April and end on 31 March. For example, if someone has some capital expenditure that is programmed to be spent in the last quarter of the year, it is quite easy by arrangement with their partners to move that into the first quarter of the next year. That constant dynamic management is a necessary part of managing a large-scale public sector budget. I therefore agree with Alex Paterson that it is not about stopping doing things.

Rhoda Grant (Highlands and Islands) (Lab): In previous years, we have heard a lot of evidence that moving funds from the revenue to the capital budget is a good thing, because it creates jobs and builds the economy. This year has been markedly different in that concerns have been voiced to us that that is not a good thing any more because it is causing job losses in the public sector and is not creating the same number of jobs in the private sector due to leakage. What do you do to prevent leakage when you are capital funding and spending?

Lena Wilson: Leakage is not a big issue for Scottish Enterprise because—I repeat what I said earlier—most of our capital expenditure is aimed at helping companies to grow and innovate, helping them with plant and equipment, and helping them to expand. The vast majority of our capital expenditure is aimed at Scotland's potentially growing companies, so there is very little leakage. If we pursued capital expenditure for its own sake, that might well happen, but the vast majority of our capital expenditure is aimed at either indigenous businesses or overseas businesses that are going to invest in Scotland.

Rhoda Grant: How do you ensure that they carry out that spending in Scotland and that the plant improvements that they make are not brought in from overseas and the like? How do you try to capitalise that spending to make sure that it stays in Scotland?

Lena Wilson: We do as much as possible in terms of the supply chain. Part of attracting a foreign investor would be showing them Scotland's capabilities and that we have the supply chain both for goods and services and for Scotland's construction services, and we would enter into those partnerships. As far as possible, we have made changes to regional selective assistance to encourage local procurement. We do everything that we can within the rules, but a big attraction is the fact that we have such a good supply chain in Scotland.

Alex Paterson: We are in danger of repeating each other and I do not want to do that.

The Convener: Please do not. We have plenty of other questions to get through.

Alex Paterson: I will just say quickly that capital spend is important and there is a broad definition of what capital is. It is not just buildings coming out of the ground; the support to companies is vital. A lot of capital investments—the physical infrastructure investments—are about not just preparing today for jobs tomorrow, as some of the big investments that we have made are creating jobs today, but ensuring that we are ahead of the curve in renewables and life sciences so that the jobs will come over a period.

Lena Wilson talked about how we ensure that the investment takes place here. Any award that we make to a business has a number of conditions attached to it and it must use the funds for the purpose for which they were awarded. In our case, that is investment in the Highlands and Islands and, more broadly, in Scotland. The funds are linked to conditions that ensure that the investment takes place here.

Rhoda Grant: Can I move on?

The Convener: I will come back to you, Rhoda. I want to ask one more question on the issue of moving resource to capital. Which has the greater economic impact: resource spending or capital spending, or does it depend?

Lena Wilson: You have answered your question, convener—it absolutely depends. I would hesitate to put percentages on it, but the split is roughly 80 to 20. I would say that 80 per cent of our projects and work that we are involved in entail some form of capital and resource spending. The support that we give to a company may be for a significant plant expansion, but it will also be for leadership development or export development. The art is in making sure that as much as possible goes to any economic development project for the maximum impact.

The Convener: As there are no other questions on that topic, I will let Rhoda Grant move on to something else.

Rhoda Grant: I turn to the overall economic challenge that we face. What are the key initiatives that the agencies are proposing and taking forward that will have the maximum impact in the current economic climate?

Alex Paterson: We are doing a number of things. At the top of the list, I would put our account management support. We are now working with more than 600 organisations through account management across the Highlands and Islands. We supported or assisted about 1,800 organisations last year in total. Account management is at the heart of what we do.

A lot of companies are still growing. It is hard to go to an engineering company or a company in the energy sector that is not doing well, but that is not universal across all sectors. Although we have a strong and unrelenting focus on growth, we realise that for some companies growth will not come now. We are therefore working with businesses to ensure that they are sustainable and robust so that when growth opportunities come, they are in a good position to take them.

We did a pulse survey of about 260 of our account managed organisations. One finding was that the companies that are optimistic about the future—many of them still are; more than 70 per cent of companies are really optimistic about the next couple of years—are investing in management development, leadership development and innovation so that they are prepared for growth when it comes, because some of the markets, whether the United Kingdom or the eurozone, are struggling.

I will refer to one or two other things that we are doing. We are looking at how we can improve access to finance. It is interesting that quite a number of businesses get the finance that they are looking for and quite a number get some of it, but a large proportion do not get the finance that they are looking for. We have financial tools whereby we can improve our intervention rates or can potentially look at providing some working capital assistance, so we are investigating those opportunities and are working with the banks to see how we can be more closely aligned, particularly when we have account managed companies in common.

Along with Scottish Development International, we are encouraging more businesses to look overseas to markets that are growing, as well as to those at home that may be struggling.

We are doing a range of things but, fundamentally, the account management approach is at the heart of it. We are helping companies that want to grow today to grow, and helping those that may be finding it difficult today but have the potential to grow in the next year or two or three years to be sustainable in the current economic situation.

Lena Wilson: I will again add some points and not repeat those that have been made.

We are definitely taking a two-pronged approach. One focus is on the growth companies. Sixty-seven per cent of the companies that we work with increased their turnover. That is really important, because those are the companies that are most likely to create jobs. Fifty per cent of the companies increased their profitability and, importantly, 44 per cent increased their employment. Those growth companies are very important as a source of jobs and growth.

However, we must have a strong eye on the bulk of the business base, which is struggling. Companies tell us that three things are important to them: access to finance; the impact of the eurozone; and the impact of austerity measures on the marketplace.

I cannot overstate the importance of the access to finance package. A huge proportion of the 250-odd new companies that we supported had difficulty accessing finance. However, once we have improved their capability, their capacity and made introductions, a high percentage of those business have either accessed new finance or have sourced a form of finance that is better for them in the long term. It is important to get our arms around those businesses and have an eye on helping them maintain their position through this very difficult period.

Dr Cantlay: I will mention two things specific to tourism, travel and leisure. The World Travel Market, which is the annual get-together of all the major players in the world—all the multinationals—will be held next week in London. The mood will undoubtedly be bleak, because it is a tough environment across the world. That is the point, because Scotland has an opportunity to exploit the tough trading conditions if we inspire our industry to take advantage of our big themes to make a short-term difference. Seizing opportunities such as “Brave”, which we talked about previously, is a classic example of that. So the first thing is inspiring our industry and assuring it that we can make progress, because things are tough across the world.

The second thing must be that the Government can make a meaningful difference in this area. I mentioned “Brave”, and we talked about VisitScotland’s £7 million campaign to position “Brave” alongside Disney. The marketing reach of our work alone is now 360 million people across the world. That is what you can do when you focus and really go for something. In particular, destination marketing is a unique economic development tool that is used globally by many countries that have a strong tourism industry.

We have told you before about the maxim of a 20:1 return. The meet the Scots campaign that ran in Europe last year required an investment of £1.25 million and got a £71 million return in terms of additional spend in the Scottish economy. In the long-haul market, a £651,000 investment created a £27 million return. The mainstay UK campaign, surprise yourself, was an investment of £2.7 million and got a £90 million return.

The downside is that we are not the only ones to realise that a relatively modest investment can bring a good short-term return, so the area is becoming ever more competitive. However, with regard to 2013, as I said in my opening remarks, when the going gets tough, we get selling. We need to sell hard and use those tools.

Rhoda Grant: Two bugbears of mine are renewables and ways of capitalising on them, and digital connectivity. Do we have enough resources in the Scottish budget to capitalise on the opportunities that are available in those two streams of development?

Lena Wilson: I will deal with renewables and Alex Paterson will deal with digital connectivity.

Three years ago, the Scottish Enterprise board said that renewables would be the biggest of the priorities in terms of the possibility for transforming the Scottish economy. We certainly put a huge amount of our budget into that. The successes that we have seen in renewables, such as the £100 million investment and the creation of 500 jobs at the Samsung site in Fife, the developments at Nigg in the Highlands and Islands and the Gamesa development work in Leith, represent significant global investments.

We will not turn the situation around in a year or so. Renewables is a long-term game with committed long-term investment. From my point of view, I do not feel that there is any shortage of opportunity, shortage of commitment to Scotland or shortage of funds. There are not limitless funds, and we must manage them within the confines of the budgets that we have, but we are out talking to sovereign wealth funds all over the world about the potential to develop Scotland. We have our national renewables infrastructure fund for our ports. We also have the new £100 million from the Government’s renewable energy investment fund, which comes from the fossil fuel levy.

As Alex Paterson said earlier, we are looking at every possible source of funding. Wind, wave and tidal power are all at different stages of development and are at different stages of that cost curve.

We are also looking at the oil and gas industry. Most of the supply chain for renewables comes from Scotland’s existing oil and gas suppliers, and they must be made ready for developments.

I feel that Scotland is making a terrific commitment to renewables and that we are putting our money where our mouth is.

Alex Paterson: We have spoken about digital connectivity many times. I have said to the committee previously, and we state in our operating plan, that there is nothing more important for Scotland than being a digital region. That is why we have been pushing this agenda hard. Since last we met, we have a Government strategy on digital, which is welcome and is backed by funds. It takes a broad-brush approach and covers not only the infrastructure but the community dimension, participation and digital inclusion.

You could throw huge amounts of money at digital and it would still not be enough. Yesterday, 4G was launched in some cities. I would love the Highlands and Islands to have 4G—indeed, I would love us to have 3G across the whole area, as some places only have 2G. There is always a need for more.

10:30

From a Highlands and Islands point of view, we have a commitment from the Government for £120 million to support the roll-out of superfast broadband, and we are about to conclude a competitive dialogue procurement process on that. That will not get us everywhere, but in addition to that step-change programme, which we are running for the Highlands and Islands and which is about to start procurement for the rest of Scotland, there are funds for community broadband and digital participation. My assessment is that the funds that are available represent a huge contribution to moving Scotland towards being a digital nation.

More will be required in the future—not just from public funds, but from elsewhere, such as from Europe and from investment by telecoms companies. However, huge strides have been made over the past 18 months or so in terms of both the importance of the initiative and the funding that is allocated to it. Things are about to happen on the ground with the roll-out of fibre optics. In the Highlands and Islands, we are about to conclude a contract that involves laying 19 subsea cables. From our point of view, we cannot have the service just in Inverness. We need to have it on the islands as well. Some 1,200km of fibre-optic cable is to be laid. It is the biggest and most complicated broadband project in the UK, and almost in Europe. I think that we can make really good progress and the Government is fully committed to moving the digital agenda forward.

The Convener: Dennis Robertson wants to come in on the renewables issue.

Dennis Robertson (Aberdeenshire West) (SNP): I was delighted to hear Lena Wilson say that Scottish Enterprise is starting to work with the oil and gas sector on renewables. How much of a role does that sector play in renewables?

Do you use the globalscot programme in trying to encourage investment?

Lena Wilson: I will take your second question first. In Chicago last month, on the back of the attendance of senior executives at the Ryder cup, I held, alongside the First Minister, an oil and gas round table for eight global Scots from Houston, Calgary and more widely in the US to talk not just about oil and gas opportunities and shale but, significantly, about the opportunities around renewables.

On your first question, operating in a hostile environment and the transportation issues that the oil and gas industry is used to are both relevant matters. Offshore wind will potentially operate in very hostile environments, so that expertise can be used, as can expertise in aspects of the engineering supply chain and in aerospace and the development of composite and lighter materials.

There are significant opportunities. Companies such as the Wood Group and Clyde Blowers, which are part of the oil and gas supply chain, are now actively looking at the opportunities in renewables or already working in that area. I do not have the exact figure, but in one particular initiative, we are working with 600 to 700 Scottish companies to get them ready for the renewables supply chain, and many of them are currently in the oil and gas sector.

Dennis Robertson: Do you believe that the oil and gas sector is becoming the energy sector in a generic sense? Although there is probably another 40 or 50 years of oil and gas production, certainly in the North Sea, is the sector starting to invest in renewables research and development, given that the skills of its workforce are relevant to that area?

