

ENTERPRISE AND LIFELONG LEARNING COMMITTEE

Wednesday 6 September 2000
(Morning)

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ENTERPRISE AND LIFELONG LEARNING COMMITTEE

18th Meeting 2000, Session 1

CONVENER

*Mr John Swinney (North Tayside) (SNP)

DEPUTY CONVENER

*Miss Annabel Goldie (West of Scotland) (Con)

COMMITTEE MEMBERS

*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

*Nick Johnston (Mid Scotland and Fife) (Con)

*Marilyn Livingstone (Kirkcaldy) (Lab)

*George Lyon (Argyll and Bute) (LD)

*Ms Margo MacDonald (Lothians) (SNP)

*Mr Duncan McNeil (Greenock and Inverclyde) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

*Elaine Thomson (Aberdeen North) (Lab)

*Allan Wilson (Cunninghame North) (Lab)

*attended

THE FOLLOWING MEMBERS ALSO ATTENDED:

Mr David Davidson (North-East Scotland) (Con)

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

Mrs Mary Mulligan (Linlithgow) (Lab)

David Mundell (South of Scotland) (Con)

WITNESSES

Robert Crawford (Scottish Enterprise)

Willie Donald (Bank of Scotland)

Dr Ken MacTaggart (Highlands and Islands Enterprise)

Ray Perman (Scottish Financial Enterprise)

David Stewart (Scottish Executive Enterprise and Lifelong Learning Department)

Gillian Thompson (Scottish Executive Enterprise and Lifelong Learning Department)

Charlie Watt (Scottish Enterprise)

Mr Allan Wilson (Scottish Executive Enterprise and Lifelong Learning Department)

Charlie Woods (Scottish Enterprise)

CLERK TEAM LEADER

Simon Watkins

SENIOR ASSISTANT CLERK

David McLaren

LOCATION

The Hub

Scottish Parliament

Enterprise and Lifelong Learning Committee

Wednesday 6 September 2000

(Morning)

[THE CONVENER *opened the meeting at 09:33*]

The Convener (Mr John Swinney): Good morning. I open the 18th meeting this year of the Enterprise and Lifelong Learning Committee. Before we proceed with our business, I have two points. First, the sound system in this committee room is intensely sensitive to mobile phones, which will cause interference even if they are switched to silent mode. Therefore, members should ensure that all mobile phones are switched off.

Secondly, I welcome Linda Orton, who is the new assistant clerk to the committee; members will already have received e-mails and correspondence from her. She is very welcome to the team.

We have been joined this morning by David Davidson, who is a regular visitor to the committee, and David Mundell, who has a special interest in the new economy inquiry. Mary Mulligan, convener of the Education, Culture and Sport Committee, and Brian Monteith are with us for the second item on the agenda. They are all very welcome.

The first item on the agenda is to seek the committee's agreement to take item 6, on the Transport (Scotland) Bill report, in private. Are members agreed?

Members indicated agreement.

Exam Results

The Convener: Item 2 on the agenda is consideration of a paper in my name on the summer 2000 examination results. Obviously, over the summer, there has been considerable public concern about the situation at the Scottish Qualifications Authority and the problems associated with the issuing of certificates to highers candidates. Several MSPs have requested a parliamentary inquiry into this area of policy, and my paper sets out some points concerning responsibility.

The SQA as an agency formally falls under the remit of the Minister for Enterprise and Lifelong Learning. As a result, where the departmental

remit effectively becomes the committee remit, we have oversight of the SQA as an agency. The clerk wrote to the Scottish Executive seeking clarification of these issues; I will read the committee a letter that we received this morning from David Wallace, who is a private secretary in the enterprise and lifelong learning department. He wrote:

"Dear Mr Watkins

You queried the breakdown of Ministerial responsibility for the Minister of Enterprise and Lifelong Learning, in particular with respect to the Scottish Qualifications Authority.

The Minister for Children and Education is responsible for schools and the Minister for Enterprise and Lifelong Learning is responsible for further and higher education. Qualifications policy obviously affects both schools and further and higher education, so responsibility for it is shared by the two Ministers. The Minister for Children and Education leads on matters impacting on schools, and the Minister for Enterprise and Lifelong Learning leads on matters impacting on further and higher education.

The administrative processes of sponsoring the SQA is the responsibility of the Minister for Enterprise and Lifelong Learning, but he consults closely with the Minister for Children and Education before exercising his functions in this area."

That letter chimes with my paper, which highlights the fact that the SQA and its governance is a responsibility of the Minister for Enterprise and Lifelong Learning and is therefore within the province of this committee.

The paper makes the point that the majority of issues associated with this matter have related to schools issues and schools qualifications. As the letter from the enterprise and lifelong learning department highlights, schools issues are primarily the province of the Minister for Children and Education. Over the summer recess, Sam Galbraith, as that minister, has taken the lead in responding to the SQA's problems.

As for the handling of the matter, I have agreed that, as this committee has responsibility for the agency, we will discuss this issue in advance of a meeting later this morning with the Education, Culture and Sport Committee to determine who will do what in the inquiry and what issues will be covered. Probably the only issue that relates to this committee's work is the governance of the SQA; the remainder, which concerns the impact of what has happened on schools and school qualifications, is quite properly a matter for the Education, Culture and Sport Committee.

With those remarks, I open up the item for discussion and invite members to reflect on my comments and on the papers that have been circulated.

Dr Elaine Murray (Dumfries) (Lab): As many people sit their SQA qualifications through

colleges, is it not appropriate for this committee to deal with the aspects of the problem that relate to college students?

Allan Wilson (Cunninghame North) (Lab): I agree with your comments, convener, on the division of responsibility between the two ministers and the two committees. The SQA formally falls under the remit of the Minister for Enterprise and Lifelong Learning and, as a result, under the remit of our committee. However, it is also on record that, at the outset of the committee cycle, I asked the clerks where responsibility for higher still would lie. The clear answer was that such responsibility lay with the Minister for Children and Education.

The questions about the certification and qualification process that have arisen as a consequence of the situation at the SQA is properly a matter for the Education, Culture and Sport Committee in the first instance. However, the Enterprise and Lifelong Learning Committee must examine the governance of the SQA in both the short and longer terms, not least because of the importance of the examination system and the national and international business community's confidence in the results and the process as a whole. It is important from an enterprise perspective that we examine the longer-term governance of the SQA.

George Lyon (Argyll and Bute) (LD): I agree with some of Allan Wilson's comments. The committee must consider three key areas. First, we should consider the impact of the mess on higher and further education—the implications for next year for the students who did or did not get a place in the clearing system. We must find out who has lost out.

Secondly, we must consider the accountability of the SQA to ministers and the way in which Parliament and the Executive can hold arm's-length organisations to account. We must consider whether the current system of accountability is flawed.

Thirdly, we must examine the history of the SQA, the way in which it was put together and from where the expertise was drawn. I have heard anecdotal evidence from people involved that the majority of people were brought in from the Scottish Vocational Educational Council, rather than from the Scottish Examining Board. We must investigate whether that could be a fundamental flaw in the organisation. We must look back over the past few years to see how the SQA has been performing. If there are fundamental organisational problems, we may find that those go back several years. We must consider the SQA's track record. The committee has quite a lot of work to do on this matter.

Miss Annabel Goldie (West of Scotland) (Con): My principal concern is that a clear message be sent from the Enterprise and Lifelong Learning Committee and the Education, Culture and Sport Committee that the Scottish Parliament is attempting to deal with the unprecedented crisis in Scottish education. That is why it is essential that we have a crystal-clear idea of the division of the remit between the committees. The overriding concern is to restore the confidence of parents, teachers and schoolchildren in our exam system. The priority should be speed.

I have a practical approach to suggest. I am glad that Mary Mulligan and Brian Monteith are attending this meeting. I suspect that the Education, Culture and Sport Committee is better placed to take on board the immediate concerns of the public and to move to address those with particular reference to the recent fiasco. I am absolutely clear that the Enterprise and Lifelong Learning Committee has an overriding role in investigating the governance of the SQA and the implications of the disaster for our further and higher education institutions. I am concerned about what has happened to confidence in the calibre of students going into our higher and further education institutions. If our examination results system is tainted—as it currently seems to be—there are wider implications for those institutions and for Scotland. I would be happy for the Education, Culture and Sport Committee to embark on the immediate consideration of the problem and for this committee to retain responsibility for the governance of SQA and the wider implications for higher education.

09:45

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): There appears to be much cross-party agreement about Parliament's role, which is to carry out a thorough and wide-ranging inquiry—that is our paramount duty. We should carry out such an inquiry in order to find out what mistakes were made that led to this shambolic situation—embarrassing to everyone—and to ensure that such mistakes are never made again.

The practical question that we face today is what our involvement should be. With respect, convener, I differ from your opinion on the matter of detail. Until the remit of the inquiry is established, it would not be proper for the committee to decide on the extent of its involvement. I agreed thoroughly with the Liberal Democrat spokesman who was quoted this morning as saying that the inquiry should be "thorough and wide-ranging". We will find out at the meeting of the Education, Culture and Sport Committee this morning whether the remit will be agreed in that way or whether it will be restricted.

The remit should also include issues relating to marking and the quality of that marking. Until the Education, Culture and Sport Committee establishes the remit of the inquiry, it would be premature for the Enterprise and Lifelong Learning Committee to reach a final conclusion on its role. I agree that the Education, Culture and Sport Committee should be the lead committee. It is common sense that two committees should not conduct parallel inquiries into the same matter; that would not be practical or sensible. However, the remit should be established carefully and coolly.

It is of paramount importance that there is complete openness on the part of the Executive in the inquiry. That openness and transparency must include total access to all relevant documents, in particular to all memorandums, letters and communication that passed between the SQA and the ministers involved. If we were denied access to that information, the inquiry would verge on a whitewash. Nobody wants that and I hope that the ministers will take the opportunity this morning to reassure the Education, Culture and Sport Committee that there will be no whitewash in the Scottish Parliament.

Marilyn Livingstone (Kirkcaldy) (Lab): I agree with many of the comments that have been made. The Education, Culture and Sport Committee should be the lead committee and the major issue for the Enterprise and Lifelong Learning Committee is the governance of the SQA. Our committee should also consider the impact of the situation on the lifelong learning strategy. As Annabel Goldie said, we must consider the impact on our further and higher education colleges and the implications for the lifelong learning strategy that the committee has outlined. I would like to see the figures relating to higher and further education colleges in order to determine the current funding situation.

Mrs Mary Mulligan (Linlithgow) (Lab): I welcome the comments made by committee members. As Annabel Goldie said, it is clear that those people most seriously affected were students, their families and the teachers who had done everything that had been asked of them but were left in such a terrible situation when the results were published in August. That is my main concern.

The suggestion that the Education, Culture and Sport Committee should take the lead in finding out what happened, how the students were affected, what the problems were and how that can be put right is sensible. We need to consider how we can restore confidence in our exam system because that will have an impact on the future of all our children. However, we are not in the business of ruling any member out of our

deliberations. It is always open for members to attend other committees, but in this case I would like to extend an open invitation to members of the Enterprise and Lifelong Learning Committee to attend meetings of the Education, Culture and Sport Committee when we are taking evidence from ministers and other people who are involved in the situation.

If we are to deal with this issue, we will need to take evidence from the SQA. I accept totally that the remit of the Enterprise and Lifelong Learning Committee includes the SQA and its governance. The Education, Culture and Sport Committee cannot fulfil the remit of its inquiry without taking evidence from the SQA. I hope that members will accept that.

It is important to have clear lines of investigation so that there can be no cover-up or whitewash, as Fergus Ewing said. We must get everything out into the open. That will be done most efficiently if the committees work together. I suspect that the Education, Culture and Sport Committee will start the inquiry, knowing that there are implications in the longer term for lifelong learning, as Marilyn Livingstone said. I accept totally that it is open to this committee to hold its own inquiry into whatever aspect it wants.

Mr Brian Monteith (Mid Scotland and Fife) (Con): I thank you, convener, for allowing me to address the committee. I share many of the views that have been expressed. I want to point out some areas that I think this committee might usefully explore in examining not just how the crisis came about, but its impact.

As has been said, the Enterprise and Lifelong Learning Committee will want to examine the impact on lifelong learning. Some of the most interesting questions will relate to the impact on pupils who have applied for university courses. Have they had to take a different course from the one that they would have taken? What will be the impact on costs for institutions? Will the SQA's quite understandable decision not to mark people down if their certificates were incomplete or incorrect have any ramifications? Will there be people going to university who might not otherwise have done so? Will drop-out rates be affected, because some people on courses might not previously have been accepted? Dr Murray's point about the impact on colleges that hold higher still examinations is particularly important.

The information gathered by this committee will be most helpful in foreseeing the difficulties that might arise further down the road and what can be done to mitigate their impact. Reassurance from this committee about the impact on higher education would go a long way towards restoring confidence in the Scottish education system.

