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Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 20 November 2013

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
32nd Meeting 2013, Session 4

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

Christian Allard (North East Scotland) (SNP)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Hanzala Malik (Glasgow) (Lab)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ken Barclay (Royal Bank of Scotland)
Colin Borland (Federation of Small Businesses)
Alasdair Gardner (Bank of Scotland)
Patrick Harvie (Glasgow) (Green) (Committee Substitute)
Roddy Macdonald (Scottish Government)
Joan McAlpine (South Scotland) (SNP) (Committee Substitute)
Ian McCall (Scottish Government)
Kerry Sharp (Scottish Investment Bank)
Neil Simpson (BrewDog)
Tim Wright (twintangibles)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 20 November 2013

[The Convener *opened the meeting at 09:31*]

Decisions on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 32nd meeting in 2013 of the Economy, Energy and Tourism Committee. I welcome my MSP colleagues, our witnesses and the visitors in the gallery, and ask everyone to turn off all electronic devices and mobile phones, please, or at least to turn them to silent, so that they do not interfere with the recording equipment.

We have apologies from Christian Allard and Alison Johnstone. I welcome Joan McAlpine and Patrick Harvie, who are their substitutes.

Agenda item 1 is to consider whether to take in private item 5, under which the committee will review the evidence that is to be heard in the meeting, and whether consideration of any reviews of evidence and consideration of a draft report on access to finance should be taken in private at future meetings. Do members agree to do so?

Members *indicated agreement.*

The Convener: Item 2 is another decision on taking business in private. The committee will consider an inquiry into Scotland’s economic future post-2014. Are members content that our discussion on the remit for that inquiry be taken in private at a future meeting?

Members *indicated agreement.*

Access to Finance

09:32

The Convener: Item 3 is the commencement of our inquiry into access to finance, which has exercised committee members for some time. I am very pleased that we are joined by an extensive panel.

I will introduce everybody from my left-hand side. Colin Borland is head of external affairs at the Federation of Small Businesses; Ken Barclay is the chair of the Scotland board and managing director of corporate banking at the Royal Bank of Scotland; Alasdair Gardner is regional managing director of commercial banking at the Bank of Scotland; Ian McCall is head of the investment and access to finance policy unit in the Scottish Government; Roddy Macdonald is deputy director of innovation, investment and industries in the Scottish Government; and Kerry Sharp is director of the Scottish Investment Bank. Welcome to you all.

Obviously, we have quite a large panel this morning, so I remind members that it would be helpful to direct questions at a particular panel member or members rather than just throwing them open for discussion. If all the panellists try to answer every question, it will take us a long time to get through the business, so if panellists would like to make points in response to questions that have been asked of somebody else, I will bring them in as best as I can, if they catch my eye. I ask members to keep their questions as short and focused as possible. Similarly, if the answers are as short and focused as possible, that will enable us to get through a range of topics that we are keen to cover in the session.

I invite Colin Borland from the Federation of Small Businesses to set the scene for us a bit and to say how his members are currently finding access to finance. As committee members, we hear anecdotally that access to finance is a problem. To what extent is it a problem? Is it getting better? What are the relationships with the banks and the major lenders?

Colin Borland (Federation of Small Businesses): Thank you very much, convener.

It is fair to say that I have the privilege of addressing the committee against a slightly more positive backdrop than I have perhaps done in the past. The latest figures from our members suggest that confidence is rising, which is feeding through to investment intentions, which are firming up. Obviously, that is good news, because an investment-led recovery will be far more sustainable than one that is funded by consumer debt or a housing bubble.

That said, when we ask our members how they are getting on with accessing finance for their businesses, approximately half are reporting that availability is poor, and a third are saying that it is unaffordable. Availability is therefore still a bigger issue than cost.

Also, when we look at whether members are approaching their banks or finance providers for external sources of finance, the figure oscillates between 20 and 25 per cent. That figure has stayed the same since 2009, and the pre-crash figure was about 45 per cent. It fell off a cliff for reasons that have been well documented, and although it came back up a bit, it has since then stubbornly stuck at the 20 to 25 per cent level.

I know that the committee is also looking at alternatives to bank finance today, and I acknowledge that business finance and bank lending are not synonymous. I looked last night, because it was a more attractive prospect than watching the Scotland versus Norway game—

The Convener: Despite the result.

Colin Borland: Yes—despite the result. I looked at the latest figures for our members' awareness of alternatives to bank finance and it is fair to say that it is poor. Less than 30 per cent of our members in Scotland are aware of things like peer-to-peer lending and asset-based finance. If we look through the range of options, it is interesting to note that the figures are lower for Scotland than they are for the United Kingdom, and that picture is repeated if we ask them about their awareness of specific alternative finance solutions.

The Convener: Thank you for that. I will bring in some of the others in a moment but I would like to tease out a couple of those issues. On today's panel we have the Scottish Investment Bank and Scottish Government officials who are involved in finance. What could they be doing better to assist FSB members to access finance?

Colin Borland: When we ask our members about financing, they tend not to differentiate between the public and private sector offerings—they just talk about alternatives. One of the issues with products that are offered by the Scottish Investment Bank and others is that they are aimed at a specific group of companies. They are not designed to be, and are not going to be, alternatives to the general finance that members of the business base require. If our members are to look at market interventions, less specifically targeted measures might be better. However, if people are not asking for finance in the first place, the details or the design of those schemes are of secondary importance.

The Convener: Are the public sector schemes of little relevance to your members?

Colin Borland: Yes.

The Convener: My second question goes back to what you said about bank lending. Sitting to your left are representatives of RBS and the Bank of Scotland, who between them have 70 per cent of the lending to small and medium-sized enterprises in Scotland. Is there anything you want to say to those individuals on behalf of your members? [*Laughter*.]

Chic Brodie (South Scotland) (SNP): Like "Hello"?

Colin Borland: We enjoy a good relationship with all the major banks in Scotland. We recognise that there are two dominant players in the Scottish market.

Relatively few people phone me or my colleagues to tell me that they are doing great; they usually contact the FSB if there is a problem, so the information that we get comes from a self-selecting sample, from which it is not fair directly to extrapolate trends.

However, I highlight that we have done a deal with British Chambers of Commerce and the Treasury to do one of the most comprehensive surveys of lending from all providers, of lending attitudes to small businesses and of customer service to SMEs in the UK. The results of that will be instructive. It is one of the biggest-ever surveys of its kind. I urge the banks to look closely at those findings and to appreciate the sort of things that small business customers value, which are the personal service that is provided by someone who knows about your business, having a named contact, and being made to feel that your business matters. The last time we asked members about the issue, which was in the summer, two thirds said that they felt that their bank did not really care about them or their business.

The Convener: Two thirds?

Colin Borland: Yes—two thirds, or 66 per cent.

The Convener: I had better bring in the banks, to let them respond to that. I will start with you, Mr Barclay. Two thirds of Mr Borland's members think that you do not care.

Ken Barclay (Royal Bank of Scotland): If I may, convener, I will make a few opening comments. As well as chairing the Scotland board for RBS, as you said, I am head of the corporate banking division in Scotland, which is the part of the business that looks after small to medium-sized businesses, right along the spectrum to larger businesses.

Access to finance and helping all our customers is important to us. Earlier this year, we brought in independent third parties to examine how we work with small businesses on lending. The committee will have seen the results and output of that work, which we have called the "RBS Independent Lending Review". We had already undertaken a number of initiatives, but we felt that the review made for pretty uncomfortable reading, to be frank, when it came out. We set up the review so that we could improve how we support small businesses. There is a real determination to ensure that we do that, and we are committed to acting on the recommendations in the report.

The review comes at a time when we have a new chief executive, from whom you will hear at the business in the Parliament conference on Friday. The fact that we have a new chief executive gives us a real opportunity to improve what we can do for small business customers. Although, as we requested, the review focused on RBS, some recommendations in the report could be considered to be broader and for the industry to consider, which might be of interest to the committee at some point in the future.

For the avoidance of doubt, I say that we want to lend more than we currently lend. Lending is a major part of our business and we will be successful only if we do that. As I said, we have taken a number of initiatives to encourage businesses to have a dialogue with us about their financing needs, and the independent review of financing is just one of those initiatives.

For context, we have about 120,000 customers in Scotland. Many of them do not need external sources of finance but, among those who do, since the financial crisis, we have seen a general emphasis on deleveraging and paying back debts. However, as Mr Borland identified, we are seeing signs of recovery; we are seeing more new lending and more demand for it, and we are responding to the demand. Confidence is returning, and the economy in Scotland is doing better than it has done for some time. We want to play a part in supporting small businesses to take advantage of that upswing as it continues throughout this year and, we hope, into next year.

I look forward to answering the committee's questions.

Alasdair Gardner (Bank of Scotland): I operate the Bank of Scotland brand in Scotland, which is part of Lloyds Banking Group. Bank of Scotland is the brand that we use in the commercial sector, which is similar to Ken Barclay's arena in that it goes from SMEs right through to the top end of the corporate space. Scotland is a key part of the economy for the bank. We are the largest private sector employer by full-time equivalent in Scotland, so it is meaningful for the organisation.

We have—similar to the situation that Ken Barclay described—spent a long time reviewing our operational model and policies. Probably two years ago, we embarked on changing how we operate and how we engage with businesses. We are seeing positive signs. At the half year, our net lending was up 5.58 per cent year-on-year, against a market that was down. We have achieved that by freeing up our front-line relationship directors and managers to spend time with customers. All the feedback that we get from Mr Borland and from our customers in surveys is that people want to spend time with the relationship teams. We have been able to do that, and the success of it is coming through. Demand for lending is increasing and we are seeing signs of recovery, but we are clearly not yet the finished article. We still have a considerable amount of work to do on that.