Lena Wilson: Many companies are doing exactly that. We have a £10 million fund for innovation in oil and gas companies, to ensure that we have the most efficient low-carbon approach to oil and gas that we can have. We must not forget that the sector grew by 4.5 per cent last year, and 50 per cent of it is exported. It is a very important international sector for Scotland.

Dennis Robertson: What positive steps are you taking to address inequalities and encourage girls to go into the sector? For a long time, the stereotypical view has been that it is a man's industry. Does Scottish Enterprise have a role in trying to encourage the opening up of the field to young women?

Lena Wilson: I think that, as politicians and perhaps as parents, you all have a role. I know that one committee member's daughter is an engineer in the energy sector, and I am going to meet her in the next month or so. That is a terrific example.

I was harangued in the press for apparently criticising doctors, lawyers and accountants and saying that everyone should go into engineering.

The Convener: Shocking.

Lena Wilson: Of course, that was not the case. What I was trying to say is that we should be aligning all our young people with the opportunities in the economy.

Girls are very underrepresented in the sector. Steel Engineering has launched the Renewable Energy Skills Training Academy—TRESTA—which is one of Scotland's first academies for renewables engineering, and it has just taken on its first female apprentice. I have met her and she is extremely impressive, and although it will be hard going for that young lady, she is welcome in that environment. We want to see more such stories.

We all have to be responsible for this issue. It is not just about engineering but about aligning our young people with the opportunities in the economy. I will certainly trailblaze that as much as I can. Scottish Engineering, the women in technology network and other networks also have a strong role to play. I suggest that we must also educate our teachers as much as possible about the opportunities.

The Convener: Indeed. Joan McAlpine has a supplementary question.

Joan McAlpine: Ms Wilson, you mentioned discussing the opportunities in shale when you met global Scots in America. Can you tell us a bit more about that and what opportunities you envisage? I am particularly interested in the shale reserves in the south of Scotland around Canonbie.

Lena Wilson: Thank you for that question on a very topical issue, on which we are at the early stages of an understanding. In November, a leading global Scot who is based in Houston is coming to Scottish Enterprise to hold a workshop with us on what his organisation is doing and give a presentation that he recently gave his board. I have not had a chance to talk to Alex Paterson about that yet, but I will invite colleagues from Highlands and Islands Enterprise to the workshop. As I said, we should look at each and every opportunity that we can, and we are at an early stage on the shale issue. I am certainly technically deficient and not competent enough to give you a lecture on it today.

Joan McAlpine: Thank you very much.

The Convener: Patrick Harvie is probably about to explode at this point. [*Laughter*.]

Patrick Harvie: I am past it. [*Laughter*.] Lena Wilson lost me when she used the phrase "low-carbon approach to oil and gas".

The Convener: We will go back to Rhoda Grant.

Rhoda Grant: My first question is directed at VisitScotland. Digital connectivity is not only important for businesses that are trying to sell more widely, but something that visitors to Scotland ask for. Most people want to stay in touch while they are on their holidays. Are we doing enough in that regard? Are there barriers to expanding our tourism businesses if we do not proceed with a bit more speed?

Dr Cantlay: VisitScotland.com is transforming into a digital media base that will travel with you, as long as it knows where you are. It needs connectivity to be able to achieve that. We have discussed this before, but the principle is that VisitScotland.com will be a machine that tracks where you are, learns what you like and guides your journey. I hope that it will ensure that any visitor spends as much as they can—that we maximise their spend—as they go. From that point of view, the system is pioneering. However, it needs good connectivity.

Rhoda Grant: Are we doing enough?

Dr Cantlay: I think that we are doing enough. We are spearheading the machinery at our end and I believe that using that tool will place us at the forefront globally. However, we need connectivity, and that is always going to be slightly challenging given that we have connectivity problems in some parts of the Highlands and Islands in particular. Nonetheless, we are in a good position and the approach is certainly seen as a competitive strength of Scotland.

Chic Brodie (South Scotland) (SNP): Good morning. My question is mainly for Scottish Enterprise, but it also applies to Highlands and Islands Enterprise. The level 4 expenditure analysis shows that you budgeted £27.4 million last year for direct expenditure. Clearly, there are also indirect expenditure elements that will be added to that. Your outturn is likely to be £26.6 million, and next year it will go up to £28.7 million. Scottish Enterprise and SDI have done a great job in relation to increasing export sales over the next three years by about £700,000, which was referred to earlier.

What timescales do you envisage for increasing our international presence? Do we have the skills, the leadership, the management and, indeed, the culture to increase our international presence? I will come back to funding in a minute, but I ask that question because we are still talking about increasing our exports by 50 per cent by 2017. On the basis of all that information, do you believe that the budget settlement gives you adequate resource to achieve our medium to long-term international growth targets? Is it realistic in that respect?

Lena Wilson: Thank you very much for those questions. There were quite a few, and although I will try to answer them all, if I do not pick up on something, please come back to me.

The budget that we allocate to SDI on behalf of our partners in the Scottish Government and Highlands and Islands Enterprise is largely to do with things such as managing our offices all over the world—we have 23 at present—and paying for premises. However, that is a vast underestimate of the amount that Scottish Enterprise and HIE spend on internationalisation. Almost all the work that we do with companies helps them to get to a position in which they can internationalise. The red herring—which we discussed briefly last year—is that the budget line for SDI is the cost of running SDI.

You asked about the timescale for the new offices. I went to Brazil and we had a good look at the country just after I appeared before the committee last year. We now have a member of staff who is trailblazing out in Brazil and deciding where the office should be. Next month, I go to west Africa and South Africa, where we have a couple of members of staff from our Paris office and someone else who knows the market. They are trailblazing for some Scottish engineering companies. In addition, we have just opened our new office in Calgary to take advantage of the markets there. The process is moving as quickly as possible.

As with renewables, it not possible simply to throw money at exporting in one year and hope that companies will export. It is about ensuring that the companies that are very good active exporters replicate their success in other emerging and new markets. That is one strategy.

The other strategy is vastly increasing the number of exporters. We have supported 1,400 companies through a range of trade and investment opportunities. Since the end of 2010, we have taken an additional 2,000 companies through the smart exporter programme, which gives companies the appetite to invest in exporting and encourages the culture of exporting. We have done a lot of capacity building.

At the heart of the issue are leadership, ambition and showing the opportunity that exists. There is nothing as good as a role model. There is no point in our telling people how good exporting is; it is better to have people who say, "That guy did it—he's just like me and look at the markets he's in." I think that the fact that we have seen food exports top £1 billion is down to that.

Chic Brodie: I understand that—that is why I asked about leadership—but a bigger question is whether the culture and the appetite to go international exist in some companies. I know that you are doing a great job in driving progress, but is an appetite to go and export inherent in the Scottish business culture?

Lena Wilson: There are undoubtedly companies that do not export despite having opportunities to do so. Understanding why that is the case is a constant challenge. It is not about Scottish Enterprise, HIE or SDI being great; it must be about the companies.

I mentioned the food and drink industry, whose exports have topped £1 billion. Those are largely small and pretty fragmented companies. Some of the beer companies, such as BrewDog and Innis & Gunn, and some of the salmon companies are doing great things. Members should look at what Albert Bartlett is doing through its deal with Walmart in the US. Those are terrific role models, and the more the Scottish press writes about the great job that Scottish companies are doing overseas, the more inspirational that will be to companies.

I am going to stick my neck out and say that we should have a massively high target. If the target is to increase exports by 50 per cent and we increase them by 45 per cent, we will all be delighted. If the target were only 30 per cent, we might achieve a figure of only 25 per cent. Hand on heart, I do not know whether we will hit the 50 per cent target, but it is certainly worth going for. The target should be as ambitious as possible. The early signs from the past year are pretty positive, but progress will take the shape of a hockey stick—it will ramp up. It will not be the case that next year everyone will become an exporter; it is tougher than that.

10:45

Chic Brodie: Last year, you managed 2,035 companies in the growth sector. You plan to increase that by 20 per cent—407 companies—by 2015. This year, you have increased the figure by 38. That means that, over the next three years, you have to find 369 companies to achieve your target.

Some people might be optimistic about the pipeline, but I am not particularly optimistic about the business gateway feed-through. As the convener of the cross-party group on social enterprise, I know what some of the problems are. Given that there are about 36 start-ups per 100,000 population a year and given that the survival rate is not much better at the lower level, how are we going to generate and increase the flow of companies from particular sectors into the premier league, if you like, of high-growth companies? How are you going to find those 369 companies over the next three years?

Lena Wilson: I should say to the committee that the 39 companies that Mr Brodie has referred to are now 40-odd, that we are talking about what has happened since the beginning of our financial year and that this is only November. I am an incredible optimist. If you double that figure to 100, you begin to wrap all this up. I am all for big targets, but please do not beat me up if the figure is 19 per cent not 20 per cent.

Chic Brodie: But how do we support those companies?

Lena Wilson: You asked me how we are going to find those companies. We have already got another 40; I hope that we will have another 100 by the end of the year and another 120 next year and, as word gets out, we can get another 180. We might get 380, not 400 or whatever the number is, but we have to get the message out to as many companies as possible about the opportunities, help them with access to finance, take them to new markets, and show them as many role models as possible. We need to have the most flexible approach possible to business growth.

Chic Brodie: Access to funds is important to the social enterprise sector, and I know that you have done a lot of work in the access to finance programme and so on. However, the big issue is business support. We are talking about high-growth companies here. Do we really have the inherent skills available to provide business support both domestically and internationally to the 369 companies—perhaps it will not be 369; perhaps we will get only 250—that you will be pushing forward over the next three years and to achieve the higher growth targets that we have set?

Lena Wilson: Undoubtedly there are challenges. We all need to up our internationalisation skill set. I have been criticised for spending money on a flight to Japan, but I cannot do my job sitting in an office in Waterloo Street. We all need to think more internationally, get our young people moving in a more international direction and generate that culture of ambition by writing about it in the media and so on.

We have terrific people working not only in the public sector but in banks, accounting firms and the intermediary markets, and we have done a lot more work with them to ensure that we have a network of support around companies. It should not be just HIE, SE or business gateway; we have to do more to ensure that we have that skill set in all aspects of economic development in Scotland.

Chic Brodie: I am not criticising you—I think that you have done a great job to raise the profile. However, although I agree that targets should be set as high as possible, do you have the necessary budget to achieve what are indeed aggressive targets?

Lena Wilson: If I thought for a minute that our budget was not sufficient to do that, I would be making the loudest noise about it—behind closed doors, obviously, because that is how we deal with these things. However, throwing budgets at the problem is not the magic bullet. We need deep advice and the kind of interventions such as the role models that I have mentioned; it is not simply a case of chucking money at all this. We are doing everything we can, and if I thought for a minute that the answer was a bigger budget I would certainly be making those representations.

Chic Brodie: I agree that there is a culture issue in Scotland that we need to change.

Dennis Robertson: You are just reinforcing it, Chic.

Chic Brodie: Thank you.

Following on from Rhoda Grant's question, I note that VisitScotland's capital expenditure has increased by £1.5 million basically for the refurbishment of its estate and investment in the digital strategy. I know that VisitScotland is planning to spend £900,000 with New Mind on the website, but I do not know what stage that has reached. Given the amount that is being spent on information and communication technology contracts across Government, how much is VisitScotland spending on information technology? Is the current system fit for purpose? Are there plans to spend any more on internal IT systems?

Ken Neilson: VisitScotland is made up of two digital parts, the first of which is an internal support element that I suppose might be called classic IT and which supports servers, runs the networks and so on. Spend on salaries and total costs in that area of the organisation is perhaps £200,000 or £250,000.

The other part is the digital Scotland project, for which, as you have said, we are providing £900,000 in capital over the next four years as the system goes live and expands through the various phases. I should make it clear that not all of that money is going to New Mind; we are also capitalising some internal labour costs in the project.

Chic Brodie: So you are not spending £900,000 on that project.