The Convener: I want to draw this item to a close and to agree the route that we will take. I thank members for their contributions. The discussion has been helpful. Clearly, there is a division between issues of governance, which are the responsibility of this committee, and issues of qualifications, which are primarily of interest to the Education, Culture and Sport Committee. That is a helpful division of responsibilities.

I propose that the Enterprise and Lifelong Learning Committee undertake hearings on the issues of governance as a matter of urgency. That may require us to alter the time scale for our inquiry on the new economy; the clerks will examine the implications of that. I imagine that we will want to hear from the Minister for Enterprise and Lifelong Learning, Henry McLeish, the SQA and others about the relationship between the SQA and Government ministers. I understand that various comments have been made overnight about changes at the SQA, which may affect those issues.

The issues relating to qualifications are properly a matter for the Education, Culture and Sport Committee. The convener of that committee has had discussions with me about the shape of its inquiry; that will be the subject of further deliberation.

The only question that remains to be resolved is to what extent we need to address the issue of qualifications in respect of further and higher education and the lifelong learning agenda. At this stage, I do not think that it is possible to define entirely where the matter will settle. The qualifications issue will be taken forward primarily by the Education, Culture and Sport Committee. However, the Enterprise and Lifelong Learning Committee will want to ensure that the issues relating to further and higher education and the lifelong learning agenda are properly taken into account. For that reason, regular dialogue between the convener of this committee, the convener of the Education, Culture and Sport Committee and members of both committees will be helpful.

We can discuss whether the Enterprise and Lifelong Learning Committee should appoint a reporter to represent our interests on the Education, Culture and Sport Committee. I will take views on that in a moment. I encourage members with a specific interest in the subject to attend meetings of the Education, Culture and Sport Committee when the inquiry is under way. Does that course of action command the agreement of the committee?

George Lyon: There is one other issue. We already have a tight timetable for our inquiry into the new economy and e-commerce. The student finance bill is also coming down the track. One of

those will have to be put aside for the moment. I do not think that we can do justice to this inquiry if we slot it in with what we already have in our work programme.

The Convener: It is clear that the time scale for the inquiry into the new economy will have to be revised. We do not expect to have the details of the student finance legislation until the middle of October and we will not take hearings on it until later in October. We have a window in which we can do this work, but it will involve delaying the inquiry into the new economy. The public expect us to get this issue resolved quickly. We should take precautions to ensure that we do the job quickly because, for school pupils, it is not that long before the next diet of higher examinations in the spring. We must have the issues resolved well in advance of then. We will have to change the time scale of our inquiries, but that will be to enable us to reassure the public.

Fergus Ewing: I echo George Lyon's suggestion that something must give if we are to carry out what is expected of us in this essential inquiry.

I want to pursue the point about access to documents. I suggest that the convener might want to write to the Executive to obtain all relevant documents before we question the ministers responsible, so that we have the chance to prepare ourselves properly for the task. The background documents will be essential if we are to conduct an intelligent investigation.

The Convener: The key point is that we must be careful. I am determined that the two committees will not conduct the same inquiry. We will do different bits of it. We will examine the governance of the SQA and its relationship to ministers. In preparing this committee for that process, I will request of ministers all the documentation in relation to the governance of the SQA and its relationship to Government ministers. I am sure that the convener of the Education, Culture and Sport Committee will do likewise for the qualifications inquiry. There will be some grey areas, but I am anxious to minimise them.

Allan Wilson: If the remits of the two inquiries were agreed definitively between the two conveners, that would go a long way towards avoiding overlap and would address any problems that might arise. The balance will be mopped up by the appointment by this committee of a reporter to the Education, Culture and Sport Committee inquiry.

The Convener: The point about agreeing remits is fine. We will take that forward. Do we want to go down the route of formally appointing a reporter to the Education, Culture and Sport Committee?

Members: Yes.

Miss Goldie: The appointment of a reporter will facilitate communication, given the pressure of work on this committee.

The Convener: Can I have suggestions on who might want to do it?

Allan Wilson: I propose Marilyn Livingstone.

The Convener: Is that acceptable to everyone?

Members *indicated agreement.*

The Convener: Marilyn Livingstone will report on our interests to the Education, Culture and Sport Committee. Are there any other points on this item?

George Lyon: Given that we will need to look back at when the SQA was formed, and how it was set up, to identify where some of the structural problems lie, will we have access to papers from previous Administrations? That will be fundamental to the inquiry, if we are to establish whether there are historical problems with the SQA's structure and its relationship with ministers.

10:00

The Convener: We will ask those questions. It is essential that we understand how the organisation was formed, what its relationship with ministers has been and—a more nebulous point—what type of culture existed in the organisation.

I heard that Mr Raymond Robertson was offering his services to any committee that wished to hear from him. As a former education minister, he may want to come along and bring his paperwork with him. We will consider that in the format of the inquiry and ensure that we cover all aspects of the SQA's establishment and governance. Parts of that are filtering through into the issues with which we are wrestling.

The committee will undertake an inquiry into the governance of the SQA as a matter of urgency. Our time scale for the new economy inquiry will be altered as a result. Mary Mulligan and I will agree the remit of the Education, Culture and Sport Committee's inquiry to ensure that we minimise overlap. Marilyn Livingstone will be our reporter to the Education, Culture and Sport Committee as it undertakes its inquiry. Access to information regarding the establishment, background, operation and governance of the SQA will be requested of ministers and made available to the committee before we undertake any hearings on the subject. We expect to interview the Minister for Enterprise and Lifelong Learning and officials and officers of the SQA about their work and issues of governance.

I thank Mary Mulligan and Brian Monteith for their attendance.

The New Economy

The Convener: We now move to item 3, which is our inquiry into the impact of the new economy.

I will update the witnesses who have just arrived. The committee has discussed the SQA and decided that, as a matter of urgency, we have investigative work to do on its governance. The time scale for the completion of our inquiry into the new economy will stretch further into the later part of the year than we had planned.

Your attendance to help us with our inquiry is welcome. We have representatives from Scottish Enterprise and Highlands and Islands Enterprise. I invite Robert Crawford, the chief executive of Scottish Enterprise, and Dr Ken MacTaggart of Highlands and Islands Enterprise to introduce their teams.

Robert Crawford (Scottish Enterprise): Charlie Watt is a senior e-commerce director who recently joined Scottish Enterprise from British Telecom. His mandate is to cover, among other things, the encouragement of e-business activities in Scotland and to run our knowledge web project. Charlie Woods is a senior director for knowledge. He co-ordinates Scottish Enterprise activities in the knowledge arena.

Dr Ken MacTaggart (Highlands and Islands Enterprise): I am responsible for Highlands and Islands Enterprise's efforts in new economy sectors such as telecommunications and the knowledge economy, and call centres.

Maarten de Vries is our e-commerce adviser. He is responsible for the help that we give to small companies in the Highlands and Islands to prepare themselves for e-commerce.

The Convener: I invite you both to make brief opening remarks before we open up the discussion for questions. Papers from both Scottish Enterprise and Highlands and Islands Enterprise have been circulated.

Robert Crawford: As our submission suggests, we view the new economy—as I guess all of us do—as much broader than e-commerce, but we recognise the central significance of e-commerce in its development. In that sense, my comments will be broader than the specifics of e-commerce. The new economy is about many things, but it is certainly about an emerging global situation where the key to job creation and higher standards of living is, in essence, innovative ideas and technology embedded in services and manufactured products. It is an economy where risk, uncertainty and constant change are the rule rather than the exception. E-commerce will drive and enable change, but more fundamentally the

new economy demands a paradigm shift in behaviour across all sections of society, including major institutions.

I do not think that that shift is a fad that has been generated by business gurus or consultants. There is a fundamental business movement of great social and economic significance going on. It is characterised by consumer power—increasingly, individuals are able to buy from anywhere in the world and to make decisions partly based on less tangible attributes, such as the quality of service and buying experience. There was a very good piece in “Business Week” two weeks ago on what the 21st century corporation will look like; a 30 or 40-page business supplement dealt, in a series of essays, with likely staffing requirements and what executives would need to do. The piece made a helpful distinction between the traditional view of the economy—the so-called industrial age economies—and the knowledge age economies. I commend it to members—I found it helpful.

The new economy will provide opportunities for new as well as existing businesses and for traditional as well as emerging industries; we forget that at our peril. In Scotland, we have a variety of interesting examples of traditional companies—Weir Group, Clyde Blowers, Motherwell Bridge and many others—that are engaged in new economy activities. We should not lose sight of the fact that the new economy is as relevant to the traditional sectors as it is to dotcoms. Business in Scotland must be able to adapt to the new environment, where global engagement, speed of response, customisation and innovation are watchwords. Many issues around peripherality have bedevilled us in the past, but if we address the issue properly, not only will they no longer be issues but, in many ways, what we have could be an advantage rather than a disadvantage.

One central message that I must bring to the committee is that the issues that are raised by the new economy are of sufficient urgency, potency and ubiquity that none of us can afford to imagine ourselves unaffected by them. Recently, while on a visit to a company that will remain nameless but was supposed to be part of the new economy, I was told that the products it sells will not be subject to online competition. I do not think that any part of the economy—whether the company is selling pizzas or is in the automotive trade—will not be subject at some point to online competition. We ignore that threat at our peril.

How is Scotland shaping up? In many ways, we are in a comparatively strong position. It is easy to be pessimistic, but many good things are going on and there are distinct opportunities. Forthcoming results from the information and communications

technology benchmarking exercise, which Scottish Enterprise carries out in conjunction with the Executive and the Department of Trade and Industry every year, will reveal the current position on e-commerce activities. We expect the figures to be significantly different from the 1999 results, such is the pace of change. The benchmarking work will also give some indication of mobile phone commerce—m-commerce—activity, which is important, especially for Scotland. We know from other sources that few companies have thought about strategies relating to m-commerce, which will become highly significant in the years ahead.

Current Scottish Enterprise work on tracking the big picture, carried out in conjunction with our colleagues from HIE and the Scottish Executive, aims to track the performance of the Scottish economy against that of other appropriate economies. I hope that that work will help to inform policy development.

Scotland's strengths in the new economy lie primarily in the quality of our academic research and of our graduates. Our main weaknesses are the low level of company investment in research and development and the individual abilities that are fundamental to the new economy—the attributes and skill sets of our work force. Looking five to 10 years ahead, we should be seeking to compete in the global marketplace on the intellectual value added held in our universities and colleges, our businesses—although we need to get our business R and D rate up—and, above all, our people.

On Monday morning I was encouraged when the chairman of Motorola in the UK, while announcing what I regard as one of the most important investments in years—if not ever—made the point that one reason for bringing the investment to Scotland was the quality of the people available, primarily our graduates. Another reason—this is a compliment to Scottish Enterprise and my predecessor's work there—was the presence of the Alba project, which I know the committee has visited.

There are a number of issues that we need to address. Clearly, we need to examine carefully the bandwidth capacity of the country, especially in the rural areas. Among other things, we must consider the need to provide an international connection point directly into Scotland, something that the Irish achieved recently. Those are both key areas of development. More generally, Scottish Enterprise and everyone else involved must adjust to a world in which customer focus will be definitive in competitive terms. This is not just about technology, but about the way in which people behave and about their attitude to their work force. That is a new economy issue.

The current success of nations as small as Finland and Singapore suggests that, for reasons of speed and agility, being small is potentially a huge advantage in the new economy. With the establishment of the Scottish Parliament, we have an opportunity to take hold of that inherent advantage. Both in the way in which we portray Scotland to the world and in our policy outputs, we should seek to position ourselves as a centre of innovation, excellence, learning and knowledge. That relates to policy issues such as collaboration between our universities, colleges, the Executive, Scottish Enterprise and, of course, the business community. We must foster networks and mentoring across the business sector, nationally and internationally. Traditionally, we have not been very good at that, whereas the Irish and Taiwanese, among others, are very good at it. We must also recognise that, without appropriate local action, the new economy will lead to further exclusion problems for many of our fellow citizens.

Given the time, convener, I will stop at that point.

The Convener: Thank you very much. I ask Dr MacTaggart to make some opening remarks.

Dr MacTaggart: Along with the telecommunications companies, Highlands and Islands Enterprise has been investing in the telecoms infrastructure of our region for 10 years. European funds have also been used for that purpose. Substantial benefits have flowed from that investment. In the Highlands, we now have 2,500 jobs in call centres, which form a sizeable sector of our economy. Call centres are the fastest-growing sector in the Highlands and Islands. In recent history, it would be difficult to find an industry that has grown as fast as the call centre industry and created so many jobs in such a short period of time. Those jobs did not exist eight years ago.

As my colleague from Scottish Enterprise said, there are still many issues relating to future infrastructure development. We cannot afford to be complacent, as the technologies that drive the industry are changing very rapidly. In future, the call centre industry will be radically different. Call centres will evolve into web-enabled information centres and e-mail handling centres. We must be flexible, so that we can respond to those changes.