The Convener: I am sure that my colleagues will have issues that they want to tease out and pursue. Before we get into that, I would like to hear from the other panellists. Perhaps Ian McCall will say something on behalf of the Scottish Government. You might have heard Colin Borland say that many of his members are not connected with public sector finance and are not aware of what is on offer. Will you respond to that?

09:45

Ian McCall (Scottish Government): We find that there are issues on the demand and the supply sides. Some companies are postponing their borrowing to fund growth plans and are waiting for positive market developments before they make long-term commitments. Some viable firms are unable to secure funds at the levels that they are looking for, and some companies are not pursuing finance because they believe that they will be turned down.

We suggest to small and medium-sized businesses that before they approach the banks they take advice from the business gateway, their accountants and their lawyers, because access to finance is not an automatic right and the banks' criteria are slightly stricter than they used to be, so preparation is really important.

It is encouraging to hear that banks want to send positive messages to their small business customers, because it is all about business confidence. There is a misconception among some businesses that we need to overcome, because the banks are open for business and are willing to talk to customers prior to an application for finance. We should encourage more of that dialogue, in order to improve the prospects for both sides.

The Convener: Talk of encouraging dialogue sounds like the kind of woolly, wishful thinking that people come up with when they are short of concrete proposals.

Ian McCall: Not really. We are talking about some businesses' perception that the banks are closed and that funds are not available to them. The banks have resources that they want to disburse. If the demand is there, we need to join things up a bit more positively.

We need to be careful that we do not add to the negativity around access to finance that continues to feature in the media and which impacts on business people's perceptions and decision making. The more positive we can be—Colin Borland talked about positive signs emerging—the more we can encourage people to consider opportunities for investment and the funding that they need.

The Convener: Will Kerry Sharp say something about what is available from the Scottish Investment Bank to help businesses that are looking to expand?

Kerry Sharp (Scottish Investment Bank): The Scottish Investment Bank is the investment division of Scottish Enterprise, as you are probably aware. The team has a couple of main tasks, one of which is the financial readiness service, which supports companies that are looking to raise funding. We help such companies to make their business propositions investable. We also help companies to understand and access the appropriate funding sources for their business. Last year the team supported 460 businesses and raised funding of £56 million. There are a lot of businesses in Scotland and we cannot support them all, so we focus on businesses that have high growth potential and exporting potential, because they will add the most to the economy.

The other part of our business is direct funding. We operate a number of equity funds across the early-stage risk capital market. Last year we invested more than £30 million and leveraged £60 million of private sector funding. We are putting quite a lot of money into the SME market.

The Convener: If your approach is to lend to businesses that you identify as having growth or exporting potential, is that too restrictive? Should you have more freedom about who you lend to?

Kerry Sharp: We are part of Scottish Enterprise, so our remit is to try to achieve the best for Scotland. We cannot do everything for everyone, so we must focus our efforts where we think that they will have the best impact. There is a lot of evidence that growing and exporting companies are the ones that have the best impact for Scotland in the longer term.

Dennis Robertson (Aberdeenshire West) (SNP): My questions are for Ken Barclay. The Royal Bank of Scotland acknowledged that there was a problem, which is why it initiated the independent lending review. You said that the report made "uncomfortable reading" for you. Can you expand on that? Were you surprised at some of the outcomes in the report?

Ken Barclay: Our role is to help as many businesses as we can to expand job opportunities in this country and to help the economy in its totality to grow. From 2008 to 2013, we had to reduce our balance sheet by several hundred billion pounds—a figure about half the size of the UK economy has come off our balance sheet in the space of four or five years. We also had to raise deposits in order to equalise our loans and deposits, which took an enormous effort. Several years in, however, we recognised that the pendulum had probably swung too far or had stuck, and we needed to do something about that.

That is why, for the past 18 months or so, we have got very much on the front foot, as Alasdair Gardner has described, by spending more time with customers. We identified a number of initiatives, such as being proactive with our customers and giving them a sense of how much we would be prepared to lend them if they had an appetite to borrow from us. Given that we thought that we were making reasonable progress, some of the issues that came out of the report, such as the time that the credit process takes and the quality of the relationship between the relationship managers and our credit function, made for slightly uncomfortable reading, as I have highlighted.

Dennis Robertson: Judging from what Mr Borland said earlier, it appears that your message is not getting through, because there are more applications for funding but less lending. That does not square up, does it?

Ken Barclay: I take you back to my point that we are in the process of making our organisation safe and ensuring that we have the right level of debt across the whole organisation. What we established in 2008 was a non-core division, and many of the assets in that non-core division are declining over a long period. As a consequence of that, much of the totality of our lending to the sector is in long-term decline. If you look at the new lending that we are doing at the front, you will see that our lending to small businesses is up 30 per cent this year from last year, and our role is to continue to support those businesses that are coming in the front end. We have had a lot of exposure to commercial property that is declining and will continue to decline, which is compensating for the business that we are putting on at the front end.

Dennis Robertson: What is the main barrier to SMEs coming to, say, RBS for funding? Is it your criteria for funding? Is the process still too complex?

Ken Barclay: Some observations that are made in the Large report suggest that the process is too complex. However, we are the only bank in the UK that has had all its relationship managers accredited by the Chartered Institute of Bankers, which will allow our relationship managers to have far better and deeper conversations in understanding businesses. That has been going on for more than a year and we will continue to do that. We want all our front-line bankers to be professionally qualified—that is the next stage—because that will allow far better conversations to take place between banks and customers. We hope that that will result in increased confidence to approach the bank among our customers and ensure that we can help them when those demands come in.

Dennis Robertson: You say that you are getting people through a system of qualifications. I am surprised that they did not have those qualifications in the first place. What is your timeframe for that? You also say that business is up by 30 per cent, but we are still hearing that more people are applying for but fewer are getting funding. I take the point that we should be trying to convey a positive perception of the lending sector rather than a negative one, but we still get the impression that there are barriers. The FSB says that many of its members are not aware of how they can access the finance. Are you really getting your message out?

Ken Barclay: We could always do more. We are working with the Institute of Chartered Accountants in Scotland to establish how best we can serve the small business community by ensuring that the proposals that we get from businesses make sense for us. We therefore need to understand the business plan, the business's cash flow and the proposal that the company puts in front of us. We need to be convinced that the management team has the ability to run the business and repay the bank debt.

Dennis Robertson: You are more risk averse now than you were before, which is one of the barriers. Basically, you are trying to play safe.

Ken Barclay: As I said at the outset, we needed to make the bank safe. We never again want to be in the position that we were in 2008, so that was the first step that we needed to take.

Dennis Robertson: Is that attitude encouraging entrepreneurial movement? Is it really encouraging people who want to move forward, in which there is sometimes risk?

Ken Barclay: That is undoubtedly the case. I mentioned that the pendulum has probably swung too far, so we need to correct that. That point is at the front of our minds.

Dennis Robertson: What is your timeframe for that?

Ken Barclay: Our new chief executive officer will announce to the market RBS's financial results for 2013 in the fourth week of February. That is when we will make public announcements about how we intend to move forward in a much more proactive way.

Dennis Robertson: Okay. Thank you. Does the witness from the Bank of Scotland want to comment? Are you more risk averse as well? Are you lending better? Are customers coming to you because your process is less complex than that of RBS?

Alasdair Gardner: I cannot comment on that. However, we have approved more than 80 per cent of the applications that we have received. One of the challenges, as has been said, is to ensure that we educate our customers and potential customers about what we can and cannot do. One of the key considerations is that we do not do equity on our balance sheet and we invest in Lloyds Development Capital, invest through the Scottish loan fund and invest with the business growth fund. I know that RBS is also involved in those.

We need to be clear about the purpose and value of debt. We also need to ensure that, through the conversations that we want our relationship teams to have with customers, we support the businesses in growth through not just debt but other products. To me, supplying more than the instrument of debt is how we will help the Scottish economy to prosper.

The Convener: I have a list of members who have follow-up questions. I will start with Chic Brodie.

Chic Brodie: Good morning. I declare an interest in that in a previous life I worked with two of the banks that are here as what I have learned is now called a transitional troubleshooter rather than a consultant or a company doctor.

If I may, I will start with the general perception, which has little to do with bank lending and more to do with the economy. Clearly, you are trying to get your banks' balance sheets right, but what we are seeing is lending to the property market again. On the problem of risk aversion, to which Mr Robertson alluded, in lending to small businesses, you might say that your relationship managers are improving and that small businesses are aware of the customer service that they offer, but I suggest that there is a problem there, so I have two questions on that. First, how experienced in real business terms are your relationship managers?

Secondly, what message is given to the credit officers in terms of looking at the risk involved in businesses? How aware are they of what the businesses are trying to do?

Ken Barclay: I will start, if I may. In order to ensure that our front-line relationship managers are closer to business, virtually all of them are accredited now, as I mentioned earlier, by the Chartered Institute of Bankers.

Chic Brodie: How many have actually dealt in the marketplace?

Ken Barclay: As part of their accreditation, they are required to work for four days a year in business, not with a view to identifying opportunities for us, but for them to understand how business people work and operate. That has been very well received by businesses and it has been exceptionally useful for our relationship managers, who have now become much more aware of how business works.