Ken Neilson: We are, but the project is made up of a number of components. It is not just straight procurement.

As for what the project will do, I come back to Mike Cantlay's earlier comments. It will create something that we do not think exists in any national tourism agency and provide a gateway of information about Scotland that will follow consumers—in other words, tourists—around the country, linking them with what Scotland has to offer them.

Chic Brodie: In my book, tourism is an export industry, and you are doing a good job in raising its profile. However, with regard to internationalisation, I am surprised to see in the budget that although the Government has increased its allocation the amounts from other income streams are falling.

Ken Neilson: There will be a mix of reasons for that. We generate £13 million of our cash from many other sources apart from straight Government funding; for example, we get £2 million to £2.5 million from local authorities, which are looking to upweight—or should I say localise—our existing marketing programmes. In the past, local authorities would have done that but would also have paid a core grant to the VIC network. That network has largely gone and part of the reduction in that income stream reflects a change in the way local authorities choose to do business with us. We self-fund the VICs and provide a service by working in partnership with them on marketing campaigns.

As for retail income, we are suffering the same problems as everyone else in the high street.

Chic Brodie: Forgive me, but your organisation has increased its marketing profile and is doing a good job in selling its main product, which is the winning years. Why are we not selling our capability internationally and getting people to understand—

Ken Neilson: I am sorry—I misunderstood the question.

Chic Brodie: What are you doing not just internationally but domestically to increase your revenue streams aside from the increase in central Government funding?

Ken Neilson: We are looking to do that through partnerships, to give an obvious example. We will work with, say, Highland Spring or Easyjet or one of the other airlines and use their marketing expertise to make our expenditure go further. With such an approach, we can merge the two lines of spend, get more marketing and, indeed, be very direct in where we are making that expenditure and placing our marketing. For example, with Easyjet's new routes, we will be able to place our marketing in that general catchment area.

Dr Cantlay: We could attempt to show you how we work with companies on some of these marketing projects. Such activity does not sit in our budget but we are able to do it because we are matching with, say, an airline or whatever. We cannot go into the specifics about individual companies, but we can give you a feel for how we do these things. The matching process has been very successful, but it does not show up in the budget.

Chic Brodie: But that is my concern: it does not show up in the income stream.

Ken Neilson: It does not necessarily show up in there.

Chic Brodie: So you are doing all that work, and yet I am sure you are not depressing the income stream.

Dr Cantlay: We are sensitive about individual company circumstances, but we can give you an indication that will make you happy.

Chic Brodie: Maybe it could go in under the access to finance programme.

Dr Cantlay: We do a lot of matching work specifically on route development and other such projects that does not show up in the budget.

The Convener: It would be helpful if you were able to share some of that with us.

Dr Cantlay: We will see what we can do.

The Convener: I appreciate that time is getting on, and there are a number of members still to come in. Marco Biagi will go next.

Marco Biagi (Edinburgh Central) (SNP): I have a question on one of the issues that the Scottish Enterprise submission highlighted. It is clear that there is a lot of support for focus on growth companies and exports, but the submission singled out the inward investment of £200 million in the past year. It is clear that we are in a very strong phase for foreign direct investment at present, and I assume that Scottish Enterprise is devoting substantial resource—human if not financial—to making that happen.

How would you address the doubters who look back at the experience of silicon glen and are concerned that such efforts to bring foreign-based companies to Scotland might not yield the type of high-quality, stable and sustained employment that we really need if we are to achieve long-term recovery?

Lena Wilson: First, many companies that have been in Scotland then left the country left a legacy for beyond the period in which they were direct investors in Scotland. For example, they raised the skills levels. When the Motorola mobile phone plant at Easter Inch closed down, there was around 80 per cent to 90 per cent redeployment of staff because the skill level was so high. Those people were able to be redeployed very effectively in the wider economy. There is a legacy from those companies in areas such as skills, management, innovation and R and D.

Secondly, the world is very different and no company will come to Scotland because we are cheap. There has been a pattern of companies moving to Eastern Europe and then Asia, and now south-east Asia and Bangladesh, and they will keep on moving to the lower-cost locations. We have not been in that market for inward investment for a very long time.

The most interesting factor in all that is that Scotland tops the UK, in getting approximately 20 per cent of all the R and D investment that comes to the UK. We are punching above our weight to a factor of double our population share.

Our whole strategy is now predicated on Scotland's natural assets, fantastic scientific capability, talented people and business infrastructure and supply chain. That minimises the chance of any investor coming in to take advantage of a low-cost location and then simply leaving again.

Any incentives that investors get are highly predicated on having to pay those back if they leave early; there are very strong conditions in that regard. There has not been much upping and leaving among companies that have come in during the past five years or so because they are much more anchored in the country.

Finally, 80 per cent of all the foreign investment that Scotland gets is reinvestment from companies that are already very happy in Scotland, and that is the highest form of flattery for our country.

Marco Biagi: To move to a slightly adjacent topic, you mentioned research and development. Scotland has historically had very low levels of business expenditure on research and development, and very high levels of spending on R and D in the higher education sector. The interface between those two things has been a policy bugbear for successive Governments. Are any steps set out, either in the budget or in your internal plans that are funded by the budget, that can help to bridge that gap?

Your submission highlights that Scottish Enterprise's contribution is

"providing a deep understanding of potential markets and commercial experience".

However, I have heard that what the universities—certainly the university in my constituency—are really looking for, and of which there is a shortage, is access to appropriate capital and equity support at the early stage. Have you any processes in place to address that?

Lena Wilson: I will be as brief as I can, because I know that we are short of time.

There are several aspects to the matter. The first is that we had a history of investing heavily in intellectual property, mostly with our universities. The business process is that one moves from intellectual property to registering it with the Intellectual Property Office, and we are much further along the right-hand curve of that. Therefore, other than some legacy programmes, it would be unusual for us to invest in university IP for its own sake.

11:00

The catapult centres in renewable energy and some of the work that we do with the school of informatics at the University of Edinburgh on stem-cell research are very highly commercialised against a global opportunity. Other than legacy programmes, our work on R and D is exclusively with companies that access university IP or the wider innovation agenda.

Scotland does not perform as well as the rest of the United Kingdom on business expenditure on research and development because of its basic company infrastructure. However, on innovation, it performs just as well as, and in some regions better than, the rest of the UK. We put all that into commercialisation so that companies can grow out of it and put the access to finance around that. We have a specialist high-growth unit that works almost exclusively with high-technology ideas that come out of IP and commercialises them as quickly as possible.

Marco Biagi: Can you access private networks as well, such as the business networks that are useful for new start-ups that come out of universities and elsewhere?

Lena Wilson: We can. Scotland has the most active business-angel network in Europe. Those business angels not only form a ready source of finance, but provide high-level advice. Most of them have done it before, so we have a pretty good network.

In some areas, part of our strategy is to attract not only foreign investment but global entrepreneurs and global specialists to Scotland.

Alex Paterson: The inward investment pipeline is strong just now, not only through new companies coming in but through those that are already in Scotland expanding. The R and D focus is really important. An awful lot of the current inquiries are looking for higher-level skills—not just manufacturing skills. That is important. For example, LifeScan decided to place its global research centre for blood-glucose monitoring in Inverness. It is hard to up sticks and move 150 R and D people.

I will also comment on R and D more widely. We and Scottish Enterprise are involved in two important initiatives with the Scottish Further and Higher Education Funding Council. One is the expansion of interface, which has made a real difference in linking businesses to the academic expertise within universities and colleges. There has been a big increase in the number of businesses that are engaging with that. Secondly, all three agencies are working closely together on the Scottish innovation centres. That is a new initiative that is focused on a number of sectors, and which tries to accelerate commercialisation of academic expertise. Support for innovation and R and D are critical in our company support, given the economic situation that we are in.

Joan McAlpine: My question is for Scottish Enterprise. I was heartened to read in the *Sunday Herald* that Neil Francis, SE's senior director of technologies, has said that SE wants to prioritise big data storage and has commissioned a consultancy to examine the best possible sites for data centres. How much of the budget does Scottish Enterprise plan to devote so that? What is the potential for Scotland? In the past—before Lena's tenure, I think—we missed out on some of the big names, which went to places such as Iceland and Sweden instead.

Lena Wilson: I am certainly aware of that having happened, particularly in respect of the south of Scotland.

I am not able to say right now how much of a budget we will commit to data centres; it will depend on the nature of the opportunity. The reason why we bring everything back to the notion of gross value added is that, although it is not perfect, it is the best arbiter that we have in deciding whether to spend money on one thing or another.

Data storage is a terrific opportunity in terms of our five strategic priorities, including the transition to a low-carbon economy. One of the reasons why Scotland is so competitive is our climate, which means that data centres here use less energy. I do not know the full extent of the opportunity; that is why we are doing the study. I do not know how quickly we would need to move on it and I do not know how much budget we would apportion to it, but if it is worth going for and will give us a return, we will get right behind it. I am happy to share the study with the committee, and you can certainly be involved in it.

Joan McAlpine: I would appreciate that, because Ecclefechan, which is in my region, was identified at an early stage as an ideal place for data storage.

The big names have now moved elsewhere. South of Scotland Scottish Enterprise has done strategic work on how best to progress the issue. It identified—I do not want to get too technical—that if we get to the lowest possible energy use for the centres, we could attract companies. With Scotland's renewables potential, if we were to go for low-energy centres, we could become prestigious in the data storage sector. Is that how you will approach things?

Lena Wilson: That is my understanding. I would describe the very low-energy users as being a niche in a niche market. There are further international opportunities that have not been pursued.

Joan McAlpine: Is there a role for the public sector? Following Scottish Enterprise south of Scotland's strategic work, it is keen on using public sector data storage as a flagship project; if, for example, the Government directed data to the low-energy centres, that could act as a flagship to bring in international business.

Lena Wilson: That is undoubtedly the case not only for data centres, but for procurement and a range of areas where the public sector can use its resources to seed something, to get something going, to de-risk some of it, and to show that it is important. That obviously acts as a magnet and an attractor to the private sector.

Joan McAlpine: Thank you for that, and for your offer to share information.

Chic Brodie: Before I was elevated to the high position of MSP, I was involved in trying to bring a health compliance and audit company from the United States to Scotland. We talked about the disaster recovery of US medical records and where to put them. It might have been in Scotland—had the data centre in Ecclefechan been developed. Are we selling data storage capability abroad?

Lena Wilson: Yes, we are. For every opportunity, we have a detailed proposition with marketing material that includes information on and opportunities in the sector; information on Scotland's strengths, including academic strengths; and information on our low-carbon targets. We have had—we still have—a proposition for data centres, with active global marketing over the past five years or so. Unfortunately—we should not avoid conceding this—we have missed one or two opportunities.

John Park (Mid Scotland and Fife) (Lab): Further to Marco Biagi's earlier question about what inward investment looks like in Scotland, will Lena Wilson say a little bit about how we spend money and what interventions there are? How have things changed following the economic problems that we have had over the past three or four years? What do we want from companies that we directly support when they come to Scotland or when we invest in their infrastructure? What strings are attached? Have they changed? Do we have the same "Come to Scotland: this a place to invest" message as we did three or four years ago, or has that changed? What are we looking for these days?

Lena Wilson: Convener, the word that I could not remember earlier is "clawback". There are clawback provisions on RSA. I am glad that I remembered that.

The situation is constantly evolving. We have had a terrific year for inward investment, but what is in the pipeline is challenging because of the global slowdown in foreign investment; the eurozone, in particular, is having a challenging time. We must work hard as a country to keep attracting the same levels of foreign investment. There is nothing wrong with Scotland; global conditions are the challenge.

We are constantly moving up the value chain and we are looking at foreign investment that ties in with our scientific capability, our great people and our natural assets. We are utilising—as much as we can—the wide range of powers that Scottish Enterprise and Highlands and Islands Enterprise have to do that. We have a life sciences fund to promote and attract R and D and life sciences, we have POWERS and WATERS—prototyping for offshore wind energy renewables Scotland, and wave and tidal energy research, development and demonstration support—grants that are designed for marine issues, and we have a national renewables infrastructure fund for offshore wind. We are doing everything that we can. To go back to something that Mike Cantlay said earlier, the competition looks at that and thinks, "Oh, we'll do that, too." Therefore, we must run very fast to stay firm.