In the smaller-business sector, we have a programme of advice on e-business. We are launching a programme of financial assistance, to get small companies in the Highlands web enabled and into the new economy. Already a number of companies are selling products—usually very specifically Highland products—to a worldwide market. Given the number of Scots expatriates whose ancestors emigrated to the antipodes and North America, we see substantial markets in those countries for niche Scottish and

Highland products, such as genealogy, gift ware and cultural and heritage activities.

When small companies are preparing for the new economy, training remains a major issue. There are also issues relating to the physical delivery of products—it is not enough simply to have a website and to sell products over the web. If a company is located on a remote island, there may be problems with conveying goods to the worldwide market that has now opened up. The customers that we are dealing with are generally impatient by traditional standards. They order their product in a few milliseconds and they do not want to wait 28 days for delivery.

We see the technology as liberating. It is unavoidable and the Highlands needs to be part of it. It is the means by which jobs can flow from the world's larger economies into the smaller economies, such as Scotland. It is the means by which jobs can flow from urban areas to rural areas. We welcome the committee's inquiry and the attention that it focuses on new economy issues.

10:15

The Convener: Thank you for those contributions. Robert Crawford mentioned the primary involvement of the higher and further education sector in many of the developments that are being undertaken. In other inquiries, we have found it difficult to establish cohesion in the commercialisation work and research activity of different universities and colleges that would have a bearing on the issues with which we are wrestling in this inquiry. How do you view the progress that has been made in the university and college sector to equip us for the challenges that we face in the new economy? How advanced is the dialogue on those issues between Scottish Enterprise and Highlands and Islands Enterprise on the one hand, and the university and college sector on the other?

Robert Crawford: You make an important point. During my time away, substantial progress has been made in engaging with the universities in a variety of ways. Presently there is a much greater sense of collaborative need among universities. We run a proof-of-concept fund, which during its first year has shown every indication of being an extremely important vehicle for assisting with development activities. We also see movement forward on commercialisation. I have a strong sense—although it would be wrong of me to be too specific, as commercially confidential issues are in play—that several of our universities have a deep desire to engage practically in an international and strategic way in the new economy. We are having conversations with those universities.

I do not believe that I am particularly well qualified to comment on university-based collaboration. I can say only that, as a matter of priority, we have begun an engagement with the Scottish Higher Education Funding Council that seeks to use its, and our, resources in new ways, to support commercialisation and, on a broader front, to assist the development of Scotland's intellectual and skills base. We recognise that the universities may be the key to future wealth creation in our country. It is hard to find any sector or region of the new economy in which the universities have not played a fundamental role. They need to be more engaged than they were in the past. Progress has been made; the proof-of-concept fund and commercialisation are evidence of that. Over the next few months, further evidence will emerge of the fact that several of the universities—I cannot speak for them all—realise that they have an important role to play in collaboration internationally. Scottish Enterprise needs to get much closer to the universities, and we are trying to do that.

Charlie Woods (Scottish Enterprise): I can provide a couple of examples to illustrate what Robert Crawford was just talking about. The first is the system level institute at the Alba project for universities working together. That is a key part of supplying the masters graduates who are critical to developing the design capability of the semiconductor industry. It is not just about the very highest level of skills, but about technician skills and so on. There are good examples, including the Scottish colleges biotechnology consortium, which involves a group of colleges getting together to assess how to supply the technician skills that are a critical building block of that industry. I echo what Robert Crawford said: it is gathering pace, but we need to keep pushing.

Robert Crawford: The announcement that was made last week by Sir Iain Vallance on behalf of Compound Semiconductor Technologies highlighted a great example of a leading-edge technology coming out of Glasgow University, crossing between semiconductors and optoelectronics. That could be a really important technology breakthrough, and Scotland—at least what we are doing in our universities—is placed at the leading edge of a defining technology.

Miss Goldie: I enjoyed your submission, Mr Crawford. It was very interesting, extremely helpful and very detailed. If I were a cynic, however—

The Convener: Heaven forfend.

Miss Goldie:—I would have a slight concern. I am considering in particular the question of infrastructure, which is covered fairly extensively on page 8 of your report. Reading between the lines, this seems to be more about what is not said than what is said. You anticipate a degree of

strength in the infrastructure, and we already effectively have that, in a corridor up Ayrshire, along the central belt and up to Aberdeen, with a twig to Inverness.

I can understand why that reassures you: given the nature of Scottish Enterprise's business, the growth potential in terms of jobs and new businesses would lie predominantly in those areas. I must express a concern about the rural dimension, however. I am not clear about the implications for infrastructure in rural areas.

I found the tour on which I went with Duncan McNeil—with the help of Ken MacTaggart, who is a marvellous man for choosing a place for lunch, let me tell you—away up the islands, extremely helpful. Our experiences there were immensely instructive, and it became clear that there was a concern about infrastructure.

The University of the Highlands and Islands has enjoyed access to the bandwidth, as the convener was saying, but extensive areas are not even on ISDN. To people there, asymmetric digital subscriber lines, ADSL, are just a dream—a very remote possibility.

I come to the kernel of my concern. You say that you are working with British Telecommunications to review its ADSL roll-out programmes, but being realistic, I do not see that having any physical effect in huge geographical areas of Scotland. Why only deal with BT? There will be other operators. What is your perspective on how the infrastructure will develop? Everything else that we are discussing, and all our plans, could fall to dust before us unless we get the matter of infrastructure cracked.

Robert Crawford: You are not being cynical at all, Miss Goldie; you are being entirely accurate. We should separate the matter of broadband capacity from that of an increase in the bandwidth. We do not need to have broadband capacity in every part of the country—although it would be great to have it—because not everyone will use it sensibly or require it.

I do not claim to be an expert: like most of us, I am learning a lot of this stuff as the weeks and months pass. It is entirely correct to say that we need to increase bandwidth capacity. It is true that there is a severe danger of excluding not only rural areas but semi-urban areas, which can also be affected. There is simply not the volume of demand to justify investment by the carriers. We are speaking to other carriers and recognising the possibility of using other ones.

Is there likely to be sufficient demand without some form of intervention? I am not an expert, but I do not think so. I recognise that that is a problem, however, and we are working with BT and other carriers to address it. Nor is that an issue just for

my colleagues at Highlands and Islands Enterprise. Many parts of the country have no ISDN lines—that is the case not so far from where I live—and many parts of the country away from the Glasgow-Edinburgh axis, which has great capacity, are undoubtedly denied sufficient capacity to be competitive in the e-economy

Dr MacTaggart: Many of our companies are located in remote areas, and services such as ISDN and ADSL are limited in the distance that they can go, given the existing infrastructure. In many cases, the distance is only a few kilometres. In urban areas, on the other hand, subscribers are clustered closely around the exchanges, and ADSL can be accessed when it is put into the exchange. With the present technology in the Highlands, that is not a possibility. ADSL could be put into every exchange in the Highlands and Islands, and the Borders, for that matter, but most subscribers would not be able to receive the service, because of their distance from the exchange. Companies in the area—although they will never be large in number—are significant to their local economies because of the jobs that they are trying to create and the activities that they are undertaking. The issue for us is what technology we can use to get wider bandwidth out to the remotest parts of the telephone network.

Charlie Watt (Scottish Enterprise): We are also considering other forms of technology, such as satellite telecommunications. It is correct that ADSL technology in the current commercial sector may not reach the last 5 per cent, or 2 per cent, of the population, so we must consider other technologies, particularly satellite technology, as their coverage could be ubiquitous.

The Convener: A lot of members have asked questions, and I may try to initiate a debate on the infrastructure issue.

David Mundell (South of Scotland) (Con): There is a need for a strategic approach to the development of an integrated network across Scotland, as I do not accept that there will be a network outwith those areas that are commercially viable. I am not clear about who has ownership of the development of that strategy.

I was in Virginia recently; a clear strategy has been developed there for ensuring that all parts of—and every community in—that state have broadband access. That approach required organisations to come together, and was led by universities. I do not want to be too judgmental, but universities in Scotland would accept that, while they are innovative, they also have some of the most extensive and under-used networks.

In Scotland, another group that is among the biggest users of network services is the public sector, in the form of local government and health

services, which are in almost every community.

In many ways, elements are in place to create the demand in every community for bandwidth, and commercial companies will look at demand as one of the factors driving them forward. I know that Highlands and Islands Enterprise has done some work on identifying the gaps, but who is pulling the strategy together to ensure that there is an adequate network across Scotland, rather than relying on commercial drivers?

Robert Crawford: As members know, two groups—the knowledge economy task force and the digital economy task force—met and deliberated the widespread participation of the private sector. The task forces may also come together to consider relevant areas and to identify the key strategic issues. In that sense, overall responsibility and leadership will come from the Executive, in the context of documents and follow-on activity.

I repeat: like most of us, I am an interested observer. To pick up on a previous point, we should not lose sight of the fact that the advances in technology are becoming so significant that there is a danger that we will focus on one issue and forget that, in two, three or four years, new technologies will come along that may make less significant the disadvantages from which some of our areas suffer. That is not to say that technology is not an issue in the meantime.

The costs involved can be absolutely enormous for public sector organisations anywhere in the world that want to engage in the new technologies. For example, we should consider the action taken by the Singaporeans when they wired up the island. They did not get maximum value from that action, because the content remained weak.

It is legitimate and necessary to be concerned about such issues, but the answer to David Mundell's question is that strategic leadership should come from the Executive. The two task forces have met and deliberated and their reports on the strategy are imminent. However, it is also necessary to be slightly cautious about an engagement that ignores the fact that technology is shifting so quickly that one could do something and then find oneself behind the pace.

Ms Margo MacDonald (Lothians) (SNP): I will pick up where David Mundell left off. It is great to hear a left-wing Tory talking about economic strategy. Is not that at the root of the problem? Right now, we require not only the technological side of the strategy, but boldness on the part of the Executive, which should say, "We will use money where we need to." The cashmere industry in the Borders has been given a window of opportunity.

10:30

Dr Murray: Three months.

Ms MacDonald: Aye, that is all. It cannot afford to be left behind. If satellite technology can be installed quickly—and if it is focused on what is, apart from anything else, a big dollar earner—it will be worth it. There might be only half a dozen folk involved, but that does not matter in terms of the strategic economy.

Right now, we have a windfall. I checked this morning—because I was coming to the committee—and oil is selling at \$33.16 a barrel. There is a windfall there. The Chancellor of the Exchequer has created a precedent by selling off phone lines and using the money from those sales, so a windfall from oil sales could be reinvested in the cashmere industry, because we need money for that industry now. Do you agree?

Robert Crawford: That is not a matter on which I can comment. *[Laughter.]* You knew that perfectly well when you asked the question.

George Lyon: Let us pursue the issue of the infrastructure. HIE has used public money to try to develop the Highlands and Islands infrastructure during the past 10 years and has been successful in creating jobs. From what you have said, I get the feeling that there is a need for the public sector to intervene again. Is not there a question about which technology to bet on? Is not there a great danger that, if the wrong choice is made, a bundle of money could be spent on expanding the infrastructure only for us to find out five years later that the wrong technology has been chosen? Who will make that decision and on the basis of what judgment?

Robert Crawford: That is one of two issues that I was leading up to in the latter stage of my earlier comments. First, we need to be careful about the technology. Secondly, there is the cost of the technology that is being employed. For example, the cost of a broadband connector is enormous, but we need one.

The task for our organisation—and for our colleagues in Highlands and Islands Enterprise and the Executive—is to determine the likely level of intervention and where an international telco provider is likely to make a difference. For example, Global Crossing has provided broadband connection to Ireland, which is being hub-and-spoked across the country.

George Lyon: On that point, what is Scotland's position?

Robert Crawford: We do not have a global connector.

George Lyon: Is anything being done about that?

Robert Crawford: As I said, we are engaged in discussions with international telecoms operators on a variety of fronts and that is one of the key areas. It is not an easy issue because it is determined by market size and market costs. I think—and Charlie Watt will correct me if I am wrong—that we are currently dependent on a connection through Canary Wharf in London. That comes with a real cost imperative attached to it—it is more expensive.

The Convener: I return to David Mundell's point: who is responsible for driving that agenda forward? That seems to be a major strategic move. Is Scottish Enterprise driving that agenda, or is something coming out of the digital Scotland and knowledge economy task forces?

Robert Crawford: Digital Scotland and the knowledge economy task forces are both interested specifically in those and other areas. I imagine that, in due course, they will lay down instructions for Scottish Enterprise to move ahead on a variety of fronts.

Because of the timing issue, we are engaged in discussions with international telecoms providers on a variety of fronts, from incubation facilitation to the provision of hard infrastructure. The major issue, especially in discussion of the latter, is the cost. As we have limited resources, we must determine where we can make a difference without burning up resources.

The Convener: I would like to clarify the situation: are you just getting on with that?

Robert Crawford: We are doing so with the knowledge and support of the Executive.

George Lyon: Let us return to the choice of technology for the infrastructure in Scotland, rather than the international connector. How do you choose which technology to bet on? The choice is, in some ways, a bet.

Robert Crawford: That is a good point.