Chic Brodie: Okay. What is Mr Gardner's response?

Alasdair Gardner: We operate a slightly different model. We have a number of key markets or sectors and we give our relationship directors fairly intensive development around them.

I will highlight two of those development opportunities for the committee. First, we put our manufacturing relationship directors through a manufacturing course at Warwick Business School so that they can afterwards talk to manufacturing customers with more knowledge than they might previously have had.

10:00

Secondly, a number of relationship directors in Scotland have undertaken VisitScotland training and received its accreditation which, again, will allow us to support one of Scotland's key sectors. On Ken Barclay's point, I can confirm that that approach has been well received by businesses. We also operate charters for our customers in which we give a commitment that our relationship directors will spend a designated amount of time with them if they so wish.

Chic Brodie: That is fine—although I am not overly convinced that four days a year will help people to understand businesses or the market.

What directions are given to your credit officers on how they might help small businesses?

Ken Barclay: We need to go back to before 2007 if we want to look at what might be called normality in the availability of finance. Between 2005 and 2007, we had a long period of fairly substantial growth, and the substantial expansion at that time took us into areas where there was too much debt in small to medium-sized businesses. At that time, the balance of responsibility probably lay with the front line rather than with the credit function; however, I emphasise again that in needing to make the bank safe, the pendulum probably swung too far in one direction and there was probably some good business that we could and should have done that we did not do. We recognise that, so our job is to ensure that that pendulum of risk swings back much more into the centre and that the people who are responsible for righting or sanctioning business are aware of the our determination to ensure that we are on the front foot, out with customers and making finance available.

Chic Brodie: So, there is no disconnect between the relationship managers and the credit teams.

Ken Barclay: I would say that they are probably closer than they have been for a considerable time.

Chic Brodie: That is encouraging.

Given that the two banks have 70 per cent of the SME marketplace, how would you encourage more competition?

Ken Barclay: From my point of view, the important thing is that we look after our customers as well as we possibly can. As far as I am concerned, competition is a good thing for everyone, but we have to look after our customers, do our best by them and ensure that we are playing our role in helping the Scottish economy.

Alasdair Gardner: I echo those comments. Competition is healthy and challenges us to ensure that we are performing at the top of our game.

The Convener: Just before we move on, perhaps Colin Borland can tell us whether FSB members think that there is enough competition in bank lending.

Colin Borland: We have to be careful about what we mean by competition. Two big players might dominate the SME market, but would the situation be any better if, when I walked down George Street in Edinburgh, I saw a sign of a different colour outside certain branches, given that they are all offering the same products at the same price? We have been quite heartened by the Office of Fair Trading market study, not only because it will look specifically at Scotland but because it will look at the products that our members use as well as the number of people in the market. If we are thinking about getting some genuine competition into the marketplace, we also need to think about how we get other people to use different models that provide a realistic alternative to the main high street banks. Such an approach can only be good news.

I think that it is also good news for the banks that our members prize their relationship with their relationship managers and think it important. However, one criticism in the past is that the relationship managers might have been too sales-focused. Of course, there is nothing wrong with sales—it is a very noble profession—but that might not have been what people were looking for when they began the conversation. The outcome of the Treasury report that has been done jointly with the FSB and BCC into levels of customer service and satisfaction with banks will be very interesting, because it will be a key factor in determining who tops the table.

Chic Brodie: I have a question for Ms Sharp. I should say that I, too, have dealt with Scottish Enterprise.

We have the Scottish Investment Bank, the Scottish seed fund, the Scottish co-investment fund, the Scottish venture fund and the Scottish loan fund. As the committee heard three weeks ago, there are 332 different funding streams. Are there any plans to rationalise public sector investment and public sector investment vehicles?

Kerry Sharp: There are not, as far as I am aware. There are a number of products out there and the plan is to make things clear so that companies understand what is available and what it means.

Ultimately, companies want choice in a lot of things. They want to understand which products are right. The products are very different; some of them are equity products and some are investment products, and there are obviously also debt products. There have to be differences.

The role of our financial readiness team and the business portal that has been set up is to ensure that there is clarity for companies so that they understand what is appropriate as well as how to get it.

Chic Brodie: Do you think that the number of funding streams outwith the bank relationship managers, the proliferation of business advisers—or "finance advisers"—coupled with the efforts of the business gateway and social enterprise, results in chaotic access to finance for businesses out there on the street?

Kerry Sharp: I do not believe so. There is always more that we can do, and we spend a lot of time trying to understand how we can do things better. We ask our companies, our customers and all the people with whom we deal, and we always act on what they tell us and try to make things clearer. I do not believe that there is a "chaotic" environment. There is a lot out there but, as I said, companies are looking for choice and the availability of different products for their needs.

Chic Brodie: I am the committee's European rapporteur. What engagement do you have with the European investment fund and, in particular, the updated COSME—the programme for the competitiveness of enterprises and SMEs—fund, which is due to be released shortly and has €1.4 billion available to assist small businesses? The rest of the UK has about 78 advisers who can access that. We have four, including Scottish Enterprise, Highlands and Islands Enterprise and the West of Scotland Loan Fund Ltd. In discussions that I have had in Europe, we seem not to have tapped into that at all, other than through one venture capitalist in the south of Scotland. What engagement do we have with those funds?

Kerry Sharp: We have a lot of engagement. A steering group has been set up between a number of parties, including Scottish Enterprise, the Scottish Government and HIE. That group is particularly looking at horizon 2020, which is the funding that we have immediately in our sights. We are working through how to access it.

Chic Brodie: That is large-scale investment. I am talking about the COSME investment—the guarantee loans or equity for finance schemes that are available. The information that I have is that because Scotland is not a member state, we do not access that, although we have four interfaces—or five if we include venture capital—with those funds, which could encourage those funds to be made available.

Kerry Sharp: We are interfacing. We are understanding what European funding is about and what it means. There are a number of European sources of funding, and they come with a lot of requirements. The team needs to look at those sources in order to understand the benefits, who can access them and how, and what is the best European funding for Scotland and for companies. We are engaged on that, but there is a long way to go to understand it fully. It is not simply a case of telling companies that the funds are there and they can go and access them. There is quite a lot that comes with that. We are concentrating on horizon 2020 initially and will move on to COSME as much more detailed analysis comes through.

Chic Brodie: That is interesting. When I asked the same question of a senior member of Scottish Enterprise at our away day in Irvine, he told me that he would try to get more details and asked me whether I could provide him with more details. I am not sure where the engagement is taking place. It is certainly not taking place in Brussels and I am not sure that it is even taking place meaningfully here. It might be being discussed.

If we consider the amount that countries such as Germany were able to access in the previous fund, we are aeons away from accessing what could be a very profitable route for us.

If I may ask one last question, convener—

The Convener: If we are leaving this issue, we need to let the Scottish Government officials respond.

Ian McCall: I want to mention two things. One concerns the 332 schemes that were mentioned. The Scottish Parliament information centre has produced a good guide to the financial assistance that is available to business. I have not counted it page for page, but I do not think that there are 332 schemes in it.

Chic Brodie: I thought that there were 121 schemes, but there was a witness here who said, "No, you're wrong—it's 332."

Ian McCall: The Parliament has produced an intensive and informative document that lays out all the schemes, which could be quite useful.

Chic Brodie: How up to date is it?

We have your report "SME Access to Finance 2012", which conflicts with some of the other information that we have received. How often is that updated? When do you plan to update it?

Ian McCall: There are no immediate plans to undertake another survey. We undertook four surveys and, since that work was completed, various surveys have been undertaken across the UK by the British Bankers Association and others. We have been digesting those surveys and looking at the position in Scotland. We recently summarised the surveys and brought together all the conclusions. I am happy to share that piece of work with the committee if you would find it helpful. It will give you an insight into what all the surveys across the UK have been telling us.

The Convener: Sorry—I want to follow up on that before Chic Brodie comes back in.

Chic Brodie: That was my final question.

The Convener: That is fine. On the last point, about SME access to finance, we have heard from the finance secretary when he has come to the committee that the Scottish Government views access to finance as utterly crucial to economic recovery. Are you saying that there are no plans to do a follow-up survey to the 2012 study?

Ian McCall: We have not made any decisions to do a follow-up survey. We are monitoring the situation and we have been looking at the outcomes. Since we completed our surveys, a lot of work has taken place at a UK level; Colin Borland mentioned the FSB survey that has taken place. We have been digesting those surveys and extracting from them the information that is relevant to the Scottish marketplace. As I indicated earlier, we recently—in the past few months—pulled that all together into a note that covers all the major surveys, and I am happy to share it with the committee if that would be helpful.

The Convener: That would be helpful.

On Mr Brodie's point about the European funding that is available, it surely cannot be the case that, because we are not an EU member state, we cannot get that money. It has been accessed down south.

Ian McCall: With regard to access to finance, we look at what is available across Scotland, the UK and Europe, and we look at the terms and conditions of the different programmes to try to make the most suitable form of finance available for SME customers.

We currently utilise the European regional development fund as a form of funding for most of our venture capital programmes, and we are in discussions with the managing authority about progressing that again under the 2014 to 2020 structural funds programme. We are hoping that we can persuade the authority to formulate a financial engineering instrument that would focus purely on SMEs and have at its disposal £80 million to £100 million.