The main sources of incentive are still around. There is regional selective assistance and there are things such as training plus grants, through which we can train the workforce.

However, I make the point that I made last year: incentives are only one part of the story. No company would come to Scotland just for incentives. Our incentives are very modest compared with those in other parts of the world. Companies will come because they will be more competitive in Scotland than in any other location. That must be our number 1 agenda on foreign investment, otherwise we will not get reinvestment, we will not anchor it in, and we will not get the multiplier effect in the supply chain, for example.

John Park: How does what you might describe as competitiveness fit with sustainable employment opportunities? I will use two examples from the area that I represent. Amazon had direct help to come in, but the people who work there to whom I have spoken are, in the main, not directly employed, but are employed through agencies. Obviously, there is concern about the security and nature of their employment.

I think that you talked about Fife energy park earlier. Burntisland Fabrications is there. It is a good employer in some senses, but it also has many people who could be described only as “bogus self-employed”. They are not directly employed by the company and instead have set themselves up as businesses working there. Financial support has, of course, gone into Scottish Enterprise to support the infrastructure of that: I am not convinced that that is good use of public money. I know that we are getting into details, but given many of the current issues around how people feel about their security of employment and what it means for decisions that they make, could Scottish Enterprise and Highlands and Islands Enterprise do more to promote better-quality employment opportunities?

Lena Wilson: There are many more foreign investors than the two that you mentioned. Both are excellent companies in many ways. In fabrication terms, BiFab is essential to Scotland’s on-going renewables industry, and Amazon supports many families in Scotland through wages, whether the person is a contractor or is employed full time. Obviously, as a citizen of Scotland, I would like to see everybody in full-time, long-term sustainable jobs, but we must accept that the nature of contracts and the nature of the world will not always afford everybody that possibility.

You asked specifically about what Scottish Enterprise can do. The vast majority of foreign investors that we work with talk about high-value and permanent jobs with lots of training, which are absolutely sustainable. Where that is not the case, I think that we have to accept that there will be peaks and troughs, as there are in Amazon, for example.

John Park: Amazon does not manage peaks and troughs. That is its business model.

Lena Wilson: It does manage peaks and troughs, because—

John Park: It does, but in the main—

Lena Wilson: I am sorry to correct you, but it does so massively in the build-up to Christmas, for example. There is a huge hump of employment around that.

John Park: Of course it does, but in the main, what I have described is how it operates its business.

Lena Wilson: Is no job preferable to a full-time, permanent job? I argue that, in our current climate, we should want to get well-paid work at decent employers for as many people as possible. We want to as many of those jobs as possible to be permanent. That might not always happen, but in the case of both Amazon—

John Park: Does the dialogue continue when Amazon or other companies come in?

Lena Wilson: Yes.

John Park: So, companies come in and receive support, and people are employed in a certain way, but you say, “Well, actually, we want to see a wee bit more out of this investment.”

Lena Wilson: We want to have the strongest possible partnership with businesses and we want them to be happy here. I was going to say that the easy part is getting the foreign investment, but that is not easy; it is only the beginning. After that, through Highlands and Islands Enterprise and Scottish Enterprise, businesses will have an account manager who will work with them intensively with other partners to try to help them to be more competitive and to influence their employment patterns. After all, our strategy for economic development is to do with sustainable economic growth, and that also means sustainable jobs. However, we must accept the current reality of the global economy.

John Park: I accept that.

Finally, you mentioned what people get paid. My question is probably relevant to everyone else on the panel and is certainly relevant to the next panel. What is your view on the living wage? The living wage is supported by the Scottish Government, by those who are directly employed in the Scottish Government and throughout the public sector. There is a move towards the living wage in the public sector. What impact does the living wage have on the voluntary sector and the private sector—for example, in hospitality? Is the effect positive? Should we aim to give more support?

Lena Wilson: Is that directed at me?

John Park: It is open to everyone.

11:15

Lena Wilson: I do not mean to sound trite, but the living wage is a necessary and good thing, certainly in Scottish Enterprise in our commitment to our employees, the example that we set to others and the encouragement that we give to companies. The living wage is extremely important. We have a significant influence on that and on the economy. Mike Cantlay might want to say something about the tourism sector. I guess there are issues sector by sector.

Dr Cantlay: I agree with Lena Wilson. The crucial point—which, if I remember correctly, I made the last time I was here—is that there are really good jobs available in the hospitality industry. We need to be confident about the visitor economy and more confident about encouraging people to take up opportunities.

Alex Paterson: I would just be repeating what others have said, if I said more than that the minimum wage is important. We do it as an organisation and we encourage companies that we invest in to do it.

To return to how we ensure that what we get from our investors sticks, we are using three things. First, there are the grants, which are related to jobs. That is really important. We pay out the grants only when the jobs are created, so that assurance exists. I hear what you say about the fact that some companies may use temporary arrangements—that is the nature of some of the sectors. However, an awful lot of the jobs that I see being created are full-time, fully employed in nature.

Secondly, we give a lot of support to training. Again, that is linked to the jobs being created and the skills being developed. The third thing that we do relates to property infrastructure. There is a range of things that we can package together to support an inward investor.

However, my experience at the moment is that those who are investing are doing so either because they are already here, like what they have and want to expand, or because they have looked at a number of locations in Europe and have chosen Scotland. It is not always the grant that is the deciding factor in their decision to come here; in fact, it is usually not the grant. We had a life sciences company come to Moray recently. We did not offer it as much money as it was offered in other parts of Europe but it wanted to be in Moray. Location was the big issue and it chose Forres.

Although a whole package of things goes towards the decision-making process, we certainly tie offers to delivery by companies of what they say they will deliver.

Mike MacKenzie (Highlands and Islands) (SNP): Lena Wilson will recall that last year we had a pretty interesting discussion about the methodology that Scottish Enterprise uses to discover the outcomes of its various strategies and initiatives. In relation to GVA and those outcomes, the methodology was acknowledged to be pretty robust. That is reflected in your written submission to the committee, which talks about

"Account managed companies growing their turnover by more than £1.2 billion".

That is a pretty hard number, and that approach is commendable.

My question is for Alex Paterson. I was a wee bit surprised that the figures in the written submission from HIE do not seem to be as robust. Can you tell us your equivalent figures in relation to account-managed companies in the HIE area for the increase in turnover and the percentage increase on last year?

Alex Paterson: I can. We track our impact in a number of ways. I think that I said to the committee last year that, rather than just measuring how much we do, we have changed fundamentally to measuring the difference that we make through what we do.

We have information that we could share with you on our output measures for this year and last year. For example, one of our top-line measures is the forecast increase in turnover of businesses that we support. Every time we support a business, we work with it to develop its growth plan and assess with it what difference our support will bring to it over three years. We go back to see whether what was forecast was delivered.

Through our support to businesses in the Highlands and Islands last year, we expect to deliver more than £100 million of additional turnover over, typically, three years. Our account managers who work with those businesses go back and ensure that what was forecast was delivered.

Mike MacKenzie: Does that equate to about £33 million per annum? Am I correct, or is the position not as simple as that?

Alex Paterson: It will vary. On top of that, we need to add the £44 million that was forecast in export sales and the 1,400 jobs that were forecast to be created. Every time we make an investment, we define what the outcomes are.

Mike MacKenzie: I will come to exports in a minute. It would be helpful if both agencies used the same approach, so that we could look at the value for money in similar, if not identical, terms. Given that Scottish Enterprise has been commended throughout the UK for the robustness of its measurement system, I am surprised that HIE appears not to use the same system or methodology.

Alex Paterson: Our teams work together. I would not want you to have the idea that we do not know what we are achieving, as that would not be right. When we make an investment in a business, it is difficult to know exactly what that will produce over a period of time. The basis of our investment is that, in working with the business, we can see what is planned and we can see the route that takes us towards delivering the outcomes. All that we can do then is go back and ask whether those outcomes materialised. That is the evidence base that we are developing.

Mike MacKenzie: You mentioned that HIE supports some account-managed businesses that may not be growing at the moment. Last year, there was criticism that both agencies focused exclusively on account managing businesses that showed the capability for high growth. Has there been a change, at least as far as HIE is concerned?

Alex Paterson: No—the focus is still on growth. The point that I made was about whether the growth has to happen now, next week or next year or whether the issue is that the company has the potential to grow over time.

Growth or the potential to grow is still the fundamental criterion in deciding how or whether we work with a business. Such businesses can range from big international companies with turnovers of millions of pounds to small local businesses whose growth is significant for communities in some of our fragile areas, although it might not be the same as that of some of the big companies that operate internationally. The potential, the desire and the ambition to grow are the fundamental requirement or characteristic of the businesses that we work with.

Mike MacKenzie: Scottish Enterprise tells us that it has attracted about £200 million of inward investment in the past year, which is terrific. Do we have equivalent figures for the HIE area?

Alex Paterson: We can probably disaggregate the figures. The SDI figures might incorporate the Highlands and Islands and the rest of Scotland; we would need to check that. However, we noted in our results for last year that we created 1,400 jobs across the Highlands and Islands. In addition, 400 jobs were created through RSA awards, and I am pretty sure that most of them were from inward investment that was supported by RSA grants.

Mike MacKenzie: You will appreciate that it would be helpful if both agencies reported in the same, or at least similar, terms so that we could get a better understanding. It strikes me that Scottish Enterprise has pioneered useful work in that territory, and I am surprised that HIE does not follow suit by reporting in similar terms.

Finally, can you give me figures for the amount of exports generated over the past year?

Alex Paterson: Yes. In 2011-12, through the businesses that we supported, we had export growth of £44 million.

Mike MacKenzie: That sounds encouraging.

One area that is not in your budget is the £120 million of spend for broadband. You talked about the miles or kilometres of cable, but that does not mean much to me; what I am interested in—and what I think the public are interested in—is the broadband provision that that will deliver. Will somebody who lives on Tiree or Raasay get high-speed broadband or not?

Alex Paterson: They will, because the Government's commitment is that we will all have it by 2020. Through the project that we are running, we are committed to getting 75 per cent coverage in each local authority area in the region. That is through the £120 million pot. On top of that, there is private sector deployment.

Figures that I have seen recently suggest that, across the Highlands and Islands, there will be more than 80 per cent next-generation or superfast broadband connectivity as a result of the 2015 programme. Beyond that, we will be into areas that are harder to get to or where some of the technologies do not exist. In those areas, through the community broadband Scotland service, we can pilot and trial new things. The indicative funding of £120 million will achieve a high degree of superfast broadband in every local authority area in the region.

The funding does a number of other things. It ties into the pathfinder requirements and the new Scottish wide-area network—SWAN—that is being developed, so it is pretty fundamental to public service delivery. The funding will also make community broadband more doable and affordable and provide a basis for better mobile coverage, both of which are crucial. We still need fibre points of presence for mobile coverage.

Mike MacKenzie: This really is my final question, convener.

The Convener: We have heard that one before.

Mike MacKenzie: It is important to tie in the issue with what VisitScotland told us about its portal or gateway, as I think it calls it. Incidentally, I was a wee bit intrigued by the point in VisitScotland's submission about "the Designator", which sounds like a film for Arnold Schwarzenegger.

It is important that connectivity is not only for residents; it has a point for tourism.

The Convener: Could we just get to the question?

Mike MacKenzie: Are there any innovative ways in which you are working with VisitScotland on the issue? You talked about 3G and 4G, but we just do not have that in the Highlands and Islands and we are unlikely to get 4G. Are there innovative ways of working to ensure some kind of coverage so that people who are used to smartphones telling them where to go do not fall off the map? It seems to me that it is the 21st century equivalent of the medieval maps that said, “Here be dragons.” That will be the Highlands and Islands, and nobody will go there. Can you do something about that in partnership with VisitScotland?