Dr MacTaggart: George Lyon is correct. We are at a threshold. When we started the process several years ago, it was obvious that what was needed was a fibre optic trunk network around the area, improvements to the exchanges and introduction of the new services that were coming into use, such as ISDN.

George Lyon: How were those developments funded?

Dr MacTaggart: The initial programme—the Highlands and Islands telecoms initiative—was funded by about £5 million of Highlands and Islands Development Board/Highlands and Islands Enterprise money and by the telcos themselves. More recently, we have been able to bring in European funding. Under the transitional

programme, whereby the Highlands and Islands is relinquishing its objective 1 status, we have permission from the European Union—albeit permission that is given increasingly grudgingly—to use that money for telecoms infrastructure.

We are carrying out a study with the local authorities and the European office to try to address the issue. There is a dilemma—it is not obvious what the next step in new technology for rural areas is. We have conducted satellite trials with BT on Islay using the same satellites that broadcast television services. That has been highly successful in delivering 2-megabit bandwidth full-motion video to PCs, but there are problems with delivering that service throughout the area and it is not yet a viable commercial service.

There are other options, as has been suggested. The new software may be able to send asymmetric digital subscriber lines down the telephone network further than is currently possible. However, we are at a threshold and need to study the issue, take best practice from other parts of the world—I was interested to hear about the Virginia example—and work out the best way forward in rural areas.

Charlie Watt: There is a willingness in the private sector—not only from BT, but from other service providers—to reach some form of agreement with the public sector throughout Scotland. Those companies are interested in continuing that dialogue.

Robert Crawford: There is a wider set of issues for the public sector, which are not specific to electronics infrastructure. In many of the new technologies and industries, there are neither the resources nor the technology expertise in the public sector to make the changes without full engagement in partnership with the private sector. Increasingly, the role for organisations such as ours is to define where value can be added and how it can be established whether a difference is being made. That is not specific to electronics infrastructure, but holds true across a broad band of activities from optoelectronics to life sciences and beyond.

George Lyon: We have witnessed an example of HIE taking a strategic decision to deal with the Highlands and Islands problem. Does Scottish Enterprise have that role in the rest of rural Scotland? The question is specifically on the rural issue. Under the previous set-up—whereby autonomous enterprise companies existed throughout Scotland—was a view taken about how the public sector should engage in that role? Was money spent on upgrading rural networks?

Robert Crawford: I do not think that we spent money on upgrading rural networks. However, it is

the role of Scottish Enterprise to be engaged fully in rural activities. Fifteen per cent of our operational budget is spent on rural activities, and recently we have taken a far more significant role in the development of inward investment in rural areas than in the past. I was in the Borders a couple of weeks ago, where the economic forum endorsed that role. There have been about 34 direct investments in rural Scotland in the past 12 months or so. That development of inward investment is our responsibility.

I might be wrong, but I do not think that we have engaged in the provision of telecoms infrastructure in rural areas as much as Highlands and Islands Enterprise has. However, we have a role in trying to engage with colleagues in the enterprise companies that represent rural Scotland, to determine where they can make a difference. The important issue is that which Ken MacTaggart has highlighted: the costs that are now involved are significantly higher—even as a proportion of our budgets—than they were 10 years ago.

The Convener: We are still talking about infrastructure issues, and I want to include any other member who wants to ask questions on that. I shall take questions from Elaine Murray and Fergus Ewing, and then bring to a close the discussion on infrastructure.

Dr Murray: I want to return to the statements about the rapid rate of change of technology. George Lyon asked an important question about how to identify which technology to choose in Scotland, taking into account the needs of rural areas. How good are we at anticipating future developments? Are we near the forefront of such ideas and are our mechanisms for developing a strategy appropriate? It has been mentioned that the various task forces are deliberating, but technology is changing very fast. Are our mechanisms responsive enough or do we need to consider developing strategy more rapidly?

I was interested in what was said about m-commerce being a possible way forward, which I had not thought of until I read Scottish Enterprise's submission. As far as m-commerce is concerned, do we need to address any issues of coverage? If m-commerce is a possibility in rural areas and if it is an area in which Scotland could lead the market, are there infrastructure issues that must be addressed so that we can seize the advantage?

Robert Crawford: I touched earlier on your first question about mechanisms for engagement. Because of the pace of change and the expertise that is required, we must constantly engage with the private sector and bring in private sector experts. In fact, we sought someone from outside our organisation for help with e-commerce because we needed to understand changes in

technology.

Public agencies throughout the world would be strongly advised to engage constantly with the private sector not only for cash reasons, but for understanding of expertise and technology. We should avoid trying to pick winners, but recognise that risk is an increasingly constant element of the new economy and that we will get things wrong. We must create a climate in which blame is not attributed if risks fail, providing that there was a sensible attempt to engage as widely as possible on deciding on a particular investment.

Dr Murray: That means that you would have to be very responsive when you found that a faulty decision had been made.

Robert Crawford: Candour and honesty are at the heart of the matter. Real, serious partnership with the national and international private sector is important and represents the changing role of development agencies. HIE gave a very good example with its successful work with BT in creating fibre optic systems throughout the Highlands and Islands. We need to roll such practice out across all new economy issues.

On the question of end-products provision, I bow to Charlie Watt on the specifics of technology infrastructure. However, my understanding is that if that is done properly, it represents a major, inclusive advance for rural areas. Not all individuals or companies need access to broadband delivery capacity and m-commerce represents a significant advance.

Charlie Watt: That point also applies to the fixed network. However, the success of m-commerce depends not only on infrastructure, but on many other critical issues such as skills, content and so on. Although I do not want to divert us from the issue of infrastructure, as far as new technologies are concerned, we are also dependent on other elements to deliver an acceptable service to the end user. That said, m-commerce could achieve ubiquity throughout Scotland.

Charlie Woods: On partnerships, we must be as imaginative as possible in our use of resources to engage in such partnerships. For example, in property deals we have increasingly moved away from being the direct provider of property to being the provider of the minimum amount that is necessary to get a development going. We are also using more guarantees instead of direct, up-front funding. There will probably be opportunities to examine such options and to use imaginative finance mechanisms to ensure that the public money that we receive goes as far as it possibly can.

Fergus Ewing: Although Robert Crawford referred to the huge costs involved, no one has yet

mentioned a figure. In fact, the only reference to a figure that I can find in the papers is from the Federation of Small Businesses, which gives a ballpark figure of around £5 billion for the investments that are required. Is that broadly accurate?

10:45

Robert Crawford: I saw that figure and was quite surprised by it. Does it include all the infrastructure provision that would make things accessible to everyone, or does it refer only to hard-core infrastructure devices? I do not know. I think that the Global Crossing initiative cost about \$180 million, which is a hugely significant investment that brings broadband capacity to Ireland and makes the facility available in rural areas. I do not acknowledge the £5 billion figure, because the cost would depend on what was included.

Fergus Ewing: The discussion has raised the issue of co-ordination. It does not seem clear whether Westminster or the Scottish Executive should be in charge. Unless that question is resolved, we will be unlikely to make much progress. Who is in charge?

Robert Crawford: I cannot comment on the politics of the matter, but Scottish Enterprise participated fully in both of the task forces that have been mentioned and it is carrying out specific work on provision, development and awareness raising in e-activities and new economy issues. Of course, there is a wider set of issues to address, but I understand that we have a clear link from the Executive to the Department of Trade and Industry and the No 10 policy unit.

Fergus Ewing: When some members of the committee visited the Borders on Friday, we were given the example of a company called Calligrafix, which uses a local internet service provider and estimates the cost of leased lines at £100,000. The company has estimated that a similar operation in London would cost £25,000, which puts the company's competitive disadvantage at 400 per cent. That is not a problem for the future, but for the here and now. What is being done about that situation?

Robert Crawford: I know the company and recognise the figure. As I said, there is a cost-distance issue because of the way we transfer data through Canary Wharf.

Scottish Enterprise does not have the resources to meet that challenge. I do not want to leave the impression that we can solve the problem somehow or other.

Fergus Ewing: On that point, Highlands and Islands Enterprise is to be commended on taking

an early lead some years back and having the foresight to invest. On 19 July, Scottish Enterprise unveiled a blueprint to use £437 million to drive enterprise in Scotland forward. Although I read the statement carefully, I could not ascertain how much of that £437 million was being invested in infrastructure.

Robert Crawford: We invest in infrastructure with new economy implications such as property. However, we do not invest in the deployment of telecommunications infrastructure for reasons that we have discussed.

Fergus Ewing: Does that mean that no part of that £437 million will be invested in infrastructure?

Robert Crawford: The money will be invested in a variety of types of infrastructure that are connected to the new economy, including some support for road-related and port-related activities and awareness raising. However, as for the deployment of telecommunications infrastructure in the context of this debate, the answer is no.

Mr David Davidson (North-East Scotland) (Con): Ken MacTaggart raised a point about which I have deep concerns. Although it is fine to transport information such as order forms and so on electronically, the main issue is the movement of goods. How much is the movement of goods involved in your thinking? Who is leading on that and how is it linked to the layout of the internet?

Robert Crawford: There is a tendency to forget that goods must get to the customer. As I said to Mr Ewing, we are actively engaged with other partners in facilitating the improvement of distribution and logistics mechanisms. For example, in the past 12 months we have contributed to some road improvement schemes that have had a clear impact on economic development.

Furthermore, we are actively engaged in discussion with international ferry operators about the potential provision of ferry-related activities in the east of Scotland. We are also engaged in conversations with international airline providers to encourage them to open up international commercial and passenger distribution hubs in Scotland. However, we do not provide the cash to build roads or to encourage an international airline to operate from Glasgow or Edinburgh because we are not resourced to do so and because, to be frank, that is not our responsibility.

The Convener: We will move on to other issues.

Elaine Thomson (Aberdeen North) (Lab): I want to raise the issue of the take-up of e-commerce in large and small companies. When we talked to various people in Aberdeen recently, it became obvious that the take-up of e-commerce

seems quite slow. Certainly small and medium-sized enterprises are not taking up e-commerce very fast—some companies seem to be quite hostile to it.

In Aberdeen, the oil majors were going to facilitate take-up by insisting on e-procurement, which would drive the SMEs forward.

I would like to hear the witnesses' views on what needs to be done about the small and medium enterprises. A number of different issues are involved, such as awareness and the need for cultural change in dealing with the new economy. There seems also to be a question about the level of management skills and training that are needed to deal with those issues. How can we deal with that?

What is the best role that the Government can play in addressing some of the issues? It has been suggested that the best thing Government can do is to try to raise awareness of the implications of e-commerce. What is your view?

Robert Crawford: We have targets for small and medium enterprises. By 2002, a minimum of 50 per cent of Scottish SMEs should be connected to the internet, with a third of them trading online. Given our current position, those are pretty ambitious targets. Awareness raising is fundamental to many companies in Scotland. Some SMEs think that the web is just a fancy new marketing device—it is certainly that, but it is a lot more. It is important that those companies understand that if they do not start trading online, sooner or later someone will take their market from them, no matter how local that market is.

Other things could be done, but one needs to be careful. For example, we have a grant that is available through a small business gateway, to give matching funding up to £500 to an individual who is starting a company. That is available either to set up an internet connection or to purchase computer equipment that will, in due course, link the company to the internet. That is a good thing, but the danger is that sooner or later—and sooner has probably arrived—private sector providers will start to do the same thing. Private sector providers are already beginning to offer a similar service.

It is important that the Government recognises that support for SMEs can be provided with good will and good intent, only for enterprise bodies to discover after a short time that that is being done better by private sector firms that have greater resources at their disposal. Participation with the private sector, learning from it and using it will be more important in this area than in any other, because of the speed of change. Scotland's SMEs need to understand more thoroughly than they do the advantages of participation in e-commerce and the dangers of non-participation. Charlie Watt's

group will address those concerns, and will use mentors and e-business advisers to instruct and help businesses in use of the new technologies.

Dr MacTaggart: We are trying to work pragmatically—one of the things that we can provide is independent advice. It is a very confusing world out there—the rate of change is fast and there is a lot of hype and press coverage about the issues. The cost of a business website can vary from nothing to £1 million—that is not an exaggeration. It can be difficult for companies to know where to pitch a website for their type of business. Often they are at a loss, and small companies in particular need advice on how to proceed.

We provide independent advice through our network of information technologies and e-business advisers. Maarten de Vries has run 60 courses around the Highlands and Islands, which have often been heavily oversubscribed. We are also considering whether we can set up a scheme to provide financial assistance to SMEs to get into e-commerce. Advice on its own is often not enough and money on its own is certainly not enough. Companies need advice on where to go for solutions and how to spend wisely on technologies.

We must ensure that private sector companies in our region have the proper IT capacity and skills to provide services that bring multiplier benefits into the local economy. Like Scottish Enterprise, we aim to provide online as many of our services as possible. We do not provide them only online, but that should be one of the means of communication. There is no point in having websites that aim to reach companies that have not yet been persuaded of the benefits of the internet, but we want to offer many of our services online. One can book courses under the Highlands and Islands Enterprise e-commerce scheme through the web and we have a dedicated website—www.hiecommerce.com—for that. Much of the help that we provide must be focused pragmatically, particularly for small companies.