If we took that alongside the match public sector funding that would go with it, and add to the equation the 50 per cent private sector funding, we would be talking about a pot of perhaps £500 million that would be available to assist businesses over the next seven years.

The Convener: When are you hoping for that to be put in place?

Ian McCall: We are hoping that the decisions on that will be made in the spring.

Margaret McDougall (West Scotland) (Lab): Good morning, panel. I will go back to bank lending, and direct a question to Mr Barclay. The main driver of the difference between RBS and its peers is the extent to which it screens out pre-applications. Is there a connection between that and the perception in the business sector? You seem to be more stringent than your peers in screening out.

10:15

Ken Barclay: The Large review identified that pre-screening is not necessarily a bad thing, because it allows us to identify fairly quickly the applications that have a better chance of success. However, the review acknowledged that, as a consequence, we are missing some opportunities. We will look at that. As I said, we will respond in full to the Large review in February. If that approach is one of the things that we feel is appropriate to change, we will change it.

Margaret McDougall: So you recognise that there might well be a problem with your screening.

Ken Barclay: I recognise that we might be missing opportunities to support customers.

Margaret McDougall: You say that that will be rectified in February.

Ken Barclay: We intend to review the recommendations and adopt them as best we can.

Margaret McDougall: Does Mr Borland think that SMEs would welcome that approach?

Colin Borland: The issue has been fed back to us. Pre-screening is not always a bad thing, as Ken Barclay said. I could approach a bank manager who said, "To be honest, Mr Borland, this scheme is daft. You're never going to get money for this in a million years. Don't even bother applying and damaging your credit rating." A bit of advice like that is helpful.

However, if someone takes it on themselves not to put through an application that has an arguable case, that is a problem. As with a lot of this stuff, we are talking about striking the correct balance. We went too far in one direction and we have now swung too far in the other direction. I hope that we will end up somewhere in the middle, but that is taking a while.

Margaret McDougall: Can we expect the situation to be better by early next year?

Ken Barclay: We have the funding and capital available to support what we believe will be increased demand in the coming months and years. We want to support as many businesses in Scotland as we can, to help employment and growth in Scotland. If there are ways for us to do that better, we will learn from and implement the recommendations.

Margaret McDougall: I met someone from a business in my area who said that she found it difficult to access finance. Her business is up and running and she wants to extend it. It was unclear which business sector banks would fund and what criteria would be applied. She would submit a business plan and that would be all right but, a few weeks later, a bank would say, "You haven't got this; you haven't got that." Is progress being made on that side of things? An application might be acceptable but, instead of asking for everything at once, a bank might have more questions or want more information after looking into the application further. Time is of the essence in business. Is a procedure laid out with all the criteria that are required for submitting a business plan? Do you have set sectors that you prefer over others for lending?

Ken Barclay: We are happy and prepared to write business in all sectors. We are not capped with limits. We have a lot of property on the books, but we are still doing more property lending, although perhaps not as much as we did. No sectors are off limits for us.

The procedures that are gone through depend on the business's complexity. It is difficult to come up with a plan that says, "You're required to show all these things and, once you've done all that, we'll be able to say yes or no." It is important to get the fundamentals right. That is where the Institute of Chartered Accountants of Scotland and other advisers can help and where—to be frank—we can do more to help.

If a business is fundamentally strong and has a couple of years of financial statements, a good cash flow and a solid business model, that is the premise for a reasonable discussion. Without those things, it is difficult to determine whether a proposal is worthy of our support. We do not want to get back into the situation of saying yes to everyone. However, when a proposal is good, we want to find every way that we can to support it.

Colin Borland: Over the past couple of years, we have been running events for our members and helping them effectively to write a "How to make the bank manager say yes" guide. A lot of the stuff that Ken Barclay has mentioned is what we are telling our members. It is not necessarily to do with how much security can be offered, as they might have plenty of security and might not want any more of it. It is more to do with future projections, balance sheets, having a solid business case and so on. That seems sensible.

However, the Bank of England agents' summary of business conditions—specifically, the most recent report, from October—highlights the fact that collateral requirements for lending are often a "stumbling block" for small businesses. Those sorts of messages lie at the root of a lot of the confusion around what exactly our members are supposed to do and exactly where they stand. That makes it more difficult for us to articulate things.

Margaret McDougall: Are you saying that you are not having a good relationship with the banks at the moment, but we can expect an improved relationship in the future?

Colin Borland: Things can only get better, as somebody once said.

Margaret McDougall: I am glad to hear that.

Patrick Harvie (Glasgow) (Green): Sticking with Mr Barclay and his pendulum that swung too far, about which we have heard so much, I think that that image conjures up a slightly deterministic understanding, as though what happened just happened. It seems from some of your answers that you seem to be accepting that it was not the result of uncontrollable forces, but that it was about decisions that RBS made—RBS turned the dial too far. Is that a more appropriate image?

Ken Barclay: I will accept that as an image. The dial was undoubtedly turned too far one way in 2005, 2006 and 2007. Some statistics suggest that there was £50 billion of excess capacity in the SME market in 2007, which reduced to £25 billion. In other words, the sector could not afford to service the level of debt that was in it in 2007, or even in 2009. We have probably gone the other way now. There is now £25 billion short in the SME sector across the whole UK, and we in RBS and the other banks need to do what we can to fill that. If the dial was turned up one way, it needs to be turned down to facilitate the process of money getting back into the economy.

Patrick Harvie: I suggest that scale is a part of the problem. Let us consider this country's banking and financial services system and compare it with some others in Europe. In Germany, for example, two thirds of the financial services sector, in terms of assets held, consists of local banks, with local governance and local decision making. In the UK, such banks account for something like 3 per cent. We have a very centralised financial services system, which is dominated by massive players. If one massive player turns its dial too far, that has a systemic effect.

I suggest that one of the best things that we could do in the interests of the public would be, if there happened to be a very large bank that was owned on behalf of the people, to break it up, not just into a good bit and a bad bit, but into a diverse network of local banks that served their local cities and regions. They might share some back-office functions and they might maintain some shared systems, but their governance would be local. They would be governed by people with their roots in a local community and a local economy, they would make their decisions at a local level, and there would be the same kind of emphasis on lending into the real economy that exists in Germany, where that is much more the core of the business, rather than being merely one small part of it.

The Convener: I am not sure whether that was a speech or a question.

Patrick Harvie: It was a proposition.

The Convener: Before you respond to it, I should say that it was a little bit off the topic of asking the banks what they are doing in relation to access to finance. I do not think that we can reasonably expect the representatives of RBS or the Bank of Scotland to answer a proposition about an entirely different banking model. They are here to answer questions about their business and how they are operating.

Patrick Harvie: My suggestion is that the scale of the businesses is part of the problem, and I would be interested in the witnesses' reaction.

The Convener: Perhaps we could have brief responses.

Alasdair Gardner: A key factor is to bring the decision making as local as possible. We have therefore delegated substantial lending authority to our relationship teams spread throughout all the communities in Scotland and we have relationship directors in every MSP's constituency. Those decisions are made based on knowledge of the sectors in which the customer operates and the regional variances between, for example, the Highlands and Islands and the central belt in the same way that we differentiate across the UK. We see the strength in having a locally based decision model.

Ken Barclay: I echo that. The vast majority of credit decisions are made locally.

Patrick Harvie: In systems that are set by the bank as a whole.

Ken Barclay: The decisions are based on the recommendation of the relationship manager—they do not have to go through a credit function to get a response. The decision is made by the relationship manager locally.

We, too, are in all communities. We have 300 relationship managers around Scotland who are actively engaged in communities. It is critical that we maintain that engagement because, if we are not serving the communities as well as we can, we will not be successful.

Patrick Harvie: Surely you would accept that the relationship managers were not all individually deciding whether to turn their dial this way or that. RSB made the decisions and they went too far in one direction. Does the scale of the business not mean that, when a wrong decision is made, the effect is systemic?

Ken Barclay: If you get into a situation in which there is too much debt in the sector, the one thing that you do in order to make the organisation safe is to turn the dial that you have described. I argue that we turned the dial too far and we need to ensure that we turn it back, so that we get into the equilibrium in which we support business at the right level and businesses can be successful and create jobs and economic prosperity for Scotland. We have a role to play in that and recognise that more needs to be done.

Mike MacKenzie (Highlands and Islands) (SNP): My questions are addressed to Mr Gardner and Mr Barclay. Do you agree that, in many ways, we have been bit unfair to the banks in as much as, on the one hand, we demand that they rebuild their balance sheets according to a much safer model but, on the other, we are shouting and screaming at them to lend more money?

Alasdair Gardner: That is a challenge that we face. Ken Barclay has also alluded to the fact that we should not make every lending decision an approval but should challenge and lend to the correct businesses.

Mike MacKenzie: With respect, my question was whether you believe that we have been a bit unfair.

Alasdair Gardner: I suggest that—

Mike MacKenzie: A yes or no response would be good.

Alasdair Gardner: We are trying to support the economy to grow, so it is helpful to discuss what the banks are doing in a positive—

Mike MacKenzie: We will come to that. Have we been a bit unfair to the banks—yes or no?

The Convener: It is unfair to ask a question such as that while requiring a yes or no answer.

Mike MacKenzie: I thought that it was a straight question. I am beginning to worry about whether, if I cannot get a reasonable answer to that question, there is any point in asking any more questions. However, I will persevere. Given your resources and the funds available for lending are diminished, is it fair to say that, broadly speaking, you have choices about the directions in which you lend, for example mortgages and personal lending—retail banking—or business lending? If that flexibility is there, have you got the choices right?