Alex Paterson: Yes, but people are coming to the Highlands and Islands. The population is growing and investors are coming, so it is not quite the land of the dragons. There is a lot of good stuff.

John Park: They might bump into Mike MacKenzie, though.

Alex Paterson: Mr MacKenzie’s point is a good one, because connectivity is important not just so that people can go on the iPlayer or whatever. We are trying to grow a digital healthcare sector in the region. Business services are growing, home working is growing and tourism is critical. All those are underpinned by good connectivity. The chief executive of VisitScotland, Malcolm Roughead, and some of his senior team recently met my senior team to discuss a number of areas on which we can work together, and that is one of them.

Another bit of cash that we have got from the Scottish Government is for an ICT participation programme for businesses, social enterprises and others, so that, when we have the fibre in the ground, we can do something with it. We are talking to Malcolm Roughead and his colleagues about what we can do jointly through that ICT engagement programme with hotels and other tourism businesses so that they can prepare for the benefits of superfast broadband.

Mike MacKenzie is absolutely right that, when people land at the airport and switch on their device, they assume that there will be connectivity. We give the issue such importance because the reality must quickly match that assumption. We are working closely with Mike Cantlay, Ken Neilson and their colleagues on how to join up with VisitScotland, and we are working with others such as the business gateway so that we can ensure collectively that the benefits of broadband are capitalised on.

Dr Cantlay: The key feature is that the tourism industry is becoming ever more consumer focused. The IT element is crucial, but it is part of an integrated approach. We operate about 95 physical information centres and, if we include the partnership information centres, the number goes up to about 130. Those centres allow visitors to go and speak to people in small villages throughout the country.

The other element is the quality assurance scheme, which had 7,600 members last year and now has 8,900. As a consequence of the various modes, some of which are technology driven and some of which are not, the visitor can wander round the entirety of Scotland and be confident with the service that is provided. That is unique in comparison with almost anywhere else in the world, and we should be confident about our integrated approach.

11:30

The Convener: Our time is pretty much up, but I want to address three specific questions that we have not had time to cover yet.

First, the Scottish Government has proposed that £25 million-worth of savings will be made in 2013-14 through the strategic forum, in which you are all collaborating. Will you each briefly tell the committee whether you know what your share of that £25 million is and where it will come from? Can you make that contribution without it having a negative impact on your other activities?

Iain Scott: I can answer that. It is too early to tell what our share is, and we have not yet discussed any figures with regard to how the £25 million will be split up next year.

In addition to what we had to do this year in allocating the savings among the strategic forum partners, support is now coming from the Government, which is talking to other parts of the public sector to get them to engage with the strategic forum partners in a way that has not happened this year. That may mean that we can share the burden more widely across the public sector, but as yet we have no specific figures for next year, or we would have put them in our submission.

The Convener: Is that the same for Highlands and Islands Enterprise?

Forbes Duthie: Yes, indeed.

The Convener: And for VisitScotland?

Ken Neilson: It is the same.

The Convener: That is very helpful.

My second point relates directly to the budget for Scottish Enterprise and Highlands and Islands Enterprise. This afternoon, Parliament will vote on the Local Government Finance (Unoccupied Properties etc) (Scotland) Bill, which—as I am sure you know—could increase the rates burden for empty properties. I imagine that both SE and HIE have a large property portfolio. Does each of you know how much it will cost your organisation if Parliament passes the bill?

Lena Wilson: Yes, we do. The reported figure was way in excess of what the bill is likely to cost us. We answered a freedom of information inquiry robustly and with many caveats, because that involved in effect trying to estimate which properties will be vacant and which will not. We included all properties where a lease may come up for renewal in the future. The reported figure was £700,000, and I think that the Scottish Government reported a figure of £400,000. The cost is likely to come in at under £400,000 and to be in the region of £344,000 to £350,000.

The Convener: Can you explain briefly what the difference between the figures is?

Lena Wilson: The FOI request asked us to attend to the potential liability. We looked at our vacant properties and included all properties where the leases were due for renewal within a certain timeframe. We were as open and transparent as possible, because I always worry that in responding to an FOI request I will underestimate something, and the actual figure will look worse. However, given what I now know about all those leases, and giving it my best guess, I think that it is highly likely that the cost will come in at under £400,000.

The Convener: Has HIE done a similar assessment?

Forbes Duthie: The figure would be substantially lower. We do not know what the exact figure will be, for the very reasons that Lena Wilson set out. We do not know which of the properties that are currently vacant will be vacant when the legislation kicks in. We expect that the figure for HIE will probably be less than £100,000.

The Convener: Just so that we are clear—I know that Chic Brodie wants to come in with a brief supplementary too—if Parliament passes the bill, there will be a direct cost to both your organisations in the order of hundreds of thousands of pounds, which you could be spending on other activities.

Lena Wilson: There will undoubtedly be a cost to the organisation, as there is with many other things. In the light of the legislation, we will seek to do everything that we can innovatively to ensure that we do not have vacant premises. In the past six months, we have agreed heads of terms on 70 of our premises. We will look at continuing with co-sharing and cohabiting, and we will seek to get the best efficiency from that. We will seek where possible to minimise the cost, but it could be in the region of £344,000.

Chic Brodie: I will follow on from that point, although my question is a bit unfair, because I have the level 4 figures only for Scottish Enterprise. Your forecast for property disposals in 2012-13 is £5 million, yet for next year it is £15.5 million, despite the current environment. How realistic are your targets—I am not just asking Scottish Enterprise—for disposing of unoccupied properties and any other properties that you have?

Lena Wilson: I probably speak for the others when I say that the situation is challenging. However, we have been in constant dialogue with the Scottish Government this year. We work hard to achieve our property disposal targets, as disposals form part of our income. However, the environment is challenging, because of the generally moribund nature of the property market. That will not be a surprise to any of the officials or any of our colleagues in the Scottish Government—we have been in constant dialogue about that.

Alex Paterson: The situation is exactly the same for us. We have a number of deals that we and buyers would like to do, but the property market is struggling at the moment. The targets are challenging.

Joan McAlpine: The Local Government Finance (Unoccupied Properties etc) (Scotland) Bill was mentioned. What damage does having a lot of empty, almost derelict properties in some of our town centres do to inward investment and tourism?

Dr Cantlay: Oh, tourism—gee!

The Convener: We are way over time, so be brief in your response, please.

Dr Cantlay: The vacant property situation is a worry. I live in Callander, which has more vacant properties than I have seen in my lifetime. The situation is a worry and it goes back to questions of confidence. If we look at 2013 as a tourist season, where is the strength globally? We have some real themes throughout the year of natural Scotland—gee, what an opportunity! We have to inspire, drive and lead our way through the situation and the properties will be filled—I am confident about that.

The Convener: Perhaps I can ask my final question, which is on tourism. As you will know, the committee recently took evidence on VisitScotland's winning years strategy. It was announced just the other week that the gathering, which was due to be part of the year of homecoming 2014, has been cancelled by Stirling Council, which had the rights to it. A report in *The Herald* newspaper at the weekend said that the US Council of Scottish Clans and Associations has sent an email around its 60,000 members expressing concern about the cancellation and saying that it would be

> "prudent to put plans for travelling to Scotland in 2014 on hold until we gain better clarity about what is"

going to be on offer.

Were you surprised by Stirling Council's announcement? What plans are there to ensure that the year of homecoming is a success, notwithstanding that the gathering, which I assume was to be the anchor event of the year of activities, is now not to take place?

Dr Cantlay: Let me update you with my understanding of the position. How you describe the trilogy is correct, although in where we are now we have moved on some way, which was not represented or reflected in the newspaper article, as I read it.

Stirling Council bought the intellectual property rights for the gathering and I believe that it intended initially to host a gathering in about mid-July 2014. Subsequently, in conversation with partners, the council decided that it would be better to support the National Trust for Scotland's plans to celebrate the battle of Bannockburn at the end of June 2014, which will obviously take place in the city of Stirling. I understand that that will include a clan event, which will have features such as the clan convention, the clan parade et cetera.

One of the clan bodies that is involved is based in Scotland and is led by Sir Malcolm MacGregor, and the other is based in America and is led by Susan McIntosh, who was quoted in the newspaper article. My understanding is that they are both very pleased with what has been decided. We had made that progress before the newspaper article appeared, but it was unfortunately not reflected in the article.

The events appear to be coming together well. There will not be a gathering as such, but there will be the events that are most important to the clan societies, surrounding the battle of Bannockburn celebrations that the National Trust will lead at the end of June 2014.

The important point is that homecoming is about far more than just the concept of gathering. We have invited bids from organisations that would like to host events during the period of homecoming and we are sitting on about 160, but we have not got to the position of allocating them yet. The concept of homecoming is a year-long celebration, and the battle of Bannockburn will undoubtedly be a signature event in the midst of that. However, the concept is about a whole year.

We have said to the clan societies that, although the battle of Bannockburn event is important to them, there will be clan events and a variety of other events going on throughout the year that people will enjoy. I hope that people will be mindful of that and will come for more than just the few days from 28 to 30 June 2014, when the celebrations will take place in Stirling. That is the update as I have it.

The Convener: Obviously it is a blow that the gathering event will not take place as originally planned, but will you make more of an effort now to build other events in or promote other events that are taking place in 2014?

Dr Cantlay: Yes. However, it seems to me that we have the ideal compromise through the battle of Bannockburn event in Stirling. People often put the two words "gathering" and "homecoming" together, but they are different concepts. There will not be a gathering as such, but homecoming is a celebration that will go on all year and there will be events throughout the country, so we need to focus on that.

In particular, we must ensure that we satisfy the needs and wants of the clanspeople. Despite the challenges of the 2009 gathering, the satisfaction of visitors throughout that year was strong. We need to ensure that we achieve that again in 2014, and we are committed to achieving that.

The Convener: Nobody wants to follow that up and we are well over time, so I thank all the panel members for their contributions. It has been a long session and we have covered a lot of ground, which has been helpful. We will suspend to allow the changeover of witnesses.

11:42

Meeting suspended.

11:47

On resuming—

The Convener: I welcome our second panel of witnesses. Thank you for being so patient. We are running a bit behind time, as you have probably gathered. I will introduce you from my left to my right. With us are Judith Robertson, head of Oxfam Scotland; Peter Kelly, director of the Poverty Alliance; John Dickie, head of the Child Poverty Action Group in Scotland; and Graeme Bissett, chair of Children 1st. I welcome you all.

Before we get into questions, would you all like to say something briefly by way of introduction? Perhaps we can start with Judith Robertson and work our way along the panel.

Judith Robertson (Oxfam Scotland): Thank you for the invitation. It is good to be here, as I have to say that it is not the usual custom for us.

We recognise that the budget is being set in a time of constrained spending and rising austerity measures that are having a disproportionate impact on poor people in Scotland. Citizens Advice Scotland has estimated that £2 billion has been or will be taken out of Scotland's economy as a result of welfare reform. That is a difficult context in which to set a budget that looks at poverty proofing, particularly if we consider the state of disadvantage in communities before the recession. The recession is exacerbating what was already a difficult situation for a quarter of the people in Scotland, who failed to take advantage of and benefit from the economic growth that Scotland experienced over the 30 years prior to the recession.

From Oxfam's perspective, the trickle-down approach did not work and, in our experience, it has not worked anywhere in the world. We are now in a difficult context and we would envisage health inequalities in Scotland, for example, being exacerbated in the coming period. For the purpose of this conversation on the budget, our perspective is that its overriding objective is to recover to an economy and an economic system that has failed a quarter of the population of Scotland. Probably one of the biggest mistakes that we could make would be to go back to something that was failing. We need a new prosperity in Scotland and a new way of shaping economic expenditure. We need to look to make the economy more a servant of the people than of the master, which it seems to be at present.

We have an overarching query—that is an understated way of putting it—about the purpose of Government and, therefore, the purpose of the budget. We welcome lots of specific things in the budget, but we also see some challenges. I assume that the committee's questions will address some of those areas.