Robert Crawford: We are currently trading £70 million of services online, and we are committed to being fully e-enabled by 2003. If we can do that, we will be the first fully e-enabled and web-enabled development agency in the world. That has huge implications for our customers and for the nature of our organisation. As Ken MacTaggart said, it also demonstrates to businesses throughout Scotland that if a public agency can do it, they should probably be doing it too.

Charlie Watt: We have recognised that there are about eight critical success factors in the rollout or uptake of e-commerce, particularly by small and medium enterprises. We have touched on infrastructure, but e-awareness is also critical.

As Robert Crawford said, we must recognise that larger organisations in the public and private sectors can implement applications that have a bow-wave effect back into the SME community. For example, if an organisation such as Scottish Enterprise implements its procurement over the internet, its suppliers also have to use those applications, so they are pulled along as well.

E-awareness is absolutely critical. To date we have done excellent work, as have our colleagues in Highlands and Islands Enterprise, using business advisers, third parties and business consultancy companies. However, we must also simplify the message that we are sending to the SME community. We must get over the fact that e-commerce is about improving profitability and show how it can deliver improved profitability through various mechanisms, such as reducing costs and improving customer service. I do not think that we have quite got that message over yet, but we have an action plan to improve the situation over the next few months.

Allan Wilson: This is a fascinating subject. I must admit that I found the Scottish Enterprise inquiry submission extremely interesting. I agree with you that the Government should not replicate private sector investment in areas in which it may not have expertise, not least because of the fast pace of technological change.

The report refers to m-commerce overtaking e-commerce in the fullness of time. Although we seem to have invested successfully in the new range of system and chip technologies with the Alba project, I wonder whether we have an equivalent programme for investment in the next range of mobile technologies. Investment by Motorola and NCR has obviously given the sector a boost.

I have been asked technical questions, to which I do not know the answer, about an internet switch as opposed to internet connectivity. E-commerce and m-commerce grow in proximity to the existence of an internet switch. Although the UK performs well in international terms, Scandinavian countries are right up there. I am told that that is a consequence of their internet switch—the only one in Europe, as opposed to Palo Alto in north America. Are there any proposals to investigate the prospect of an internet switch as well as internet connectivity, to advance the next stage of technological development?

Robert Crawford: That is a good question, which I shall let Charlie Woods answer. It is a key issue and I want to ensure that our response is accurate.

11:00

Charlie Woods: The developments at Alba and

the like relate to a lot of the technology that will be at the heart of m-commerce. Motorola's embedded software project, which was announced on Monday, will develop the kit that will make m-commerce a reality. We have to do critically important work on the content side. We are trying to get going on the creative industry side so that we in Scotland can develop the content that can take advantage of the equipment that is being developed. Those things are all interrelated.

Robert Crawford: We have to ensure that Scottish universities and colleges have bodies of expertise that would be of interest to international players. A challenge for us is to get universities to engage with international partners in an effort to persuade them to move to Scotland physically or virtually—we should not lose sight of the fact that they do not have to move here physically—to work in new defining technologies such as optoelectronics. In the fullness of time—sooner rather than later—we will see developments in that regard. I will defer to Charlie Watt on the question of the internet switch.

Charlie Watt: I think that the answer is 42, but I am not sure of the question.

The Convener: We like answers like that. Have you ever considered being a Government minister?

Robert Crawford: I will not bring Charlie here again.

Charlie Watt: I have a small team that is examining the question of infrastructure with service providers, content providers and a host of suppliers who are involved in the delivery of a service. We must recognise that the content and the complementary services are as important as the infrastructure. We must focus on that, as the providers are all involved in delivering a service to the end user. We are discussing some form of cohesive strategy with potential satellite providers and service providers such as NTL, Thus, BT and others.

A lot is already happening on the internet protocol backbone, which is what you are referring to. A great deal is being invested in getting the necessary nodes into Scotland. I do not know what the mechanism would be, but I would like to come back to the committee and offer a simple diagram of where the structures are in the network. That will allow you to see where the critical points are. The answer depends on the type of customer.

Mr Duncan McNeil (Greenock and Inverclyde) (Lab): We were talking about awareness but, despite all the technological talk this morning, people are already taking advantage of the big opportunities that exist. We spoke about the private sector, but I would like to talk about the

public sector and the ways in which it can be used to raise awareness. I believe that awareness is heightened by the prospect of growth and increased profit for companies.

This morning on the news, we heard about overheating in London and Edinburgh. What is your role in opening up aspects of the public sector and Government agencies to encourage them to engage throughout Scotland?

Robert Crawford: That is an extremely important point. We are doing the k-web project, which we hope will act as an example. Because we are the first, it is inevitable that we will make mistakes, but we should not be frightened of that. The UK Government is committed to having all its services online by 2005, I think. That is no small challenge. It says that approximately a third of its services are already being delivered online. As I said, we are currently trading £70 million in services online. We want to make ourselves available to partners of Government and agencies within and outwith the UK so that we can learn from one another. There is a lot that the public sector can do, especially as parts of it—ourselves included—interact not only with businesses but with excluded groups who otherwise would not have any idea about what is happening. We have a series of specific and discrete programmes directed towards, among others, the excluded groups. We also encourage participation from other Government agencies and departments to enable them to understand what we are doing—the Northern Ireland Assembly has expressed an interest. We are making our k-web project available to other groups. With our consultants, our k-web team has worked up a set of demonstrators, which are exciting and fascinating.

E-technology can improve service delivery and information delivery. We would welcome the opportunity to make a presentation to the committee on the implications of that. We hope next week to close on the key priorities for our organisation and immediately to implement them. We think that the implications are enormous. Public sector participation is hugely important, particularly for smaller businesses and excluded individuals.

Nick Johnston (Mid Scotland and Fife) (Con): My impression of this area is that it is like a three-legged stool. We have covered two legs—the technology and the infrastructure—quite well. The third leg relates to people. I notice that your submission mentions skills and education. Motorola has said that one of the reasons why it came to Scotland was the people. On our visit to the Alba centre last week, the supply of graduates was mentioned. We spent some time talking about it from the point of view of engineering still having a metal-bashing image rather than a high-tech

image.

What can the enterprise companies give to develop the right skills in an individual, almost from primary school? What can they do to change the image of engineering, to get teachers more tuned in to the fact that there is a high-technology industry out there that they can direct pupils towards and to ensure that the universities have people who are capable of teaching at the required level? Related to that is the question of how universities will be able to retain highly trained staff in the face of competition from a well-financed industry sector. What does that mean for the futures of graduates?

Charlie Woods: The subject is massive and varies at different levels. At the school level, the issue is awareness. From the work that we have done on encouraging enterprise, we have learned a lot about the need to provide materials that teachers can use. We can work with them to develop those areas.

To develop specific skills, we need to work with companies to identify what courses we need to put in place. The Scottish labour market intelligence unit and the university for industry are part of that process.

The universities' ability to retain talent is vital. We will need to encourage a system in which people do not necessarily spend their whole careers in universities but spend some time there before returning to industry. We will need more of a flow of people between academia and industry. One of the ways in which we are trying to build links with the Scottish Higher Education Funding Council and the Scottish Further Education Funding Council is through a committee chaired by Janet Lowe, the principal of Lauder College, who is on our board. The committee works with members of the funding councils to examine how we can work together in the area of learning skills to address the challenges of the new economy.

Robert Crawford: We are getting better at feeding back into the education sector information that can be used for curriculum development about where the opportunities are and the changing dynamics in the world economy. These days, there is no national economy; we are part of a world economy. We need to find a way of achieving a constant flow of information. All of us find keeping up with change a challenge—I know that I do. We have exposure to global markets.

I began my comments by saying that one of the things that we need to get better at in Scotland is international networking through attracting individuals—physically or virtually—who can, using their experience of silicon valley or Osaka, for example, help us to understand what is going on in those economies. That has implications for

our economic development; we could become part of a conduit back into the education system to help it to understand what is going on in the global marketplace.

As for retention, there is no easy answer. In the United States, it is common for academics to be paid large sums of money to come in and out of the sector or to work with private sector deliverers. Our universities are getting better at that, but they are clearly not at the level of Stanford University or the Massachusetts Institute of Technology. One of the statistics that we gave the committee is that the accumulated annual revenue of the companies that have been spun out by graduates and academics of MIT in the period from 1965 is equivalent to that of the 24th richest country on earth. That is the scale of the challenge.

The Convener: I will take two questions before I close this part of the meeting. I hope that we can have a break for coffee and tea.

David Mundell: I brought back from the US a number of points on which I hope to report to the committee. One of them was the identification of the four key challenges for joining the information economy: 21st century telecommunications, which we have covered; a skilled work force, which we have covered; savvy entrepreneurs; and quality of life, on the basis of the mobility that the e-economy allows for individuals and companies across the world. Neither in your submission nor today has quality of life been touched on as a key component in Scotland's ability to compete in the information economy. How is that being developed and marketed? Who has ownership of that?

Robert Crawford: You are right; we did not touch on that, which is a deficiency on our part, because it is important. People who are new-economy engaged have begun to migrate not only to the Highlands, but to other rural parts of Scotland to harness the quality of life. I was in Dumfries and Galloway recently. I met people from an internet-based company that is operating out of Crichton campus in Dumfries and accessing SuperJANET. The people who run that company were clear that they wanted to stay in Dumfries to build their business. Technology made that possible.

Quality of life is an important issue. We need to make more of it. In the context of international networks, we will be seeking constantly to remind people of what it is like to live here. Over the years, Locate in Scotland has been extremely good at using quality of life to attract international investors. We should have mentioned that in the report. I am sorry that we did not.

Ms MacDonald: I am interested that you said that there is no such thing as a national economy and that we are all just part of a global economy.

Presumably, that means that there is not a European economy either, but I will not get you into that.

Robert Crawford: I am grateful for that.

The Convener: Perhaps we could have a question.

Ms MacDonald: It is quite a big question, on which we should have a debate.

I am sorry to come back to this, but there is a problem with ownership. That links to the quality of life, which David Mundell mentioned, and how we use all the people, skills and resources in Scotland as well as we can. It also concerns the allocation of resources and who is in the driving seat. Where are the resources and money coming from? Are you convinced that you can persuade any of the providers to move into the Borders within the next couple of months, which is a short time span, as you know better than I do? Do you have the money to say to them, "Right, this is what we can put up"? If you do not have the money, who has? Can it come through local authorities? Traditional means of communications were provided through local authorities. As well as putting broadband or satellite technology into the Borders, you will also need to think about a railway and better roads. If we are to think strategically, who will do the thinking and who will put up the money?

Robert Crawford: We endeavour to think strategically. I will not pretend that we have the resources, experience or skill necessary to do all those challenging things on our own. We need a partner, more so than in the past. We have deployed significant sums of taxpayers' capital to do things that are directly connected to the new economy, but the point that I made earlier—I am sorry that I have repeated it several times—is that we recognise that partnership is now inevitable and necessary. That is not only because we do not have the money, but—in some ways this is more important—because we do not have the skills, expertise or knowledge that lies in the private sector. We are, with taxpayers' money, encouraging new-economy developments in property provision and incubator activity in partnership, but that cannot be done by Scottish Enterprise on its own or, for that matter, by the public sector alone, because there is too much of a challenge in other areas.

11:15

The Convener: I have been leaned on to allow one final important question from Annabel Goldie.

Miss Goldie: It is brief, and concerns attitude. We visited a company that was in a remote location but had the appropriate infrastructure; it was a good employer in the area and was pleased

with the local provision of skills for its work force, but the big problem was attitude. The company said that, unless it could change the attitude of its work force, in terms of personal relations with customers and the indigenous inhibition about dealing with the big world, it might be forced to relocate.

Robert Crawford: On the way here this morning, we were talking about attitude as a key issue. This is not just about technology and finance; it is about the attitude of the work force. I was reflecting wearily that it would be nice if the person who sold me my newspaper wished me good morning. That is a trivial example of a more serious issue. One reason why the American economy has done so well is that a strong customer and sales culture is inherent in the United States. As I said at the beginning of my remarks, engagement in team working with a total customer focus is an inherently significant part of new-economy thinking. I do not know the company to which you referred, but I am not terribly surprised by what I have heard. We have examples of super customer engagement, with work forces who are well trained and who understand that the customer is king, but we need more.

Dr MacTaggart: Attitude is the other side of the coin to skills. The two go together and on their own they are not enough. As the economy is changing rapidly, one finds that people in rural areas perhaps tend to be more reticent. Frankly, the issue relates to training and is about economic survival. If the approach to customers is not correct—and the market demands better service—we have to work positively to change things for the benefit of those communities and the individuals concerned. The issue of attitudes is closely linked to the skills issue, and both can be addressed by training.