Ken Barclay: We were, to all intents and purposes, a global organisation. We are now very much focused on being a retail and—let us call it—a commercial business bank in the UK. We have the funding and capital to support what we expect to be significantly greater demand than exists, whether in the retail bank for mortgages or personal loans or in the business bank for the businesses that are likely to show appetite to borrow money. There is more than enough funding and capital to support that demand for the foreseeable future.

Mike MacKenzie: That is very reassuring. In effect, you have not had to make any choices, because you have a huge pile of money to lend and it does not really matter how you divide it up across the areas of lending that we have described.

10:30

Ken Barclay: I was referring to the fact that we have made a determination that the capital that was invested in other parts of our business—be it the investment bank or international banking—has reduced, with the intention of concentrating very much more on the UK to support growth in the UK. Today, we are discussing Scotland. We will look at our portfolio of companies and assets and determine whether we are overweight or underweight in any sector at any point in time. To use Mr Harvie's description, we will turn the dial up—or down, if we feel that we have too much exposure to a particular sector. At present, we have the appetite to do business in all sectors in the Scottish economy.

Mike MacKenzie: There is no shortage of funding, then. You have a big pile of cash that you are more than willing to lend to get it out working in the economy.

Ken Barclay: There is a real determination to make sure that we meet the demand as and when it comes in, and to support the Scottish economy and growth.

Mike MacKenzie: That is very reassuring. If that is the situation, I am surprised that people are not rushing in their droves to buy your shares.

Chic Brodie: That is because we own them.

Ken Barclay: The important thing is that we concentrate on making sure that money is going out to customers. If that results in profitable business and the bank's profits increase as a consequence, that will impact on the share price. I emphasise that we want to make available the funding that we have to more and more customers. You can all help us in that. You can get the message out to your constituents by saying, "I've heard that the banks have liquidity and capital available. Go and talk to them." Everybody can play a role in supporting the Scottish economy to that end.

Mike MacKenzie: Sure. Okay.

Chic Brodie: That is a dream world, Mr Barclay. I have been into some of your branches with some of my constituents and I have seen the consequences. The message does not need to come just from us; it needs to be heard internally within the bank.

Ken Barclay: When I go up and down the country to see customers, I sound like a broken record. I visit customers all the time and tell them exactly the same story that I told Mr MacKenzie. We are not going to satisfy demand in its entirety, because there will be some customers that we are not able to support. However, I emphasise that we have the capital and funding available to support customers.

Mike MacKenzie: You said earlier that you discovered retrospectively—after some years—that the small business lending portfolio that you had back in 2005 was a very risky one. My understanding was that the toxic parts of banking did not relate to the small business sector at all. You seem to be saying that that is not the case.

Ken Barclay: I think I was referring to the fact that in 2007 there was £50 billion of debt in the SME sector that was not serviceable. That reduced to £25 billion in 2009 and now there is a shortage of £25 billion in the SME sector as invested in by the banking industry.

Mike MacKenzie: Are you saying that that debt, which was presumably not just lent willy-nilly with gay abandon, became unserviceable as a result of the credit crunch, or that it was always unserviceable?

Ken Barclay: Undoubtedly we made some mistakes. There is no question about that. The industry was lending too much money to the sector. When we hit the economic buffers in 2008, we recognised very quickly that there was too much debt in small businesses. Many of those businesses recognised that and had to take corrective action to ensure that their levels of debt came down, in the same way that many households—and Governments—did.

Mike MacKenzie: I would be interested in a bit more information on that analysis, if you could send that to the committee. It is news to me, and it will be news to a lot of other people, that the leveraging was at an unsustainable level for small businesses.

You paint a worrying picture. Mr Harvie has referred to a pendulum that seems to be swinging slowly, and your own analysis of what you are not doing well seems to lag quite far behind what is happening in real time. That worries me because I would have imagined that, in today's world, given the information technology capabilities that we enjoy, you would have a much better sense of what your bank was doing in real time. We do not want to wake up one day and realise that we have made a pig's ear of this and that the pendulum is swinging in a direction that none of us wants. Surely you monitor your bank's activities in real time.

Ken Barclay: Absolutely, and I am frequently able to state our exposure to individual sectors. We set a risk appetite for individual sectors and know where our exposure is within those sectors. We are able to respond to our regulator and tell it exactly where we are—that is a critical component of risk management.

As I mentioned, in the event that we feel that demand in any one sector is exceeding our view of where our risk should be, we will tighten things up a bit to ensure that we return to an equilibrium. We are involved in a dynamic environment, and if we feel that we are underweight in one sector we can release the dial and try to—

Mike MacKenzie: So, if you discover that, for instance, you are overexposed to the popcorn sector and need to rein in the horses there, you will communicate that to all your relationship managers, who will then implement that policy.

Ken Barclay: I would hope that it would be a dynamic environment and that we would be aware of where the trend was. As the trend moved in one direction, we could pull levers to get ourselves back to an equilibrium.

Mike MacKenzie: Did you not just say to Mr Harvie that decisions are made locally rather than centrally, as you have just described?

Ken Barclay: That is exactly the case, yes.

Mike MacKenzie: Surely those systems of management are diametrically opposed.

Ken Barclay: No. At the front end, the business—the popcorn sector—will come in and the centre will be able to determine what our exposure to the popcorn sector is. If we feel that we have too much exposure to the popcorn sector, we will go to the people on the front line and tell them that we have tightened up certain aspects of lending to that sector. In that way, we can manage our portfolio much more dynamically. Decisions can be made locally, but they will be made within the confines of a policy that can change as a result of an overexposure to one sector.

Mike MacKenzie: Okay. Thank you.

Dennis Robertson: I have a question on exposure to individual sectors. It is primarily for Mr Barclay, but Ian McCall and Kerry Sharp may wish to answer. Do you see 2014 as a year of opportunity, especially within the tourism sector? Are you focusing some of your efforts on having an open-door, we-are-here-to-lend approach?

Ken Barclay: Some big events will be happening in Scotland in 2014, and we are actively working with the tourism board in Scotland and many of the companies that are involved in that industry with a view to establishing where we can help.

Dennis Robertson: I still get the message from my constituents that, especially in the hotel trade, they want to expand or develop their businesses but they are knocking on a closed door.

Ken Barclay: If you could share any specific examples with me, I would be happy to look into them.

Dennis Robertson: Is there an opportunity for the Scottish Government to encourage small businesses to invest? Are the business gateway and Scottish Enterprise being proactive about that?

Roddy Macdonald (Scottish Government): I would like to think so. In 2014, the Ryder cup and the Commonwealth games provide a huge opportunity for the economy of Scotland, so I think that, yes, all those agencies will be looking to promote the opportunities in the tourism sector in Scotland.

Dennis Robertson: Given that 2014 is just around the corner, I am surprised that you are not saying that you have had a substantial increase in inquiries from that sector. Surely we do not want to wait until 2014 happens and then find that we have missed the opportunity.

Basically, I am asking whether there has been a substantial increase in tourism businesses seeking lending for 2014, given events such as the Commonwealth games, the Ryder cup and the year of homecoming. Has the banking sector experienced a significant increase in inquiries from tourism businesses, or is it that the pendulum is wavering at the moment and we do not know what direction it is going in?

Alasdair Gardner: First, we work closely with VisitScotland, so we have a number of accredited relationship directors and relationship managers. We are seeing an increase in inquiries and in demand and we are working with others.

Secondly, a key point is that this is not just about 2014. Next year will create a window on Scotland for the world, but we then need to be able to support that sector to deliver in 2015 and beyond.

Dennis Robertson: Absolutely, but surely there are opportunities for 2014. Tourism is an extremely important sector not just for the committee but for sustainable growth within the Scottish economy.

Alasdair Gardner: Yes, tourism is one of a number of key sectors. As I said, we operate in a number of key sectors, including tourism, manufacturing and oil and gas services. We engage with Scottish Enterprise around those.

The Convener: I am conscious that we are a bit behind schedule and that some members have still to ask their questions.

Joan McAlpine (South Scotland) (SNP): I want to develop further the tourism theme that we have been looking at. According to Scottish Enterprise's access to finance survey for January to June 2013, tourism has not done particularly well and there are big gaps between sectors. For example, 38 per cent of tourism businesses attempted to access finance, but only half were successful in doing so, whereas 21 per cent of businesses in the financial and business services sector attempted to access finance, and those businesses had an 86 per cent success rate. It strikes me that there has not been a big change in culture if it is so much easier for people in financial and business services to access finance than it is for people in tourism.

Ken Barclay: If you have a good business and a good business proposal, it is incumbent on us to take your proposal seriously. If we are uncomfortable that what is being proposed is a sustainable venture—there may well be an opportunity in 2014 or 2015, but we might not see an ability to service the debt after that—is it in the best interest of that company to borrow money from the bank in that way? That would be a reason for saying no to a particular application.

Joan McAlpine: You are obviously a lot more positive about the ability of financial and business services sector companies to repay their debts than you are about companies in other sectors. We have talked about tourism, but life sciences are another key sector for our plans for the growth and diversification of the Scottish economy, but only 53 per cent of life sciences businesses were able to raise the required amount of capital, compared with 86 per cent of businesses in the financial and business services sector.