Peter Kelly (Poverty Alliance): I, too, welcome the opportunity to speak to you today. Many of our concerns are similar to those that Judith Robertson has just outlined. Everyone recognises the constraints on the budget. We face significant challenges in relation to the impacts of welfare reform—the figure of £2 billion will probably be repeated—and in terms of unemployment, underemployment and the labour market. Low pay and the growth of part-time employment are significant challenges that we face when we try to address poverty and are ways in which labour market growth, where it is taking place, can hinder our efforts to tackle poverty. We also face issues of community empowerment and regeneration and the need to address fuel poverty. We have a broad range of concerns.

As Judith Robertson said, there is much to welcome in the direction of travel that the Scottish Government has set out in the budget, such as the emphasis on prevention, the approach to building community assets and the approach to mitigating the impacts of the recession and welfare reform. The direction of travel is useful in those areas, but you will not be surprised to hear me say that more could be done.

I echo Judith Robertson in saying that we need to be clear about the impact of growing the economy, which by itself will not address the problems of poverty and inequality. Over the past 20 years, we have been through various periods of growth and recession. In the periods of growth, particularly in the first part of the past decade, although we saw reductions in poverty, the significant growth did not really drive down poverty as we might have expected. We cannot set out only to grow the economy. In setting Scotland's budget, we need to take a more sophisticated and poverty-sensitive approach to how we use our limited resources.

John Dickie (Child Poverty Action Group in Scotland): Like others, I very much welcome the committee's decision to scrutinise the budget from an anti-poverty perspective. The Child Poverty Action Group's key focus is not only on how the budget can help to tackle the poverty that still undermines and damages the lives of so many children throughout Scotland, but on how that challenge imposes huge on-going costs on the public purse in the future. The latest official figures tell us that one in five of Scotland's children is still living in poverty. That is 220,000 children growing up in families that have incomes that are inadequate to the task of raising children.

In the face of those challenges, we welcome two key Scottish Government policy objectives. The first is the child poverty strategy, which sets out what the Government will do to eradicate child poverty. We broadly welcome the thrust of the strategy, which is based explicitly on the belief that it is vital

"to invest in eradicating child poverty and reducing inequality, including income inequality."

The second key policy objective is the commitment that we have had from ministers to do everything in their power to protect people from the welfare cuts and reforms that Judith Robertson and Peter Kelly highlighted. Our concern is about how the budget can help to deliver the commitments and objectives that the Government has set itself.

I turn to our specific priorities. In the lead-up to the budget, one of our priorities for feeding into the budget process has been to identify potential for investment in key devolved passported benefits, which might help to mitigate some of the cuts and squeezes to family incomes that we are seeing as a result of UK policy. A second priority is investment in the social fund replacement. That is not in the draft budget, but we have had from the Scottish Government a commitment to invest £9.2 million in the Scottish welfare fund, which we welcome.

A third priority is to identify what resources statutory and voluntary agencies need in order to provide the advice and information that is needed by the families that they work with. Whether people in those families are in or out of work, they need to get every penny that they are entitled to as the benefits system goes through huge changes and their incomes are squeezed as a result of other pressures.

Graeme Bissett (Children 1st): Good morning, everyone. Children 1st seeks to help a large number of vulnerable children and young people throughout Scotland every year—many thousands, in fact. It is fair to say that the root cause of the problems that affect those children and young people is often poverty. We are pleased by the intent behind the budget to address poverty, which is clearly stated in, for example, the measures to support young people into employment and apprenticeships and the intention to continue with college education, affordable housing and fuel poverty measures. We are particularly pleased by the continued emphasis on the early years and early intervention in child and family welfare.

A feature of Children 1st's work is the recognition that work with families—I mean families in the widest sense—often has the best outcomes because it enables us to find lasting solutions to problems that are caused by poverty. In other words, we recognise that the solutions that we seek are quite complicated and involve a number of different people. Although the core of the budget makes sense to us in that respect, we have a couple of difficulties.

The first that is it can be difficult to see clearly how the various strands and initiatives can be brought together to achieve the outcomes that we all desire. There is no doubt—certainly in my mind—that the Government is serious and sincere in its objective of alleviating poverty. However, to address the committee's concerns, one has to get into the budgets of several large departments in the draft budget—you will know what they are. Each departmental budget contains several budget lines that are intended to bear directly on poverty. When one looks at the narrative, there are several references to pots of money with good intent behind them, but those pots of money do not then appear in the details of the budget analysis.

If we add to the mix that, in the public sector in the round, a significant proportion of spending that impacts on poverty is contained in local government budgets, which are clearly additional to the Government's budget, the picture becomes even broader. The point is not just about accounting or accountability, although those are important. The fundamental point is that poverty is a widespread and complicated problem and the budget, under which resources are allocated, should follow the principle of bringing a cohesive approach to efforts to tackle poverty.

In a sense, the budget document is incomplete, because it does not provide much detail on outcomes. Given that we are looking at a proposal to spend a substantial amount of money, it would be helpful if the budget set out the desired outcomes beside the information on investment and resources.

We have a positive view of the budget, especially against the backdrop of reduced resources, but we believe that more co-ordinated presentation of the deployment of resources would be beneficial. It would also be beneficial if the outcomes were stated so that we could all get a fix on the most important thing, which is to get results.

The Convener: Thank you.

We are a little short of time this morning, so I give members my usual exhortation to be brief, succinct and focused in their questions. If the panel's answers could be brief, succinct and focused, that would be helpful, too. We have a large panel of four individuals. I appreciate that you all want to have your say, but if you all answer every question we will be here until tomorrow morning at this time, never mind until lunch time, so I ask members to direct their questions to a specific individual or individuals. If others want to come in, they should catch my eye, and if time allows I will bring them in as well.

We will start by looking at fuel poverty. I invite Rhoda Grant to ask the first question.

12:00

Rhoda Grant: My question is for Peter Kelly. As you know, the budget covers fuel poverty. Are the measures that are included sufficient to meet the target of eradicating fuel poverty by 2016?

Peter Kelly: The evidence that the committee heard last week from Energy Action Scotland would suggest that the resources are not going to be sufficient. The issue is not simply about the resources that come from the Scottish Government, of course, because price rises and the activities of the energy companies are also important. However, in summary, the answer is no—it is unlikely that we will reach that target. The committee has talked about the need for investment of about £200 million. EAS has been clear that the resources that are forthcoming in the budget and those that have been allocated previously will not be sufficient.

Rhoda Grant: I take it that you agree that investment of about £200 million is needed to reach the target.

Peter Kelly: Yes.

Rhoda Grant: Is there something that we should be doing—or that the Scottish Government should be doing, given that our budget scrutiny is a process of holding it to account? Other than to dramatically increase its investment, are there any actions that the Government should be taking in the budget to help to reach the target?

Peter Kelly: The new, increased commitment that has been made around carbon reduction targets—with the new target for producing energy from renewable resources being announced on 30 October—is welcome. However, there is a question about how disadvantaged communities that are experiencing fuel poverty now will benefit from the programmes that seek to achieve that reduction. The resources that are going into renewables are not filtering down to those communities. If they did, that could address not only fuel poverty but a range of other problems in disadvantaged communities. To look at how those resources will be spent in future should be a priority for the Scottish Government, but fundamentally we need more investment in programmes such as those that have been developed over the past few years.

Rhoda Grant: Are you saying that we should be encouraging more community development of renewables that is targeted towards those communities that suffer disproportionately high rates of fuel poverty? How can we encourage those communities? It tends to be more affluent communities that see the opportunities and look at building their own community renewables. How can we target those in fuel poverty, who, frankly, are probably more concerned about what they are going to eat tomorrow than about a turbine that they might build in a year or two? How can we put resources in to encourage them?

Peter Kelly: There are resources available. You are quite right to identify that, sometimes, communities that most need the resources are not equipped to access them, but there are various organisations out there that could possibly intervene and support those communities to access those resources more effectively.

The issue links back to community empowerment, which I mentioned in my opening remarks. Many disadvantaged communities are not accessing the resources because, in some ways, they do not have the capacity to access them. It requires a significant degree of expertise and skill to apply for the resources and to do the scoping work to identify whether microgeneration efforts would be successful. We could look at dedicating some of the resources to work to enable disadvantaged communities to build capacity to access funds.

Joan McAlpine: You will know that the Government is interested in pushing forward exploration of district heating schemes. Is that the kind of thing that disadvantaged communities could take advantage of?

Peter Kelly: I am certainly no expert on district heating schemes. There are some examples in Aberdeen of district heating schemes that have worked quite well, but as I am not an expert, I will not comment further.

The Convener: Are there any more questions on fuel poverty?

Patrick Harvie: I have a brief follow-up question. If we accept that there is a need to recognise that some communities are less able to get a community project up and running because they do not have the social capital or the technical expertise, is there not a need to look at whether local authorities and registered social landlords have a role to play in coming together and using local government borrowing power, or going into partnership with the private sector, to invest in the infrastructure that we need? I am referring to combined heat and power, district heating and solar; there is a range of technologies out there that can reduce people’s energy bills. If a local authority uses its borrowing powers for that, it needs to be able to recoup the money from the energy generation revenue.

Peter Kelly: As I understand it, the role of local authorities in using resources in that way is being looked at by the Scottish Government. I emphasise that that will have benefits and will impact on fuel poverty, but we might not see the wider benefits of an approach that focuses on building the capacity of disadvantaged communities. In many parts of Scotland, particularly in rural parts of the country, communities that have come together and have been able to access resources have gained an additional benefit. They have been able to address a range of issues in their communities and not just fuel poverty.

John Dickie: We agree that, if we are serious about eradicating fuel poverty, significant additional investment will be required over and above what has been committed. It is important that the investment in future fuel poverty programmes continues to reach children and families who are affected by fuel poverty. Over the past few years, significant progress has been made in widening the range of people whom fuel poverty programmes support, and we need to ensure that that investment continues to reach children and families.

As far as the proposed national retrofit programme is concerned, we need to ensure that areas with high levels of child poverty are considered in the decision-making process about which areas to prioritise. We need to ensure that those families who live outside the initial areas of the programme continue to get support under Scottish Government programmes—not just support to improve the energy efficiency of their homes, but support to maximise their income. A key part of programmes to tackle fuel poverty should be support to ensure that families get the income that they need to be able to pay their fuel bills.

Judith Robertson: Following on from that point, the reason why people are in fuel poverty is because their incomes are not big enough to allow them to afford the increasing bills. In the current budget, part of the strategy is missing. We need to look at the rest of the story. Tackling fuel poverty at the household level is one aspect, but we need to look at how we can raise the incomes of communities and improve the condition of the housing, and raising the income of the people who live in that housing must be a crucial part of the strategy. Fuel bills are going to be higher rather than lower, so we need to tackle the bigger picture.

From my perspective, we need to invest in communities not just to build capacity so that people are better able to access renewables—although that is crucial—but to develop sustainable local economies so that people have local employment, which will mean that they are not in a position in which they are suffering from fuel poverty. I want to highlight the bigger picture.

Chic Brodie: I will ask about certain macroeconomic issues such as welfare reform and the disposition of national income in a minute. However, some months ago, we took evidence from senior representatives of the major utility companies, all of whom said that they would get involved in a programme to tackle fuel poverty. Have they engaged in such an exercise? For that matter, how engaged have local authorities been in trying to come up with programmes for mitigating fuel poverty?

Peter Kelly: Although, from my experience, local authorities and energy companies are engaging with the Scottish fuel poverty forum, you have to question the level of engagement and commitment when you look at the profits those companies make and whether they are being used to support social tariffs and other such approaches. One criticism has always been the lack of consistency in the implementation of some of the measures that the companies have developed and their accessibility to people living on low incomes. There is probably always more that the big six can do—

Chic Brodie: But they just do not care, do they?

Peter Kelly: I would not like to say that they do not care—

Chic Brodie: No. I said that.

The Convener: That is called “leading the witness”, Mr Brodie.

Peter Kelly: Chic would never do that.

Chic Brodie: I would.

Peter Kelly: I would not say that the big six do not care, but you could question whether they care enough. Given the profits that they are making and in light of Westminster’s efforts to crack the whip a little with them—we can debate how effective such moves will be—I think that those companies could do far more. We also need to explore what leverage the Scottish Government can have over those companies.