The Convener: On that note I draw this part of the meeting to a close and thank Robert Crawford and his team from Scottish Enterprise and Ken MacTaggart and Mr de Vries from Highlands and Islands Enterprise for their contributions. I apologise to members who did not get to ask their questions, but I will try to get them in next time. I adjourn the committee until 11:25. I hope that some tea and coffee will arrive.

Robert Crawford: Convener, if your members would like a demonstration on the k-web project and how the demonstrators work, we would be happy to make that available. It really is interesting.

The Convener: That would be welcome. The clerks will be in touch with you on that.

11:17

Meeting adjourned.

11:30

On resuming—

The Convener: For the next part of the meeting, we have been joined by Ray Perman, the chief executive of Scottish Financial Enterprise, and Willie Donald, of the e-commerce section of the Bank of Scotland. I invite Ray Perman to make some introductory remarks; a paper has also been circulated. We will then proceed to questions.

Ray Perman (Scottish Financial Enterprise): I thank the committee for inviting us to give evidence. I offered to speak to the committee because, when I looked at the programme of work that you had set yourselves, I felt that there was a concentration on the effect of the new economy on small and medium-sized businesses and that less weight was given to what was happening in large companies. That left an area that is very important to the Scottish economy uncovered. In financial services in particular, substantial investment is being made and some exciting projects are under way that have significant implications for the Scottish economy.

In my submission, I referred to a survey that we carried out earlier in the year, in which we estimated that in the next three years around £600 million would be spent by financial services companies in Scotland. We now believe that to be a considerable underestimate, partly because one or two companies that could not give us figures at the time of the survey are starting to flesh out their programmes and partly because some people who gave us figures have now told us that they are spending much more. I am confident that over the next three years more than £1 billion will be spent by Scottish financial services companies.

One problem is determining where the spending ends. Willie Donald will be able to go into that in much more detail. Putting on a new front end in the form of a website or mobile commerce inevitably has implications for the back end, as new developments have to be integrated with existing systems. Those developments also have training and skills implications. That means that spending on a new front end can lead to spending in the core of the traditional business. That is worth exploring.

I had hoped to have with me Jim Spowart of Intelligent Finance, but he is rather busy this week. I would like to give an example of the way in which the new economy is providing opportunities for Scotland. A number of new projects—specifically, new-economy projects—are coming into Scotland because of the reputation that we have in financial services. Intelligent Finance is one of those,

involving £150 million of investment and a complex project that has to be got off the ground very quickly. It has led to the creation of something like 1,400 jobs since last November. Another such project is Evolvebank, a subsidiary of Lloyds TSB based in Glasgow. It involves 200 jobs and considerable investment, and is aimed initially at Spain and Portugal. That is an interesting example of how e-commerce and mobile commerce can open up new markets to Scottish companies.

Willie Donald, the head of e-commerce at the Bank of Scotland, kindly agreed to accompany me to this meeting. He can talk from first hand about a number of the issues that were raised earlier in the meeting, as they impact markedly on the bank and his area of expertise.

Another interesting project is the Bank of Scotland's EUBOS venture. It is a mortgage bank aimed at Holland and Belgium but run from Scotland. That is an example of how the new economy can enable Scottish companies to tackle markets that previously it would have been uneconomic for them to attack.

I am happy to answer any questions that members may have.

The Convener: Mr Donald, would you like to make some opening remarks or are you happy simply to answer questions?

Willie Donald (Bank of Scotland): I am here as a practitioner and I am happy to deal with questions as well as I can.

Nick Johnston: I would like to start with a basic question for Willie Donald. Scotland lags behind the rest of Britain when it comes to e-commerce; we will take that as read, as the evidence tells us that that is the case. One reason that has been given for that is security over the net. Apparently Scottish shoppers are not happy about giving out their credit card details over the net, because they have fears about security. According to the National Consumer Council, the internet is still not secure enough. That is one of the things that will hold back the development of e-commerce, along with the fact that 50 per cent of adults in the UK do not have a credit card, which is a prerequisite for dealing on the net. Would you like to address that issue?

Willie Donald: I think that I can. You raise a number of questions, but I would like to deal first with security. As far as financial services are concerned, security is fundamental to e-commerce. We have always operated in a highly secure environment. Banks and financial services companies have been digital for a quarter of a century, so we have been moving money around on digital telephone lines and private networks for a long time. Now the issue is about asking the consumer to make transactions online.

There are two ends to security. One is the technology within what I would describe as our server nest to secure that nest and to secure customer data from interference from outside. Organisations such as ours are confident that we can provide that security, because we use the highest level of encryption and military protection and several layers of firewalling to protect data. To some extent, we have done that for many years.

We feel confident that we can provide a secure service. However, that is not the answer, because perception is important. Another factor is the device that is used at the other end of the transaction by the person who is on the internet. There are viruses called Trojan horses, which release enemy code into the personal computer at a predetermined time or when a particular action takes place on the PC. If the consumer has such a virus on their home PC, the virus can match the keystrokes that the consumer makes when they log on to their internet banking service, copy them and send them to an unauthorised person. That unauthorised person can then use a perfectly correct set of keystrokes to enter our systems. There is nothing that we can do about that.

The situation that I have described is extremely rare and one could argue that current credit card fraud far exceeds the potential for fraud on the internet. What is important is not simply the fact that such fraud is technologically possible, but education and raising awareness. There is a duty on organisations such as ours to ensure that our customers are aware that internet fraud can happen. There are routines and disciplines associated with owning high-tech equipment—ensuring that virus-protection programmes on PCs are as up to date as possible, for example. We need to encourage people to get into habitual patterns of behaviour; I update my virus protection every two or three days.

We are confident that we have the technology to prevent people from hacking into our systems. In fact, we use hackers to test them. There are formerly unscrupulous people who have now, apparently, become scrupulous and whom we can hire through international consultancies. We have hired Russians, whom we allow to bombard our systems. We never release systems until they have undergone that sort of testing. The weakness is at the consumer end, and it can be dealt with by education and raising awareness. We have a part to play; the point that was made earlier about raising awareness more generally is also relevant.

Elaine Thomson: Nick Johnston has covered many of the points that I wanted to raise, but I have one more question. Legislation has been going through Westminster to facilitate the security of financial transactions on the web. Is the legislative framework now in place to allow

businesses to move forward in that respect?

Willie Donald: One of the debates in the past few years has been about the level of encryption. Some of the European Governments were of the view that very high levels of encryption would encourage criminal activity as much as protect law-abiding people. In the UK, we have military-standard encryption. However, the issue of digital signatures demands further legislation and agreement. The e-commerce market—the ability to conduct contracts online—will not open up fully until we are able to authenticate electronically a customer's identity and to present that customer with an authenticated answer. Typically, the law demands a physical signature. Even with online capability, in most cases, we still need a signature.

The question of digital signatures is key. Digital signatures raise the encryption issue; the progression of encryption technology might allow digital signatures to be even safer than a potentially counterfeited physical signature.

George Lyon: As a commercial operator, you must have gone through many of the challenges of setting up e-commerce businesses and equipping the Bank of Scotland to tackle new technologies. What practical difficulties did your organisation face?

In the previous discussion, we talked about the big issues in relation to education: awareness, infrastructure and skills. What do you consider to be the priority issues? What should the Executive do to address the problems?

What were the cost benefits to the Bank of Scotland in making use of business-to-business e-commerce? Internet banking seems to be about making the consumer do the work for the bank, yet still having to bear the costs.

Willie Donald: Yes. There were many challenges for the Bank of Scotland, of which the business issues were the first—understanding what benefit could be presented to the Bank of Scotland and its shareholders in a completely new world.

I will give the committee an example. I worked in the mortgage industry for many years. Usually, 55 per cent of the mortgage applications that we received would complete to a mortgage—roughly one in two. The situation is fairly similar in traditional businesses across the world. However, when we allow people a browsing capability, to look at data, perhaps to carry out some calculations online and even to send digital information and receive an answer, we do not know how many of those transactions will convert. No one on the planet knows that. Even the most advanced banks, such as Wells Fargo in the

United States, do not know the conversion rate. It is a learning experience.

Building a business plan without understanding the conversion rate is very difficult. My first and most significant challenge is to build a business plan that my board of directors will agree to. The board will not release the sums that we require—about £200 million over the next couple of years—without such a plan, and quite rightly so.

However, the question of skills is perhaps of more interest to the committee.

The Convener: Is it a waste of time to ask what conversion rate assumption you applied?

Willie Donald: We assumed a 10 per cent conversion rate. The Dutch business is beginning to show about 10 per cent. We are learning. That leaves an interesting equation in relation to the cost benefit analysis.

The key question is that of culture. Our organisation has a 300-year history and we hope that we are effective and successful in what we do. Organisations such as ours have to reinvent the processes by which people work. By opening up this particular channel and giving people the ability to send e-mails, we get everything from, "What do you think of the Scottish Parliament?" to "Gie's a job."

11:45

George Lyon: So do we.

The Convener: We will not ask what the conversion rate was for that question.

Willie Donald: The serious point is that our staff are not trained to answer such questions. We must follow regulatory procedures in answering financial queries. There is a whole retraining issue around call centres, which are now open 24 hours. Our staff receive e-mails and need to be able to construct letters quickly, without using too many words, and to respond in kind. We have to retrain people.

The vast amount of money mentioned by Ray Perman—the £1 billion—relates to building the up-front capability. However, what we are learning from our business around the world is that the up-front capability and fulfilment are there. The biggest challenge for Amazon is to get the books to the customer. The biggest challenge for us is to change the culture of the business from the chief executive to the person at the coalface. That is a challenge for all of Scotland. Skillsets, attitudes and the service culture are also key—that came up in the previous evidence. Service is a high-profit activity.

George Lyon: Is your No 1 priority the skills, awareness and education issues?

Willie Donald: Yes, and building the business plan.

George Lyon: Do you value that above infrastructure?

Willie Donald: Yes. There are question marks over the cable into Scotland, broadband and the internet switch. Those are important to us, but we can find those facilities elsewhere if necessary.

George Lyon: What was the cost benefit to the Bank of Scotland in going down that route? We have heard various figures bandied about and it has been suggested that it could save businesses up to 20 per cent—right to the bottom line.

Willie Donald: We are not far enough into the exercise to know. We have had an internet operation for a couple of years and we are now in what we call phase 3, which involves rebuilding the entire online banking operation throughout the bank. The current business plan aims to take out 10 per cent of costs by 2005 and to save 2.5 per cent in the attrition of customers. We expect 32 million people to be online—through either their PC or their mobile phone—by 2005 and that 20 per cent of them will bank online. Based on those assumptions, if we grow our market share of 1 per cent of new online customers to 5 per cent, we will multiply our investment by seven: if we spend £100 million, we will earn £700 million. However, all those assumptions are open to challenge.

George Lyon: If you are to convince small businesses to engage in such technology, the fundamental question that they will ask is what the cost benefit is to their business.

Ray Perman: There might be large cost benefits to be made in procurement, for example. Some of the examples from the United States—Microsoft and Cisco Systems and so on—point to huge benefits following the improvement in internal systems. However, with regard to running customer services—offering bank accounts over the internet, for example—the thought that any cost savings could be converted straight to profit is a rather wild one. Competition is so intense that any savings would be passed straight to the customer. The customer expects a better rate of interest on his deposit, finer terms on lending, cheaper air fares, cheaper books and so on, online. At the moment, competition for customers is so intense that the savings go straight to the customer.

Dr Murray: You identified skills issues as being a problem—as did Scottish Enterprise in its submission. You mentioned your own training experiences. Are there any lessons that you could pass on to other sectors or to Scottish Enterprise? Could the retraining of staff and the encouragement of appropriate attitudes be addressed more holistically, from a national

perspective?

The financial sector is obviously not just a business on its own: one of its key roles is to support other businesses. When people come to you for financial support, how actively do you encourage them to consider new technology, to change their attitudes towards it and to use the internet or whatever? Can you share your experiences with them?

Willie Donald: I will answer your second question first—it is a touch easier. One of the delights of this technology is that we are able to deliver value-added services much more efficiently than we have been able to in the past. If we consider small businesses, or SMEs, for many years, local bank managers have sought to give as much value-added help as possible to the local plumbers to build their business. Bank managers have tried—possibly at the golf club—to give them a nudge and push here and there. With this technology, we can help small businesses quite efficiently.

For example, there is probably no point in plumbers having a drawer full of health and safety stuff that they will never look at. However, we can satisfactorily store such data on our servers and give them to those plumbers when they require them. We can actively bring added-value services to people much more efficiently. We can keep them more up-to-date. By their own admission, many small businesses are pretty inefficient when it comes to administration—plumbers plumb, and administration is not their forte. We see ourselves as giving competitive advantage by delivering those services to the plumbers. We can go on to a whole range of things, such as managing a profit-and-loss account or a balance sheet, and serve the data to them when they need it.

Ray Perman: The Bank of Scotland, the Royal Bank of Scotland and Lloyds TSB have a package that is aimed at SMEs. Often working in conjunction with a telecoms provider, it consists of internet banking, website building, access to information, access to marketing expertise and so on. It is an overall package. It is in the interests of the banks to see their customers online, and they are trying to help them with that.