Ken Barclay: On that point, I think that there is a maturity around that industry, whereas the risks in life sciences are much higher. Fewer life sciences companies are successful, but when they are successful they are enormously successful. Typically, those businesses are serviced by equity capital, which is a different kind of capital. Life sciences businesses often face a challenge if they go to a bank when they are still in the throes of determining whether they have a sustainable business.

Joan McAlpine: Do you think that there is perhaps a lack of imagination and risk taking when it comes to those new businesses and new sectors?

Ken Barclay: We do not want to find that we are lending to every company in every sector, because that will not be the right way for them to borrow. If a company gets into financial difficulties, it will not be able to service its debt. You need to look at the prospects for a business and determine whether it has what I would describe as the right capital structure. Very often, such businesses will not have the ability to service debt. That is why I said that if someone has a business plan, we need to understand their cash flows and track record. That gives a much better chance of a successful outcome for all concerned.

10:45

Joan McAlpine: The access to finance survey also shows a wide variety of success in access to finance across the country. I represent the south of Scotland, where only 50 per cent of businesses were able to access the required amount, in comparison with 70 per cent in the west of Scotland. That seems to me to be a huge gap, particularly given the fact that more businesses in the south of Scotland tried to access finance than did so in the west of Scotland, although they had a far lower success rate. Would anyone care to explain that geographical difference?

Colin Borland: The figures that you are referring to are in the appendix to the SPICe paper. My Scottish Enterprise colleagues will correct me if I am wrong, but those figures are from the SE access to finance survey that was done with around 1,056 account-managed companies. It is probably worth bearing in mind that those were 1,056 of the 2,000 elite account-managed companies in Scotland, and that we have 340,000-odd businesses in Scotland. Although the figures that you quote are interesting, I would be wary of extrapolating too much from them and applying that to what is actually happening out there on the ground with the businesses that make up the business base.

Ian McCall: I support what Mr Borland has said. The caveat on the figures is the conduit of businesses that have been looked at, and the type of finance that they sought. I cannot seem to find them at the moment, but there are figures in the SPICe paper that show that something like 43 per cent of businesses were looking for public sector finance, such as grants, so bank finance is not the prime focus of those businesses. The type of support that those businesses were looking for has to be put in context.

Joan McAlpine: I still wonder why businesses in the financial and business services sector did so well. Are they getting more public money?

Ian McCall: I cannot answer that question because I am not close enough to the account-managed businesses.

The Convener: Have FSB members made Colin Borland aware of any differences between the sectors? Do some sectors fare better than others?

Colin Borland: We do not currently analyse access to finance figures by sector. That is partly to do with sample size and getting reliable figures. However, we hope to be able to do that with the work that we are doing across the UK with the Treasury.

On who is doing well or poorly at the moment, those who are in the business of helping other people to do business more efficiently, such as business consultancy services or computer services, are performing strongly. Businesses that rely on discretionary consumer spend are finding that things are tight.

I take Mr Robertson’s point about tourism. We have a lot of tourism-related properties that require a lot of investment to get them up to the standard expected by the consumer in the TripAdvisor generation. That is not a new problem in Scotland. I am not sure that there is a quick and easy answer to it, but we have identified it and it has been fed through to us from the ground.

Marco Biagi (Edinburgh Central) (SNP): My question is for the Scottish Government and perhaps the SIB for perspective. We will look at alternative funding models with the next witness panel. Since you are here now, I thought that I might ask you about that area.

You have all read the SPICe paper, which is helpful, and we have seen evidence that crowd funding is very small-scale in Scotland. That is understandable, because it is relatively new.

We have also seen some figures that show that the amount of business angel funding is proportionately smaller in Scotland than in the UK as a whole. The figures given are an estimated £850 million per annum for the UK, and £22.5 million for Scotland, which is only about 3 per cent of the UK figure. Based on your knowledge of access to finance and the policy situation, do you agree with the figures, and is the Government addressing the situation?

Ian McCall: I do not agree with the figures. When it comes to the business angel community, we should be particularly proud of what we have in Scotland. The business angel community has grown substantially since we became involved in the area in 2003; we have something like 19 active business angel syndicates. At the height of the banking crisis the business angel market in the UK collapsed by 63 per cent, but in the same year the activity of the Scottish Investment Bank and its business angel partners doubled. We have a proud story around our business angels.

Some of the figures that appear at the national level are relevant to the angel syndicates that are members of the groups that collect the data. Quite a high proportion of business angel syndicates in Scotland are not members of those national organisations, which is why the figures are skewed and appear lower than they really are.

Marco Biagi: Are you saying that there is a disproportionate strength in Scotland relative to the UK as a whole?

Ian McCall: There definitely is.

Marco Biagi: Can you provide statistics that counter the ones that I gave? Perhaps you can write to us on that.

Ian McCall: I can recommend an organisation, LINC Scotland, which acts as a trade association for the business angel networks in Scotland. It will celebrate its 20th anniversary next month. LINC Scotland produces yearly data on business angel investment Scotland, which it puts on its website.

Marco Biagi: The figure of £22.5 million that I gave came from that organisation. I would be interested in a further written submission on the matter, because if Scotland is disproportionately strong in the area we will want to reflect on that.

The Convener: We need to finish this part of the meeting by 11 o'clock, and three members want to speak. I will bring in Hanzala Malik first, because he has not yet had an opportunity to ask a question.

Hanzala Malik (Glasgow) (Lab): The banks seem to be getting a hard time, which might be unfair. A bank must see the business case for any application for investment that comes to it. However, you might explore the possibility of working with Scottish Enterprise, which has a responsibility to encourage our businesses in Scotland to flourish. We have identified an issue, particularly in relation to tourism, which is a strong area that we want to develop. Perhaps through partnership working with Scottish Enterprise you could come up with some kind of scheme or pilot project to support and develop the sector, so that there is a better return in the future. Can you look into that?

Ken Barclay: We have a good relationship with Scottish Enterprise. If we think that there is a gap in the market, it is incumbent on us to endeavour to fill it, as I said. We will take the suggestion away as one that we should follow up.

Hanzala Malik: Thank you.

Alasdair Gardner: We have seconded one of our relationship directors into Highlands and Islands Enterprise for a year to explore such opportunities and ensure that there is a stronger relationship, so that we support Scotland.

Hanzala Malik: That is excellent.

Margaret McDougall: The committee has heard that women in business can be more debt averse. Do the banks have a view on that?

Ken Barclay: May I talk about what we are doing to try to encourage women to start up in business? I think that the root of the issue is that not enough women are starting up in business, rather than whether women want to borrow money. Through our inspiring enterprise programme, we have committed to helping 20,000 women start in business across the UK by the end of 2015. If we are successful in that, we will have 20,000 more businesses than we would otherwise have had. When businesses are established and are willing and able to borrow, we might start to see some changes.

I do not have statistics that would give a sense about whether women do not want to borrow, but we definitely have statistics that demonstrate that not enough women are starting in business. We are encouraging as many women as possible to do so.

Alasdair Gardner: Again, I echo Ken Barclay's comments. Unfortunately, I do not have any statistics on the specific question about borrowing by women in business. Our focus is to support entrepreneurialism across all sectors. Part of what we are trying to do is to free up front-line staff to spend as much time as possible with entrepreneurs of whichever gender to help them to grow their businesses.

Margaret McDougall: We all recognise that we need to encourage more women to go into business. Can the Government do more to encourage that?

Roddy Macdonald: As part of the Scottish Government's entrepreneurial programme, we are keen to support women into enterprise. We have been working with Women's Enterprise Scotland and have given it some funding so that it can undertake work to promote women role models and work on mentoring women who go into business. Certainly, work with the banks on the figures for lending to women would be a good addition to that programme.

Margaret McDougall: From the responses of the two bankers, it seems that they are not aware that women are averse to debt. Perhaps you should look into that to find out whether that is the case and whether it is the reason why women do not come back to you for loans. Will you look at that?

Ken Barclay: We certainly could do that, but the important thing is that we encourage as many women as possible to start up in business. Once the businesses are up and running, they need to have the confidence to approach the banks, in the same way as start-up businesses that involve men require to have the confidence to approach the banks and confidence in their business plan. We perhaps should have an answer to that question, but the important thing is that we encourage as many women as possible to start in business, and that is something that we are actively undertaking.

Margaret McDougall: What is Colin Borland's view on that?

Colin Borland: We do a lot of work to try to get more women to start up in business, as it can be an incredibly rewarding career. I am not aware of any information that we have that shows that, comparing like with like, there is a gender-specific issue. However, we will certainly explore that as we do some of the broader work that I have spoken about.

Margaret McDougall: Professor Sara Carter gave that evidence at a session as part of another inquiry that we were doing.

The Convener: We have time for one last question.

Chic Brodie: I have one request and one question. It would be interesting if the banks could tell us the ratio of mortgage lending to small business lending by region in the UK over the past four quarters. Would that be possible? The information must be there somewhere, and it would be interesting if we could get our hands on it.

Although I do not necessarily agree with Patrick Harvie, I think that participation of the community is important, particularly given that we own part of the banks at present. What are your views on the idea of our having a meaningful Scottish stock exchange or a form of AIM—alternative investment market—listing for small businesses at some point in future?

Alasdair Gardner: It would be interesting to see where the equity demand would come from for that. Clearly, the equity participation would determine whether a stock exchange would fly or die. It is worthy of consideration, but I would be interested in seeing who would put the equity into it.

Chic Brodie: It would certainly generate competition.

Ken Barclay: On the companies that are listing on AIM, although the stock exchange is in London, the flows of capital come from Scotland and England. It would be interesting to see whether there was demand to support such a thing.