Mike MacKenzie: It is widely acknowledged that fuel poverty runs at just over 20 per cent—about 22 per cent, I think—in England, at more than 30 per cent in Scotland and at 50 per cent and over in the Scottish islands. Can you explain why?

Peter Kelly: It is down to a combination of fairly well-known factors. For a start, a higher proportion of properties in rural Scotland are off the grid and hard to treat, and those properties also have to access sources of fuel that are often more expensive. There are questions, therefore, about our treatment of off-the-grid properties and pricing in rural parts of Scotland. Renewables might well be able to make a bigger impact in that respect.

Judith Robertson: Clearly transport costs add to the situation but the fact is that incomes are low in rural areas, particularly in the Western Isles. As well as the factors that Peter Kelly has outlined, increased costs and low incomes are the reasons for fuel poverty in those areas.

John Dickie: As well as household incomes, climate also creates the pressures in Scotland.

The Convener: I think that we will move on, because we have other ground to cover. Patrick Harvie has some questions about pay policy.

Patrick Harvie: I should have reminded members of my previously declared interests as a member of the Poverty Alliance and the steering group for Oxfam Scotland’s humankind index.

The pay policy includes a modest increase this year in public sector pay, at least for staff directly employed by the Scottish Government. It remains to be seen whether local authorities will be able to achieve the same thing. Of course, the increase is still a real-terms cut and, although there have been positive moves on the living wage, other budgets in other parts of the Scottish Government, such as the budgets for procurement and business support services, are not being used to create real incentives for the living wage to become the norm throughout the economy. At the same time, the emphasis is on shifting money from revenue funding, which could increase pay levels, to capital funding, although a fixed budget cannot provide a stimulus in classical Keynesian terms.

What is your general response to Mr Swinney's announcements this year about the pay policy? We will have modest increases at the bottom and the freeze at the top will continue, but we will still have a real-terms cut.

12:15

Peter Kelly: On the pay policy, our starting point is the commitment to the living wage. There is no doubt that we strongly welcome the Scottish Government's significant commitment to paying the living wage, which I understand is over the course of the parliamentary session. I am not absolutely certain what that will mean in cash terms over the spending review period but, even symbolically, the commitment is significant. It is also important that some local authorities have made a commitment to paying the living wage and that some authorities are paying it or are taking steps towards paying it.

However, much more could be done. You have identified two important areas in which the Scottish Government, local authorities and business development organisations could influence an increase in the number of workers who are paid the living wage. The Scottish Government is consulting on procurement reform. We are pleased that the consultation document refers to the living wage, although we know that including the living wage in procurement processes might bring difficulties from the European level.

More could probably be done and the Government could be a little more creative, but I know that its consultation on the procurement reform bill is looking at how to be more creative in achieving the living wage. When £9 billion a year is spent on procurement processes, a broader issue is the wider community benefit that should come from procurement. I get the sense that the Government has a desire to look at how procurement could achieve a wider community benefit.

As for business development, I came into the meeting at the end of the previous, long, evidence session, and it was interesting to hear what was said about tourism development. Tourism is clearly a vital part of the Scottish economy and we expect it to grow. It is also an area of the Scottish economy in which a significant proportion of workers are low paid. I might be trying to link together too many issues, but a poverty-proofing approach to the budget—whatever we might mean by that—might involve asking what investing in tourism development means for our broader goals not just on economic growth but on poverty reduction and asking whether business support organisations could do more to address inequality in the labour market, which I think that they could.

A little-known fact is that Scottish Enterprise was one of the first organisations to which we gave a living wage employer award. That was probably three or four years ago, when it committed to paying the living wage, which was then £7 an hour. At that point, we hoped that Scottish Enterprise would embrace the living wage, talk to employers about it and encourage them to do more. That did not happen, but it could still happen. We could do much more through procurement processes and social benefits to spread the living wage word, if you like.

John Dickie: I will add to what Peter Kelly said. There is no question but that the degree of pay inequality in this country is a driving force underpinning our levels of child poverty. Internationally, the countries with lower levels of child poverty also have lower levels of pay inequality.

To come back to Patrick Harvie's initial question, even within a fixed pay pot in the public sector there is scope for doing more to ensure that the increases at the bottom end are more than modest. If we specifically focus on what we can do to boost the pay of those at the bottom end of the pay distribution, it not only boosts pay for those directly employed in the public sector who are covered by the pay policy but sets an example that the direction that we want Scotland to move in is that we pay those on lower incomes a decent wage that is adequate for bringing up children along with the other financial supports that families need.

Judith Robertson: The principles are right, but I agree with John Dickie that the approach to pay has not gone far enough. The principles are to maintain income levels at the bottom and hold growth at the top. However, the Government could do more, as it could bring the levels down at the top. Although that does not generate that much additional income, the whole process preserves jobs, which is an important indicator. In a lot of poor communities, some of the best-paid jobs are in local government.

I still think that more could be done to monitor the impact at the bottom. Even if people are paid the living wage, how low are their wages? In the face of rising fuel prices and other rising costs, how many people are being pushed into poverty? How many local government workers are being pushed into poverty by the reduction of welfare benefits? It is important to maintain these analyses, keep them up to date and not to rely on an annual budget statement. If you stay up to date, you know how many staff are on the living wage, how many are getting to the living wage and how many are not on the living wage. Such work also enables you to examine the impact on the income of part-time workers.

A whole range of issues that underlie pay policy need to be understood and explored. From our perspective, we look at the differential impact on women and men. Most low-paid workers in Scotland are women and most low-paid local government workers are women. Women's earnings have the greatest impact on children and child poverty, because they are spent most in families. Increasing incomes at the bottom—particularly those of women—has a much stronger distributive effect than any other practice. That redistributive effect will have the most impact.

Patrick Harvie: The issue obviously relates strongly to the Government's solidarity target, which was alluded to in some of the introductory comments. Since 2004-05 the percentage of income going to the bottom three income decile groups appears to have declined rather than increased—until 2010-11, when the figure produced for the Scotland performs website goes back up and wipes out all the period of decline.

Nobody seems able to tell me why that has happened. Can any of you shed light on why that has happened in the most recent set of figures? Is the increase likely to continue, or will the trend go back into reverse, particularly given the welfare changes? How does it relate to John Dickie's argument that economic growth alone will not achieve greater progress towards the solidarity target? Whether or not we describe gross domestic product growth as sustainable growth, will GDP continue to be an inadequate measure of how we can achieve progress towards the solidarity target?

The Convener: There is quite a lot in that question. I ask you to give fairly brief answers, if you can.

John Dickie: On progress against the solidarity target, over the past 10 years the proportion of income that the bottom 30 per cent receive has been between 13 and 14 per cent, so there have not been huge changes. In the most recent year, there has been an increase in the proportion of income from 13 per cent to 14.5 per cent. The explanation for that is that the value of benefits has declined less, in real terms, than the value of earnings. Therefore, those on the lowest incomes have been protected, to some extent, as a residual effect of the value of benefits.

The future looks far scarier primarily because of the UK Government's decision to switch the uprating of benefits from the retail prices index to the consumer prices index. That means that, in the future, the value of benefits will decline. Benefits will not be uprated at the same level as they have in the past, and the protective effect that we saw in the most recent year will be lost. We are therefore likely to see a reduced proportion of income going to those in the bottom 30 per cent as a result of the big-picture tax and benefit policies.

Graeme Bissett: Patrick Harvie's question about not really knowing why the rate is moving in the way that it is moving is quite important in relation to what I talked about earlier. I apologise if I have missed it, but I think that I am right in saying that the solidarity target does not get a mention in the budget document, although there is no doubt about the intention to tackle poverty.

If the solidarity target is a primary objective of the Government, there are a range of things that will be brought to bear to achieve it, many of which are in the budget document. However, unless the thinking and the actions are organised around the objective, with defined outcomes or expected outcomes, it will remain a bit of a soup. We might be doing a lot of the right things, but we will not get the flavour that it is being co-ordinated. There may be inefficiencies in what we are doing that could be ironed out, and when we get to an outcome, either good or bad, how will we really know what caused it? That issue is maybe a wee bit structural, but it does bite when we get asked questions such as, "Why are we where we are?", which is difficult to answer.

Judith Robertson: The solidarity target is interesting because it looks only at the bottom 30 per cent. What happened to the top 30 per cent? If we are to have solidarity—a sense of sharing and support up and down the structure—who are we in solidarity with? Who is in solidarity with whom? Tackling only the bottom 30 per cent leaves a big gap. If we do not have the picture of what has happened to incomes at the top as part of the process of reporting against the budget, we are not going to be able to tackle inequality effectively.

Dennis Robertson: I want to return to an earlier point that Judith Robertson made, and I would welcome responses from other members of the panel. You introduced the aspect of women being in the low-paid sector. I understand that an overarching aspect of the budget is to tackle inequalities across all the budget headings and that the Cabinet Secretary for Finance, Employment and Sustainable Growth is keen to have the equality factor built into his budget. Do you think that last week's decision by the Supreme Court on equal pay for women will have any significant impact?

Judith Robertson: Does anyone else want to answer that?

Peter Kelly: No.

The Convener: You are allowed to say, "I don't know."

Dennis Robertson: The question is about trying to tackle inequality, and equal pay for women is a big issue because women suffer the most from pay inequality.

Judith Robertson: Equal pay seems to be a hard nut to crack, with a differential that is stuck at 17 or 18 per cent across the piece and widening at the lower end of the scale. A number of things have impacted on the issue, such as the legislation that demands that local government in Scotland delivers equal pay. There is a huge cost to the public purse in doing that, but it makes a massive difference to women's incomes, assuming that what it does is raise women's incomes rather than lower men's incomes. That has been a positive move and we must see how its impact spreads out over time.

Dennis Robertson: I know that it is a difficult question to answer, as the ruling was made only last week. Do you think that we should be doing anything else to tackle women's low pay in general? Does anything in the budget give you some degree of hope that pay inequalities are being addressed, especially for women?

12:30

Judith Robertson: The living wage is an important indicator. Continued and sustained Government support for it is important, but we could do a whole lot more. For example, through its processes Scottish Enterprise could encourage employers to look more forcibly at their employment practices in relation to women, including the living wage. Indeed—to reiterate Peter Kelly's point—all public sector bodies could actively promote the living wage. For example, when VisitScotland engages with employers, it could ask whether the living wage is part of their practice, how they engage with women and what salaries women are paid. There are loads of part-time jobs in the tourism sector. A range of issues could be raised proactively on pay alone, but equality issues go beyond pay. Equal pay is part of tackling equality, but tackling equality goes beyond pay.

I have to make this next point, because it is important. Although we would love to be able to do this, Oxfam cannot do an analysis of the budget from an equalities perspective because our resources are deployed in various different ways. To poverty proof the budget properly would involve civil servants drilling down into the various lines of expenditure to find out who wins or gets the benefit and who loses from the decisions. For example, who wins and loses from the decision to fund the new Forth road bridge? We should look at the issue from the perspective that 25 or 30 per cent of Scotland's population is failing to engage proactively in the economy to their benefit, and consider whether that decision diverts resources away from a much more proactive measure to reduce poverty.

For me, that is an equality analysis. It is not just about women, although women are important within it, because most poor people are women. The analysis is about considering the whole piece and how we draw the lines. It is about understanding what difference our expenditure makes and what impact it has. I do not see such an analysis in the budget or the equality statement and, for me, that is the biggest gap.

John Park: Notwithstanding that lack of analysis, you have alluded to suggestions on what the Scottish Government could do through policy to improve budget outputs and you have spoken about the living wage and procurement. With the previous panel, it struck me that the Scottish Enterprise witnesses talked about only the numbers of jobs. Peter Kelly mentioned underemployment. What strings could be attached to Scottish Enterprise contracts or through sustainable procurement or other contracts that would ensure that we had more meaningful and better quality employment in Scotland coming directly from Scottish Government spend?