Willie Donald: On training, our main experience relates to attitude. At this stage in the development of the new economy, we want people to think out of the box and to be global in outlook. We are looking for people who can take hard knocks. One of the previous witnesses mentioned the ability to fail. In an organisation such as ours, people do not typically forge careers and get promotion on the basis of failing. It has not happened like that. However, I have to have people who are willing to progress projects at some cost, even though those projects might not operate well. We are looking for

people in our organisation who have some clearly identifiable personal characteristics—perhaps even, dare I say it, psychometric characteristics—and who can carry the weight of responsibility. If the board says that you have £200 million to spend, that might seem to be good news, but it is not that good, because the board is expecting a return.

We run assessment centres and rigorous interviewing processes internally to dig out the people we want. Interestingly, those people come from all sorts of areas. It is a bit like computer programming was 10 or 15 years ago, when organisations could find people from among taxi drivers, teachers and so on. A certain set of human skills seem to work in this environment, and we are looking for people with that set of skills. It is difficult to come by such people internally or externally.

Dr Murray: How do you change the attitudes and skills of the rest of the work force?

Willie Donald: That will be difficult. Perhaps we will have to segment pieces of the business. To take the example of call centres, we have 12, but we will probably concentrate on one or two and turn them into contact centres, so that we can develop skills. We will then use those centres as role models and templates, to pass on the skills to the rest of the business. That is the biggest challenge of all.

The Convener: We will have to have brief questions and answers, please.

Fergus Ewing: The particular relevance of your evidence to this inquiry lies in what can and should be done to address the shortage of skills that you refer to in paragraph 11 of your report. I appreciate that this is a complicated question, but will the shortage continue, and is there more that the public sector can do, especially the tertiary education institutions? Do you feel—and this point is often made to me—that the skills that are learned in tertiary education might not necessarily be those that are sought after by the financial sector, or which are relevant or helpful to it? I am aware that many—perhaps all—companies do their own training.

Those questions seem to be of direct relevance to the inquiry. If the inquiry is to achieve anything, we should try to have a clear and focused conclusion. To do that, we need the help of witnesses such as yourselves, with your knowledge and experience of the sector.

Ray Perman: The shortage of skills in information technology and e-commerce is really a subset of the general shortage of skills in financial services. In central Edinburgh, central Glasgow and in a number of other areas, we cannot get enough good people. I do not see that as a

problem or a crisis; I see it as an opportunity. In Scotland, we have not often had the luxury of having more jobs than people to fill them, yet, cheek by jowl with that, we have people looking for jobs. The challenge for the public and private sectors is to bridge that gap. More could be done in further education, higher education and schools, but I do not think that companies—and Willie Donald can answer specifically for the Bank of Scotland—are looking for people who are trained: they are looking for people who are well educated, who have open minds and who have certain basic life skills.

Training given today will be out of date in two weeks' time, so training has to be done constantly. However, Scotland has an opportunity. As far as I am aware, no one in the world has a surplus of those skills. We do not start with a massive disadvantage vis-à-vis London, Dublin or wherever. We have to demonstrate that we are doing more about training than anyone else and we have to provide our work force with the attitudes of mind that will enable it to take advantage of the new economy.

Allan Wilson: I have a related point on skills, recruitment and training. I noticed that a major financial institution—which will remain nameless—complained a couple of months ago about the difficulty in attracting, recruiting and retaining people in the overheated eastern economy. It seems that it has now been accepted that there were opportunities to diversify into other parts of Scotland and to promote locations outwith Edinburgh and the east of Scotland in the development of financial services. What is Scottish Financial Enterprise doing to roll out the undoubted expertise in the Scottish financial services market, so that the whole of Scotland benefits from the employment opportunities that have been created in certain parts of Scotland?

Ray Perman: That is happening. It is happening partly for the very reason that people cannot get the number of people they want in Edinburgh—or greater Edinburgh, if I can say that—and so are looking at other areas. In Hamilton, for example, 1,000 people have jobs with First Direct. Greenock now has significant employment in financial services, as have Clydebank, Dunfermline and Bellshill. The employment is spreading out all over Scotland already.

We are working on a specific project with Scottish Enterprise and the Scottish Executive to develop some sort of financial services centre in central Glasgow. That is partly because there is a more available work force in Glasgow, although that is only relative to Edinburgh, because skills are short in Glasgow, too; and it is partly because Glasgow has a more developed regional train commuter network, which is a great strength.

Increasingly, people will look to non-traditional areas. The challenge is to ensure that the work force in those areas is ready to accept that opportunity.

David Mundell: Before I pursue that question, I will say that I am going to give the extract from the *Official Report*, when you talk about security, to the Parliament's information technology people because, despite my efforts and those of Elaine Thomson, we are not allowed to access banking services, as they are considered insecure to our network.

The Convener: There is a vote of confidence from the IT department.

12:00

David Mundell: We have to be exemplars for the use of electronic services, so it is foolish if we cannot use them at work.

I want to follow up Allan Wilson's question. Does Ray Perman accept that the areas that he has cited are greater Glasgow and greater Edinburgh? The enormous growth in e-jobs in financial services has not led to a distribution of jobs around Scotland. For example, jobs have not been distributed to Stranraer, where there might be the very people whom Willie Donald, who said that he was concentrating on people skills, is looking for. How are you connecting those people? You are not saying to such people that they should leave Stranraer and come to Edinburgh. Is there any mechanism to allow people to stay in Stranraer and to feed into the system from their home or a community work unit?

Ray Perman: I do not know specifically about Stranraer. A problem with rural areas is that there are not many people living there. A few months ago in the SFE building, we held a major seminar with Highlands and Islands Enterprise that was aimed at location managers of financial services companies. Ken MacTaggart gave an impressive presentation, which was particularly good on the level of education in the Highlands and Islands, which is above the average level in the central belt, and on the effectiveness and stability of call centres in places such as Wick, where there is an enormous call centre. The labour turnover there is tiny compared to that of call centres in cities, particularly in the south. There are opportunities, but the towns to which Highlands and Islands Enterprise would like to direct employers, as there are no employers there already, are fairly small and there is a limit to the size of operation that they can support.

There are companies that need service centres, call centres, or processing centres, with 20 to 50 seats, but such companies are in the minority. There are very few rural towns outside the central

belt that could take operations with 200 jobs. Employers are concerned about the supply of people in the future, as well as at present. It is a particular problem to find operations that are suited to rural areas. However, I agree that there are opportunities for rural areas.

Ms MacDonald: I am glad that you mentioned levels of educational attainment, as that is what I want to address. Much sloppy thinking was around in the early days of the new technological means of communication. It was thought that one could somehow circumvent the need to be literate. When I ran a big call centre, I found that it was difficult to find enough people in Glasgow who knew the difference between a comma and a full stop and who knew what they indicated in the message that was being communicated—I am sorry to be so pedantic about this.

You are right to say that the areas in which there is a large enough pool of people who have already developed that skill are not in the cities, on which we have concentrated. If we are to keep people who are coming out of schools in the Borders in that area—which Fergus Ewing and I visited—employment will have to be provided relatively close to them, or those people will come to Edinburgh and stay here. It is not just the modern means of communication, but the hardware to keep people in their own areas, that is needed.

We heard Bob Crawford say that we should not neglect quality of life; we think of quality of life only when we are telling Japanese folk to come here, but never tell people in Scotland that they have a terrific quality of life—good schools for their kids and so on. I appreciate that I appear to be straying from the point, but that is simply because I think that we can get lost in the new technologies and forget that basic factors such as high standards of literacy and numeracy in our schools are important. Tertiary education was mentioned; are the levels of general education among people who come to you from that sector up to what you expect?

Ray Perman: Willie Donald is trying to pass that question to me.

Willie Donald: We have graduates who cannot spell.

Miss Goldie: We have MSPs who cannot speak.

The Convener: Perhaps we will just stick to graduates who cannot spell.

Willie Donald: It is a good point, which links to the issue of the skills that we need for call centres. We need people who can construct a very short letter—it is called an e-mail nowadays. A comma out of place reflects badly on us. It is that attention to detail that requires a cultural shift for people

who can talk informally on the telephone, wonderful though that skill is if it is done well. It is fundamental that people should be able to answer an e-mail that might contain an important question about banking and get the dot in the right place.

Ms MacDonald: To return to your analogy, the traditional bank manager could try three or four different ways to tell the plumber what he needed to know, but he has only one shot at doing that if he is sending an e-mail. Therefore, greater accuracy is important. I am sorry to be pedantic about this, but I feel strongly that people must learn to spell at school.

Willie Donald: I will link this point to the question of the design of websites. It was said earlier that small businesses in the north of Scotland are not taking up internet activities as quickly as we would like them to. A lot of diligence has to be put into front-end design—in high-level circles, it is called the user interface. We use ergonomic and psychographic experts to help us to design that interface and to get the quality of communication right. A business has only one chance to reach a user who is browsing the net.

Twenty per cent of all internet traffic in the world goes through six sites, such as Yahoo! and Lycos. For all the opportunity that the internet represents, it is only fair to report to the committee that it is also a significant threat to jobs. The cost of entry—the expenditure to set up a site and to carry out the necessary marketing activity—to be in the top 10 sites is now estimated at \$3.5 billion. The cost of entry to be in the top 1,000 sites is estimated at \$200 million. Organisations such as ours—FTSE 100 companies—must aspire to have a website that is in the top 1,000 or 2,000 on the planet. Therefore, the expenditures that are required are significant.

Another factor that comes into play is the little piece of one's browser that stores the addresses of one's favourite sites. Research shows that on average people store 14 favourite sites. The challenge for any business is how to become, in the face of overwhelming competition for attention, a favourite site—how does one of my pet loves, Deans of Huntly, the shortbread manufacturer, become a favourite site? The accuracy of communication, the targeting, and raw, traditional business skills count as much as the new economy.

Miss Goldie: My question is directed to Mr Perman. When I first started in practice, there was a Glasgow stock exchange and we had a thriving financial hub in Glasgow. Of course, developments led to its closure and the number of brokers diminished. Surely e-commerce brings us back to a position where we can ask, for example, why merchant banks have to be in London. Why cannot they be in Scotland? Has Scottish

Financial Enterprise a view on that? Is there a vision of how the sector can be expanded?

Ray Perman: More people are working in stockbroking in Glasgow now than ever there were when Annabel Goldie first started in practice. Barclays Stockbrokers, which is the biggest internet stockbroker in the UK, has a very big operation in Glasgow employing 500 people, which it is expanding greatly.

I believe that the internet offers us more opportunities than threats. We must grasp those opportunities. It opens up markets that were previously closed to us. Even 10 years ago, it was difficult for a broker in Glasgow to access the UK market. It is now much easier. The internet is bringing benefits. There is no reason why people have to be concentrated in London. More and more, they are looking elsewhere. There has been much inward investment in financial services in Scotland in the past couple of years, and I foresee that continuing.

Mr McNeil: To go back to the plumber, the coalface and the bank manager, you have described very well what the financial sector is doing—taking opportunities and driving forward. You have demonstrated an enthusiasm that many people involved in this area of work seem to have, but the evidence that we have taken recently shows that that is not percolating down to the people who are attempting to start up e-commerce businesses, who complain bitterly about the knowledge of local bank managers about what needs to be done to set up such a business, financial arrangements, investment costs and credit arrangements—in one case it took someone six months. There are significant barriers for people, many of whom have all the enthusiasm and many of the skills that you have. They are being frustrated by the banking system.

Willie Donald: That is the live issue for us. Our corporate division is being presented with banking proposals of a kind we have never seen before, often for start-up internet companies. Typically, banks have had a structured process for analysing business proposals. They look at cash flow and that sort of thing, take a view and decide whether to lend the money. Nowadays, there are new questions. What is the conversion rate? What is the user interface? How effective are the systems? What back-up is available? Local bank branch managers are not yet able to handle such questions sufficiently well. Our central corporate departments are only now getting up to speed on handling them. I am often taken along to give a view on whether a retail proposition has merit. Even I find that quite a challenge. It is a new skill entirely.

Mr McNeil: There is no internal set-up to deal with that. Is it ad hoc? What is the financial

sector's strategy for dealing with that major issue?

Willie Donald: We have set up a specific department within our corporate division to examine internet start-ups. However, I admit that it generally deals with larger start-ups—people who are seeking seed capital of more than £5 million to £10 million. I am unaware of the situation locally. I am probably not therefore giving an exact answer.

The Convener: Please drop a note to the clerks if you want to furnish the committee with further information to address Duncan McNeil's concerns.

Marilyn Livingstone: I want to go back to skills. We have heard a lot this morning about skills shortages. We are talking about e-commerce, but I am interested in the whole issue of life skills. We have heard today and previously evidence of people with no team-building skills and a lack of personal development skills. What collaborative links does your organisation have with universities and further and higher education institutions in Scotland and how effective are those links?