Chic Brodie: It would certainly provide focus.

Colin Borland: The issue of regional stock exchanges has been discussed for some years. Like my colleagues on the panel, I think that the issue is definitely worthy of exploration, but we have not tested what the demand might be.

The Convener: We need to call it a day at that. I thank all our panellists for their contributions—it has been helpful to the committee to get your views.

We will now have a short suspension to allow a changeover of witnesses.

10:59

Meeting suspended.

11:08

On resuming—

The Convener: I welcome our second panel on access to finance. We were supposed to have five members of the panel but, sadly, we lost three people—two due to illness and one due to an unexpected business commitment. I am especially grateful to Neil Simpson, who is the finance director of BrewDog, and Tim Wright from twintangibles for coming along. I am sorry that you are feeling rather lonely this morning, but that is just the way that things have worked out.

Before we get into questions, would you both like to say a little by way of introduction and a little about your experience of funding?

Neil Simpson (BrewDog): BrewDog started in 2007, since when we have grown at quite a pace and explored conventional and not-so-conventional, alternative funding options. We started very small in Fraserburgh in 2007 with the two owners and their own funds. They had a little bit of bank support, so the conventional route was explored first, but from 2007 to 2008 the company hit that problematic time in the conventional market, if that is the right way to explain it, so they had to look for different ways of accessing finance.

For BrewDog, crowd funding has satisfied two routes. First, it has provided that extra funding that the conventional funding routes were not able to provide. Secondly, it has allowed us engagement with our customer base and with people who are interested. For us as a business, that is equally as important and valuable as the money. The crowd funding has worked particularly well because of the engagement with the investors.

We started that back in 2010, and we did it ourselves. As Tim Wright was explaining to me, it was do-it-yourself crowd funding; it was done on our own platform through our own website. We learned a lot from the first round. It did not achieve the goals that it set out to achieve and did not raise the maximum amount that we were hoping to raise, but we learned valuable lessons for the business going forward.

As a result of the business growing, we again needed more funds, and in 2011 we did a second funding round. On that occasion, it was fully funded and subscribed and it closed early. That gave us just over £2 million for capital development and growth of the business, and it got us to just over 6,000 investors in our business. At that point, they owned just under 10 per cent of our business, so it was not a significant part but it was a reasonable amount of equity to have given away.

Given the success of that round and the fact that we were experiencing almost 100 per cent growth year on year, we needed more money. We went back this year for a third round—I am sure that you have seen it in the press—and at present we are at 90 per cent of that offering. The total that we are requesting this time round is £4.2 million, and—touch wood—we hope to reach that this year. We will be disappointed if we do not do that. That will take us up to about 13.5 per cent of the equity being away.

The development of our business has gone hand in hand with the success of crowd funding. As I said, in the early stages of the business, the public awareness of the BrewDog brand was not so strong but, as the awareness and the brand developed, it has been far easier to achieve success with crowd funding. That has not been without hard work, but it has certainly been a far more successful avenue for us, given the awareness in the market of BrewDog and what we are trying to do.

We do not do things conventionally and we are not necessarily doing everything as per the textbooks, but that is what BrewDog is—we try to do things a little bit differently. To date it seems to be working, and long may that continue.

The Convener: Thank you.

Tim Wright (twintangibles): I am director of twintangibles. We are a Scotland-registered Anglo-Italian consultancy firm and we specialise in the impact of disruptive and collaborative technologies and the opportunities that they present for business. That takes us into crowd sourcing, open innovation and crowd funding. We are internationally recognised as experts in crowd funding and we have acted as advisers to the Organisation for Economic Co-operation and Development, the Commissione Nazionale per la Società e la Borsa—Consob—in Italy, Scottish Enterprise and other organisations.

We ran some of the first events in Scotland on crowd funding and crowd sourcing. Earlier this year, we were commissioned by Glasgow Chamber of Commerce to undertake a review of crowd funding in Scotland. Our report was published in June, and I think that a copy has been made available to you. It highlights a potential missed opportunity in Scotland and a lower level of take-up than we perhaps anticipated.

The Convener: Thank you. I am sure that, during the session, we will want to tease out some of the issues around that. I start with a question for Mr Simpson to enable us to understand his business's experience a little better. Have the equity investors who have come in, very successfully, and supported the business expansion mainly been customers of the business?

Neil Simpson: A large number of them are customers but, given that there are now 12,000 of them, at this point we do not know how many of them are indeed buying the product. As we have gone through the equity rounds, we have seen more and more people investing larger amounts of money, which to me means that they are probably looking at this far more as an investment proposition as opposed to an opportunity to get involved with us and engage with us as a brand. There is a mix of both. However, I would be very surprised if the majority of our shareholders were not customers, given the reward benefits that we give them with their shareholding.

11:15

The Convener: That is what I was coming on to. People who buy the equity get not just a stake in the business, but benefits along with that.

Neil Simpson: That is correct. They receive a discount in our bars and a discount for purchases in our online shop. People can weigh up their return on that product benefit over a period, but they get other benefits such as prior notice about any new product releases or an invitation to our annual general meeting. That is not a conventional AGM, as it is slightly more entertaining, shall we say, given the refreshments on offer and the entertainment. We also have a social media forum through which shareholders communicate with us regularly. They give us their comments and we give them feedback. They therefore have a real engagement with us, and we take very seriously communicating with them and keeping them involved with what we are doing.

The Convener: How was the investment opportunity marketed? Was it done by you, perhaps through social media? Did you go out to traditional investment houses?

Neil Simpson: No. As I said, it is a DIY set-up. Obviously, the share offer documents are certified by an approved financial services organisation. We then list the offer on our website and promote it through social media. We generate interest through our many Twitter and Facebook accounts and the following that we have there. In addition, we have very good PR, which has ensured that the press regularly picks up on our activities and that has meant good coverage of what we are trying to do and public exposure to it.

The Convener: Thank you. A number of members have questions, so we will start with Marco Biagi.

Marco Biagi: My first question is a general one about the crowd funding method. How much can it be expanded? Could it ever become central? The figures that I have seen show that it is 1,000 times smaller in monthly volume at the moment than conventional lending. Will crowd funding always be just a niche?

Tim Wright: Its growth rate from a recent and low start has been extremely fast. There was an 80 per cent uplift from 2011 to 2012. This year, it is anticipated that the sums raised globally will be $5.4 billion. Admittedly, that is comparatively a modest sum, but if the growth rate continues at the rate of recent years, it could become a significant sum. The World Bank has just produced a report on the potential of crowd funding in the developing world and envisages a potential investment of billions of dollars from crowd funding. The scale is therefore large, and Nesta has suggested that over a three-year timeline there is a £14.5 billion investment potential from crowd funding within the UK.

I think that we must regard crowd funding as part of the financial mix. It will not replace other methods, but it will become an established part of the mix. It is a question of how and where it fits in with other investment models. As the quantum of the available funds grows, crowd funding will be able to fit into more areas and at different points in a business lifespan than it is perhaps envisaged that it will at the moment.

Marco Biagi: It is important to remember that the figures that we have for the pre-crash days show that the banks' net lending, rather than gross lending, was £150 billion a year to small businesses. That clearly gives a scale for comparison.

Mr Simpson, how different in practice was what you did from an initial public offering of shares, other than that you did not use a stock market?

Neil Simpson: In terms of giving away equity in the business, there is no real difference from an IPO. However, the linked reward factor and the engagement differentiates what we did.

With regard to Tim Wright's comments, I would say that there is probably a scalability to crowd funding.

If someone offers shares or other rewards in that way, the public would have to be able to recognise the product and understand the business before they were able to make the investment in it. Therefore, crowd funding would probably work well on a small scale but if a company wants to take it to much bigger numbers it must have a brand or product to which the public are able to relate.

Marco Biagi: Your public relations has been rather outstanding in your sector. You have been able to command media attention. How replicable is that for other companies? It is hard to imagine another BrewDog coming along and making the same waves that you have made because, to your credit, you have already done it.

Neil Simpson: I was waiting to say that I hope that another BrewDog does not come along, but we would welcome another member in the market coming along and trying to do the same thing. On the back of our success, one or two other breweries are looking into making some sort of crowd funding share offer as well.

Undoubtedly, we would not have reached half of what we reached without social media. Whether or not we all like it, that is where more and more business is being done and more and more people will consider social media as opposed to traditional press. If someone is to be successful in promoting their brand or raising finance, they have to promote it really hard on social media networks.

Marco Biagi: Before going through the inquiry, I associated crowd funding with the likes of kickstarter—very early-stage work. What is the scalability of that? It is an area of crowd funding in which I have participated through donating to something and getting something back. Will that be a major factor?

Tim Wright: It already is. There are four fundamental models in crowd funding: the equity-based model, which BrewDog exemplifies; the reward-based model, such as kickstarter, in which people receive some kind of tangible or intangible reward, product or service in return for a pledge; the peer-to-peer, debt-based model, in which loans are provided through a crowd; and the donation-based model, with which most of us will be familiar through platforms such as justgiving.

At the moment, the largest part of crowd funding is the peer-to-peer model—the loan-based model—but the equity side is growing rapidly and the deals tend to be larger in that model than they are typically in the award-based model. However, there are always exceptions that prove the rule. The world record crowd-funded project is another do-it-yourself model but it was a reward-based model and it has raised, to date, $23 million for a single firm. Such approaches are scalable. In Scotland, Runtime Revolution—RunRev—which is an Edinburgh-based firm, recently raised £493,000 on kickstarter.