Judith Robertson: I can have a stab at that. When the Scottish Enterprise witnesses talked about the portfolio of empty premises and an increase of about £400,000 in costs, I wondered how many of those empty premises are in communities that we work in, such as Govan, where we do quite a lot. One of our partners there has said, "Look around—there's plenty to do in this community." There is no shortage of things that need to be done in Govan. We could gainfully employ people to upgrade facilities and other resources so that they can be used more effectively. We could involve people in that process. Peter Kelly talked about the community empowerment process. We need to actively and genuinely—being genuine is the important bit—engage communities in considering what community renewal would look like for them. For example, the community in Govan could consider how the area could look and how to turn it round. We then need to invest in that.

We advocate a more participatory budgeting approach that engages people in spending decisions. There are loads of global examples of where that has been effective, and there are a couple of examples here. Given that we are in a tightening, rather than a growing economy, in which we have to make decisions on allocating sparse resources, we need to come back to not just who wins and who loses, but who decides and what is the impact of that decision on lots of other people. If we do not engage with the people who are not winning in that process and have those conversations, we will never know what they think or what will work. I see that as a real issue. That is implicit rather than explicit in the budget, but it is a real gap in the way that we do business in Scotland.

We could engage our communities much more in decision-making processes that are meaningful to them and then support those decisions. We could deliver on our consultations rather than just say, “Thanks for your view,” and then walk off and make the decision that we were going to make anyway. We could act on people’s thoughts and views and see whether that delivers local jobs that people can believe in and will want to engage in. That applies whether we are talking about women or men. In many poor communities, men are really struggling. The impacts are different to those on women, but they are severe.

John Park: Could obligations be put into contracts with Scottish Enterprise or into procurement contracts to improve things for family budgets? Do you have any examples of that?

Peter Kelly: A commitment has already been given that infrastructure contracts will include clauses on, I think, the number of apprenticeships.

A common theme here is that it is difficult to assess from the budget document what impact spending will have. In the infrastructure plan published last year, a commitment was made that apprenticeships would be attached to large-spend projects. That is very welcome but—it may just be that I do not know the figures—I do not see where that is aligned in the budget. We cannot see what the social impact will be of projects such as the Forth replacement crossing and other big-spending projects. Again, that goes back to the kind of analysis that we can make of the budget.

I recognise that the Scottish Government has undertaken more activity on youth unemployment, but more could be done on that. We all recognise that we have a severe problem with youth unemployment, which has gone past the 100,000 mark in Scotland and is a significant problem. We need to look at where that £9 billion is going and where it could be used more effectively to engage with young people. Judith Robertson raises an important point about the local processes through which local spending decisions are made and how communities are effectively engaged in those.

Graeme Bissett: I will briefly follow on from Peter Kelly’s comments. Children 1st is increasingly working with communities—in other words, with groups that are broader than individual families—primarily around child welfare and child protection issues. That clearly cannot be done in isolation from all the other difficulties in those communities.

My suggestion, having looked at the proposals, is that the community empowerment bill screams out to have a budget allocation for the initiatives that are behind the thinking in that bill, which are no doubt a subset of what we have on the table today. There are a number of different strands to the bill, but those initiatives will need dedicated resources, and there will need to be decisions about which communities and which geographies will receive those. That feels as if it needs specific financial attention.

The Convener: Unfortunately, we are short of time this morning, but two more members have caught my eye.

Chic Brodie: Part of the problem is that, in the UK, the difference between the highest average income and the lowest average income is a factor of eight, whereas in other successful countries the difference is more like a factor of four. However, that is something that we cannot change, at least for the next two years.

Coming back to the community empowerment bill and the procurement bill, I want to ask Judith Robertson about her point about the need to involve communities—I should say that I am convener of the cross-party group on social enterprise. What do we need to do to ensure that there is entrepreneurial flair from the bottom up, particularly from the young in these communities? I take the point that Graeme Bissett made and I sympathise with his suggestion that we need some ring fencing of moneys that will empower communities, but how do you think we might create communities by building entrepreneurship from the bottom up, particularly among the young? That will have an impact on poverty.

Judith Robertson: You need to engage young people and find creative ways of doing that. We are working with a group of young people in Linwood, which Children 1st will be familiar with. Whether through local government programmes, third sector programmes or voluntary sector programmes, you need to—I do not mean you personally, but one needs to—talk to young people and bring them in.

The entrepreneurial spirit is absolutely alive and kicking—there is no problem with the spirit—but it is pretty squashed. There is not an awful lot of venting of that spirit in a productive or creative way because there is not much opportunity. Young people in Linwood—I mean young people beyond school age—are hard to engage with because they are quite disaffected and removed from that process.

Chic Brodie: Is that because we sit and wait for young people to come to us? Do we need to go out into the communities and advise, coach and mentor them?

Judith Robertson: A whole range of structural issues underpin why young people are disengaged. In a community such as Linwood, where jobs have been gone for years, the path to employment or entrepreneurialism is completely eroded. To expect young people to embark on something that is quite challenging anyway, in a context in which there is no route for it, is, I think, ridiculous. In order to do that, you have to engage with the young people and put in place steps that will give them something so that they can say, "Yes, that is good. I can do that. That is where I want to go."

We have been helping young people to create some of that vision, rather than just providing it for them. We say to them, "Well, you decide what is necessary and what would make a difference in this community." That was one of the things that they were turned on to, and they have plenty of ideas. There is no shortage of ideas, but there is a resource issue. Who will work with them on a continuing basis to take that forward? There are not a lot of local vehicles for young people. There are not a lot of processes that young people can get engaged in that make that easy for them—

Chic Brodie: What do you think should be the vehicle?

Judith Robertson: Again, the structures have been eroded. For community education and learning, there is one member of staff for a whole community of I do not know how many young people. This is nothing personal about anybody, but that one member of staff works flat out and he—in this instance it is a he—has very little back-up. We have removed resources from communities and relied on the market to provide those vehicles, but that has not worked. We need to put some resource back in.

We are doing a repair job. From my perspective, that is what it needs to be, but it needs to be built on how young people perceive it and what they will engage with. We need to ask them, because they know what they want to do.

Peter Kelly: As Judith Robertson mentioned, there needs to be support available for communities—and not just for young people—to engage on a whole range of things.

One area that has been a soft target for cuts at local level is community learning and development, which is very important in retaining community capacity, such as it is, and trying to build on it. However, local authorities across Scotland have reduced their budget for that because it is a potentially—

12:45

Chic Brodie: I understand that, Peter, but I am trying to link it to my question to the previous panel of witnesses: how do we create growth in entrepreneurship from the bottom, not hand it down? Are we spending our youth employment budget in the right way?

Peter Kelly: There are initiatives around. I have no doubt that building the social economy is a good thing, but there are questions about sustainability and how we can scale it up to address the scale of our problem in Scotland. We could do more to support the social economy. There are also microfinance initiatives developing in Glasgow that have some interest.

Those are all parts of a solution, but I sound a little bit of a warning: self-employment in Scotland has grown over the past seven or eight years—it is now up to around 290,000, I think—but around 25,000 children in Scotland live in low-income households in which the main earner is self-employed. We need to ensure that there is a genuine balance.

I do not disagree that we can do more to tap into the spirit that exists, as Judith Robertson says. We have done work with young people, and there is no doubting their creativity, although the broader context is difficult for them.

John Dickie: To take that back to an earlier stage, our education system too often reinforces the poverty that children are born into. Not only does going through school not overcome those barriers, but the gap between those who come from the lowest-income homes and the children who come from better-off families often increases as they progress through the school year. It is important that we find ways to ensure that all our children are able to get the most out of the opportunities that are available through school and the wider extracurricular opportunities in their communities.

Part of that is finding ways to boost family incomes and ensure that parents and families have the resources so that they can support their children to engage in the opportunities that exist in their communities and realise their potential, fulfil their aspirations and realise the entrepreneurship that they have.

The other part is identifying the bits of the school system that impose costs that mean that, for too many children, school does not feel like a place for them. It could be the cost of school trips, the cost of a healthy school meal during the day or the additional costs for materials to bring into school that impose an unfair burden on the families or mean that the children end up not fully participating and not getting the most out of the school day. As those children grow up, that has knock-on effects on their ability to take advantage of opportunities further on.

Judith Robertson: One proactive thing that we could do is impose a socioeconomic duty on the utility companies to invest their vast profits in training programmes to enable the youth in their communities to understand the electricity supplies in their houses. They could do big training programmes post school. There are myriad ways in which we could engage young people in communities in learning about how things work and delivering services—and put some of those profits back into the communities.

Graeme Bissett: There is a danger that we will look for a one-size-fits-all solution. We should not do that. The issues are different across different communities, and the framework that flows from the bill when it is enacted will need to accommodate that.

I would not underestimate the power of local heroes in driving the sort of entrepreneurial spirit that the committee seeks. That does not mean people who are household names. The local newsagent or the local hairdresser is an entrepreneur. We should try to harness some of their skills in working with young people and make some progress.

Chic Brodie: I accept that. We just need more of them.

Joan McAlpine: On the point that Judith Robertson just made, the energy companies are regulated by the UK Government in London. What extra powers do the witnesses think that this Parliament needs to deliver a budget that tackles poverty and inequality in the way in which they would like it to?

The Convener: Can we have very brief answers to that, please?

Judith Robertson: It is a controversial question.

John Dickie: The Child Poverty Action Group in Scotland does not have a view about where powers should lie, but we have to be realistic about what is possible within the powers of the Parliament to tackle the poverty and inequality that we have described.

I hope that we have given enough of a flavour of the many things that can be done with the powers that the Parliament already has, but we must be realistic about the fact that the big tax and benefits policies that have the big impact on levels of poverty are still held at a UK level, as are employment policies. As long as the UK Government holds those powers, we need to continue to make the case to it for the actions that it needs to take.

The modelling forecasts that the impact of UK welfare reform on tax and benefits policies will increase the number of children living in poverty throughout the UK by 800,000 by the end of this decade. Also, £2.5 billion has been taken out of family incomes in Scotland alone. It is clearly hard to put in place policies in Scotland to mitigate all that, but that should not take away from the powers that we have over the distribution of pay and investing in the early years of children and families.

Even within those restraints, we should ensure that we do everything that we possibly can in Scotland at the moment.

The Convener: Do I take it that the other witnesses concur with that?

Peter Kelly: I concur. Whatever powers the Scottish Parliament and the Scottish Government have, they need to use them consistently to address poverty and inequality, no matter what the balance of powers.

Scotland has a little-known anti-poverty strategy called “Achieving Our Potential: A Framework to tackle poverty and income inequality in Scotland”. We could do much more to consider the strategic approach that we take to tackling poverty in Scotland. The strategy was published in 2008 and is badly in need of being refreshed. We are in a completely different period and should ask what else we need to do. That might influence some of the priorities that we set in this and future budgets.

Judith Robertson: It is not about who has the power, but what they do with it. That takes us back to Peter Kelly’s point about what Scotland does with the power that it has.

Graeme Bissett: I make no constitutional point at all, but one of the best arguments for having more power, authority and budget is to demonstrate how well we do with the power, authority and budget that we already have. I will not labour the point, but it takes us back to making the best use in the short term of the resources that we have and being able to demonstrate that we achieve positive outcomes.

The Convener: On that note, given the time, we must draw the questioning to a close. I am grateful to all the witnesses for coming along, giving us their time and helping us with our budget scrutiny.

Before we go into private for item 3, I inform members that, as I understand it, this is Patrick Harvie’s last meeting with the committee. I am sure that we all wish him well in his new berth on whatever committee it is—I have forgotten which one he is going to.

Patrick Harvie: It is the Referendum (Scotland) Bill Committee.

The Convener: That is right. Thank you for your contribution to our deliberations over the past year and a half.

Patrick Harvie: It has been an absolute joy.

The Convener: For all of us. I believe that, subject to the parliamentary vote, Alison Johnstone will join us from next week.

Patrick Harvie: Yes.

The Convener: We look forward to welcoming her.

12:53

Meeting continued in private until 12:55.

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