Willie Donald: Two or three years ago, our organisation embarked on a management programme—we call it management development or leadership development—that involves a cadre of around 400 managers in quite extensive personal development programmes. For those for whom the individuals and the organisation feel it is right, that is centred on Harvard or INSEAD-level formal education. Included in that is a lot of experiential training.

We are trying to dig out the team players—those who can operate in virtual teams. We need to percolate that down through the business. That is where the assessment centres to which I referred earlier come in. Building an e-business is like starting a business from scratch. A set of types of expertise needs to be involved. I do not have all the expertise, nor do my directors. We therefore engage small teams of the right-minded folks to run what we call virtual teams of up to 50 people from all areas of the bank. Those people must adopt a team-playing attitude, because for six months they will not report to their usual line manager. Life skills—the ability to fit in quickly, to give and take opinions, to be wrong, to be right, to recover from a bad day and turn up the next day—are important. As an organisation, we have identified those core skills, which might be found in a football team or an orchestra, as a priority and are investing a lot in looking for people with them.

Marilyn Livingstone: You seek those skills and continue to develop them, but I am asking what collaboration you have with universities and the further and higher education sectors to promote those skills.

12:15

Willie Donald: I mentioned two foreign organisations, but we also work a lot with Heriot-Watt University and the University of Stirling, putting people on courses at those institutions. A number of institutions, whose names escape me, contribute regularly to our programmes. I could provide further evidence, but I would need to talk to our training people.

The Convener: I thank Ray Perman and Willie Donald for coming along. It has been a very interesting discussion. If you want to provide us with further information, please feel free to contact the clerks to the committee.

We move now to the next agenda item: reports on the case study visits recently undertaken by members. Elaine Thomson visited Aberdeen, Annabel Goldie will report on the rural areas of Scotland, Fergus Ewing will report on the Borders and George Lyon will report on his visit to the Alba centre in West Lothian. As the visits took place relatively recently, a written report is available only for the visit to the Borders. That report will be circulated and we will discuss the visits once all the written reports are to hand and we have had time to reflect on their contents.

Subordinate Legislation

The Convener: Item 5 is subordinate legislation. The first item will be the Education (Student Loans) Amendment (Scotland) Regulations 2000, for which we will be joined by Gillian Thompson. Before we discuss the two statutory instruments, the clerk will give us an update on the Subordinate Legislation Committee's deliberations.

Simon Watkins (Clerk Team Leader): The Subordinate Legislation Committee met yesterday and has not yet formally reported on the first instrument. However, it highlighted a couple of technical considerations, one of which is that the instrument breaks the rule about the timing between when an instrument is laid and when it comes into force. That issue is being raised with the Executive.

The second issue is that there have apparently been amendments to the Local Government Act 1963, which is referred to, relating to the Metropolitan police district. One or two technical issues arise. Until the Subordinate Legislation Committee formally reports to us, we cannot formally report to the Parliament, but it is possible for members to ask questions and come to a view about the instrument, which can then be confirmed at a later meeting.

The Convener: I ask Gillian Thompson whether there any points that she wants to make and to reflect on the points raised by the Subordinate Legislation Committee.

Gillian Thompson (Scottish Executive Enterprise and Lifelong Learning Department): I saw those points this morning and can certainly comment on the amendment that was made in 1974, if the committee would find that helpful, although we will obviously also respond in the normal way.

The Convener: Please go ahead.

Gillian Thompson: The committee is correct in assuming that regulation 3 in the amended regulations is intended to take the position back to that set out in 1963, but as amended in 1974. I am sorry if that is not clear from the regulation.

There is a reference to the amendment in the footnote. We were attempting to bring the description of the Metropolitan police district back to that as in 1974. Otherwise, it would have been changed by the 1999 legislation, which was not what we wanted to achieve.

The Convener: Do members want to raise any points on the regulations?

As the clerks have indicated, we cannot formally report to Parliament on this until we receive the

report of the Subordinate Legislation Committee. A discussion of the regulations will be on our agenda at the next formal meeting of the committee.

I thank Gillian Thompson for coming along.

The second item of subordinate legislation is the Education and Training (Scotland) Regulations 2000 (SSI 2000/292). This instrument relates to the regulations associated with the introduction of the Education and Training (Scotland) Act 2000, which was approved by Parliament prior to the summer recess.

We have again been joined for this item by David Stewart and Allan Wilson, who have frequent appearances at the committee behind them, to discuss the regulations. I offer you the chance to update us on the actions that ministers have taken in drawing up the regulations, in the light of the parliamentary debates that we have had on the subject.

David Stewart (Scottish Executive Enterprise and Lifelong Learning Department): Following the latter stages of the Education and Training (Scotland) Bill, ministers wrote again to you with a revision of the regulations in the light of the commitments made in the debate on the matter. Thereafter, we worked through a final version of the regulations—the one you now have here—which looks different from the previous illustrative draft. It is designed to carry out the commitments that were given. Most of the changes are stylistic and technical, but the instrument reflects the original legislative commitments.

Mr Allan Wilson (Scottish Executive Enterprise and Lifelong Learning Department): The only other point that I would add is that, like Gillian Thompson before us, we understand that the Subordinate Legislation Committee examined these regulations yesterday. It raised a couple of points. Would you like a response on those at this stage?

The Convener: I will invite the clerk to go through them, then I will come back to you.

Simon Watkins: The first point relates to regulation 7(4), which concerns the sub-delegation of some of the rules governing the introduction of individual learning accounts to the Scottish ministers. It is a question of to what extent sub-delegation is sensible. The second point relates to regulation 7(5), which restricts the number of grants that can be issued. The committee has raised an issue about the vires of that regulation.

Mr Wilson: We will make the formal reply on those points within the next day or two. On the point about regulation 7(4)—the minister's powers to determine additional grants—we understand that the power is to be found in section 1(2)(b) of the Education and Training (Scotland) Act 2000

where it states that ministers may determine the amount and how it is paid. That is the basis of that part of the regulation.

Regulation 7(5) deals with limiting to 100,000 grants of £150. Under section 1(1) of the Education and Training (Scotland) Act 2000

"Ministers may make regulations authorising grants to be paid".

It is at their discretion whether to limit the number of grants and to set what the amounts would be.

The Convener: On the latter point, you are effectively saying that under the first section of the act, ministers have the power to determine that.

Mr Wilson: That is what we understand.

The Convener: If ministers wish to exceed that as the scheme rolls out, what is the mechanism for doing so? Do ministers have to lay further regulations? If we reach 100,000 individual learning accounts, do ministers have to prepare a further set of regulations to approve the one hundred thousand and first account?

Mr Wilson: Yes. As there is specific reference in the regulation to 100,000, we would have to amend it if there were going to be 100,001.

Ms MacDonald: Do the regulations state at which point that application would have to be made by the minister?

Mr Wilson: No. The policy intention all along—as published in the consultation documents and as discussed during its progress through Parliament—was that there would be 100,000 accounts. There is no intention to change that policy. If there were any intention to change it, the regulations would need to be amended. It would depend on the amount of time required to get that regulation through.

Fergus Ewing: Henry McLeish's letter to the convener dated 4 July stated that the minister would shortly agree the arrangements for evaluating the two discretionary fund pilots and that a full report would be issued on the outcome. Can you tell us when we might be in receipt of the reports on the pilots?

Mr Wilson: We expect the report to be available round about June or July next year. The final arrangements for the evaluation have yet to be settled. We must ensure that the information is available in time for the review of the regulations, to which ministers are already committed. They have said that they will review the regulations within a year.

Fergus Ewing: With regard to the 20 per cent and 80 per cent rules on further support, do you feel that problems of definition might thwart the full potential of implementation of the individual

learning accounts scheme, because of the thresholds being somewhat arbitrary?

Mr Wilson: We must gain from our experience on this as time goes by. It has been clear from the beginning that it will be difficult to define which specific courses are in or out in certain areas. Some are clearly in and others are clearly out, but many will be in that shadowy area. Part of the overall monitoring will identify whether, if those occur regularly, something can be done about them quickly or whether we must tackle it again later on in the year.

Fergus Ewing: You may be aware that I have written to the minister about this. Following a visit to Sabhal Mòr Ostaig this summer, it occurred to me, in discussions with senior personnel at Sabhal Mòr Ostaig, that there is terrific opportunity for those involved in service and tourism—perhaps even Parliament staff—to benefit from short courses there. Communication is one of the criteria that entitles people to the 80 per cent assistance. Will you confirm that Gaelic courses would qualify for the full 80 per cent support at Sabhal Mòr Ostaig?

Mr Wilson: I would not expect Gaelic courses to qualify for the 80 per cent support. I would expect language courses of that type to qualify for the full 20 per cent, or indeed the £150, which in many cases will be higher. When the definitions of the 80 per cent were considered, they were in three main areas. One was basic information technology skills, another was basic literacy and the third was basic numeracy. We have worked on that basis and have identified that small list of half a dozen or so courses.

Fergus Ewing: But not basic literacy in Gaelic.

Mr Wilson: That is correct.

The Convener: Now that Mr Ewing has had his week of intensive Gaelic training at Sabhal Mòr Ostaig, we are the wiser for it.

Allan Wilson: The minister's letter referred to local enterprise companies preparing local marketing strategies to reach those who might not otherwise be interested in the lifelong learning process. Is there a national marketing strategy that will drive the local enterprise companies' development of their local marketing strategies?

12:30

David Stewart: As was discussed during the progress of the bill, the Scottish University for Industry will take the lead on the national marketing of its own direct services and on awareness raising about individual learning accounts and local enterprise companies will do the local marketing. Scottish Enterprise, Highlands and Islands Enterprise and SUFI have been

working together on that national strategy. The individual local strategies have been discussed with the Scottish UFI to ensure that the two things fit together.

Allan Wilson: Is the national strategy yet to hand?

David Stewart: A national strategy has been prepared by SUFI for the local enterprise companies and SUFI to work to.

Elaine Thomson: When will the marketing programme be rolled out? When do the regulations become operative? I thought that, after 1 September, people would be able to apply for individual learning accounts.

David Stewart: It has gone live from 1 September; people can apply for ILAs. Indeed, a number of people who were getting ILAs through the field testing process have already got their accounts. Several thousand accounts are therefore already in existence.

My colleague Allan Wilson will say a little about the local marketing that is already under way. The main push on national marketing will follow the launch of the Scottish UFI next month. That will cover joint marketing of learndirect services and the money that is available through ILAs.

Mr Wilson: Much of the local marketing is already in hand, because we were able to roll out the field testing of ILAs throughout Scotland. That information has already gone out to LECs, employers and the main learning providers. Even in the few days that the programme has been going, the telephone line to SUFI has been extremely busy with inquiries. The message is clearly getting through, but we do not yet know whether it is getting through to the right people. We will find out about that through the monitoring that we are undertaking as part of our overall evaluation.

Ms MacDonald: How and where is the telephone line advertised?

Mr Wilson: It is mainly advertised in a range of booklets and packs that have been made available. A number of posters have also been produced, which are being displayed in locations that the local marketing people consider appropriate. We have been talking to our colleagues in the Department for Education and Employment about what further promotion might be undertaken. It is possible, although we have not agreed the details yet, that there may be some limited radio marketing as well.

The Convener: I am a wee bit surprised to hear about the sequence of events that you have described: the local marketing preceding the national marketing. Parliamentary debates left me with the impression that we had to get the bill

through in such a hurry because everything was going live so quickly and the regulations would simply enforce what was going to happen. I am quite bewildered by the time scale that you are now talking about.

David Stewart: The time scale relates to the fact that the ILAs were going to go live in the rest of the UK at the same time. Tax relief for vocational training was going to end on 31 August, so the new system had to be ready for 1 September for those who would otherwise have been able to use that type of relief to be able to take advantage of ILAs. Those are the two reasons for the change.

Local marketing has taken the lead because, throughout the period during which the bill was discussed, we were piloting and field testing ILAs with local enterprise companies. There has been a lot of local marketing. All the learning providers in Scotland have received packs about ILAs, as have employers, so people coming forward for courses can be told about them. The bit that has not gone out live in headlights at this stage is the television and national newspaper advertising, which will go live with the SUFI marketing in October to get both messages across together. At that point, the telephone number, which is widely known among those in the know, will be better promoted in all the media and will gain a high level of awareness.

Elaine Thomson: Will there be a website for local and national marketing?

Mr Wilson: Yes. There is already a lot of information about ILAs on the Scottish University for Industry website. We are continually reviewing that information and it will be updated.

The Convener: I think that we have exhausted that subject. There are no issues arising from the regulations that we need to draw to the attention of Parliament, although there are some technical issues that have been highlighted by the Subordinate Legislation Committee. We must wait for those issues to be formally resolved before we can sign off the regulations. However, as we have no issues to report to Parliament as a result of today's deliberations, we shall give the regulations the nod when the Subordinate Legislation Committee clears up its issues.

Thank you for your evidence.

12:35

Meeting continued in private until 13:04.

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