The different models suit different businesses with different skills, attributes and positioning. It is a broad spectrum, but it is undoubtedly scalable. More and more organisations will recognise that they have crowd-based assets that they can leverage to generate funds for them. BrewDog is a real exemplar in the way that it has carried that through in many of the things that it has achieved, but other brands will do the same. It is not limited to a particular sector.

The key thing to understand about crowd funding is the notion that it is new capital flowing into the market. The idea is to bring into the marketplace people who have not directly participated in investment before. It is the empowerment that social technologies provide. Consequently, it represents new inflows of capital that will sit alongside the existing capital markets.

There are some well-known estimates, such as the one that if 1 per cent of the long-term investments in the United States that are tied up in personal investments were released, that would represent $23 trillion-worth of investment that could go directly into the capital markets. The difference is that it would be directly invested by individuals who are looking at that as, if you will, a retail investment that would otherwise not be available. It is undoubtedly scalable.

Marco Biagi: I have just had an off-the-wall thought. Could there be applications to public sector funding?

Tim Wright: There already are. There are, for example, crowd funding campaigns specifically designed for civic projects such as construction projects. There are also lots of opportunities for co-investment. We have seen examples such as the West of Scotland Loan Fund, which is predominantly drawn from the public sector and which is now quite happy to co-invest alongside crowd funding money; it will only ever meet 50 per cent of a loan, but it would be entirely comfortable with taking 50 per cent of a loan that is otherwise backed through crowd-funding sources.

Civic engagement, and particularly governmental engagement, in crowd funding is being conducted at the moment on peer-to-peer platforms, so we are aware of the money from the UK Government that has gone on to Funding Circle and Zopa through the business funding partnership. That is always co-investment. Lancashire County Council has done essentially the same thing; it will take up to a maximum of 20 per cent of any individual loan, and the bulk of the loan is met by the rest of the market. Bodies are leveraging what funds they have effectively by investing in that way. There are significant opportunities for civic bodies to use their money effectively but also to bind things in closely with the community by investing alongside them.

The Convener: Let us go back to Marco Biagi's second question, about the types of businesses attracting crowd funding. I can see why a customer-facing brand such as BrewDog, while not exactly finding it easy, would have an obvious customer base to tap into. Somebody who is a widget maker might find it a lot harder. Is that fair?

Tim Wright: That is entirely fair. Each business will look at the available options. They might wish to take some debt-based funding through a peer-to-peer platform. What the individual businesses can bring to a crowd-funding situation will determine the path down which they might go. We typically would take organisations through a four-stage process to decide what was the best option for them. It may well be that crowd funding might not suit them; it is not for everybody. Such things as the public equity rounds and the reward-based models that we referred to with RunRev can be tremendously demanding. It is not easy for organisations to do those things; they take tremendous amounts of effort, resource and preparation, but they are an alternative that many people feel is not otherwise available to them, and that is why they choose it.

Patrick Harvie: My question is about platforms. It may be that, when BrewDog started its journey, there were not a lot of ready-built platforms out there and that that is why you decided to go with a home-brew version, if I may put it like that. If you were starting now, would you have gone with a commercially available platform, or is there an additional value in inculcating customer loyalty and fanhood by making the experience of participating in it one that is entirely controlled through your own brand and corporate identity?

Neil Simpson: If we were to start again now, we would probably explore those platforms in more detail. Back when we did the first round, the models were not so widely available, as you say, and we found that our cost base on our first round was proportionately much higher than it has been this time. We have gained experience from doing it and, as the market and our business have moved on, we are now looking at our model from the point of view of risk assessment and financial services. The costs were far higher doing it first time, compared with doing it now, but they were still significantly less doing it ourselves in round 1 than they would have been if we had gone through a platform.

For us, it is about that engagement. It is about having control of the whole process—of our branding and website—rather than doing it through a platform. Having our own platform, with our own branding, gives us a direct connection with the investor, which has been very good for us.

11:30

Patrick Harvie: I am thinking about how this kind of investment fits with other sources of finance. You have said that it is one element, alongside others. Are you able to put a figure on the additional value of this kind of investment because of the customer loyalty and the sense of building a relationship with your customers and people who identify with the brand? Does it have additional commercial value to you compared with other sources of finance?

Neil Simpson: Certainly.

Patrick Harvie: Can you put a figure on that?

Neil Simpson: We cannot, at this point. If we continue to manage this approach in the right way, through our engagement with the investors, we see this as 12,000 sales reps on the road for our brand. Those sales reps will have a vested interest in the success of what we are doing. They will like the product and the engagement, so there is that commercial benefit, too.

That aside, there are the costs. We have bank debt as well as asset finance debt, and we have excellent support in the grant market. We have tapped into pretty much all the conventional markets and the crowd-funding route and all of them have value. With crowd funding, it is far more difficult to pinpoint the value. We can quantify the rewards that we are giving away—that is easy—but the intangible bits, such as brand development and how investors help to promote that, are not that easy to manage and quantify.

Patrick Harvie: I ask Mr Wright to comment on the issue about platforms and how much control a company wants to try to retain over the experience that a crowd-sourcing investment participant would have. Does that platform still need to be controlled in order to maximise its real value?

Tim Wright: The fundamental proposition of platforms is that they drive down the incremental cost of every transaction. In a crowd-funding environment, you are looking to aggregate a large number of very small investments. Consequently, it is important to make the transactional cost of each of those investments very low because if you did not do that, crowd funding would become unsustainable. That is the main proposition of the platforms.

They also see themselves as points around which potential investors will coalesce. They will certainly emphasise the discoverability, if you will, of an investment opportunity through browsing and serendipitous discovery by people happening to be on a site with multiple projects on offer.

We are beginning to see the emergence of a trend towards what we refer to as do-it-yourself crowd funding. Those are organisations that are choosing to run their own crowd-funding campaign, in the same way that BrewDog did. Their motivations for that are many and various. In some cases, they are follow-on campaigns. They have already run a campaign on a platform and they have an established asset that they can draw on in terms of a connection with a community of investors and they wish to move that on to the next stage and avoid the costs associated with going on to a platform—because there are costs, albeit quite low ones.

The flexibility is an important aspect. To give you an idea, around 900 different platforms are available. In the time that it has taken me to tell you that, there are probably 901. It is rapidly growing and will continue to do so. For obvious reasons, some of the larger, more well-known platforms, such as kickstarter, which was referred to earlier, put quite strong conditions on what they will permit and what they will not permit on the platform. That will probably grow considerably over time as a risk mitigation factor for the platform.

The desire to run the campaign in your own way, offering the rewards that you want, over a timeframe that you want, is an attraction for some crowd funders. The trend towards the DIY model is growing. We will probably see some larger and established brands using their brand presence through DIY crowd funding for specific projects or possibly for corporate social responsibility ideas. Some are already putting their toe in the water to see how they can engage with crowd funding.

Chic Brodie: Mr Simpson, we are not allowed to physically applaud in the committee, but you deserve great applause for what you have done with your company. We have heard about what you have done, when you did it and where you did it, and you partially told us why when you answered Patrick Harvie's question and mentioned cost. Was there any other motivation? What is your view of the accessibility of finance and the approach of those who provide finance to small businesses in Scotland? Was the reaction to that part of your motivation?

Neil Simpson: Yes. Since pre-crash times, the financial model of the banks has changed, as I guess you just heard from the previous panel, and the financial institutions take a far tighter approach to risk. As a result, any capital projects are capped at a certain percentage in conventional rounds of funding, and it is really difficult for an early-start business to access working capital funding.

We are now getting good support from our bank, which is probably partly because the financial market has developed and moved on and that tightening up has relaxed a little bit. We cannot really fault our bank for the support that it is giving us now, but we have gone through a continual process of working closely with the bank. It now recognises that, as we establish ourselves, there is a more credible and viable investment opportunity for it.

Chic Brodie: Is it true to say that part of your motivation was the initial difficulty in getting access to finance?

Neil Simpson: Well, there was difficulty, but we also thought about speed of growth. Under our model, we do not do something in two years if we can do it in two months. Conventional financing models do not allow the speed with which we wished to grow our business, because the model and cashflow have to be working to make that happen. We had to access other finance routes to allow our speed of growth to continue.

Chic Brodie: Mr Wright, you heard our earlier evidence session when we talked about professional-advice-giving relationship managers who are experienced in business after training for four days a year. One of the indications in your report was that there is a lack of financial advice in Scotland. What is the problem? Is it with financial advice or with business advice? I hope that there are no accountants listening, because we heard that there is a proliferation of financial advice. What is the situation with overall business advice? We have heard about what good sales, marketing and PR do, but is there just a lack of professional financial advice?

Tim Wright: In our report, we certainly looked at some of the evidence that came up in the Breedon review report, which suggested that poorly prepared financial statements are impairing business access to finance because businesses cannot make or present their cases effectively. We spoke to a number of the crowd funding platforms, which said that it is an issue for them that organisations sometimes try to come on to an equity-based or lending-based platform but do not have sufficiently well-prepared financial statements.

I do not know about the general availability of business advice across the piece. There is perhaps a lack of expertise on crowd funding across the UK. There are one or two organisations such as mine that can offer that expertise, but it is not commonly available. We felt that the lack of understanding of the opportunity that is available through crowd funding is inhibiting the uptake. However, I am not sure that I can comment on the generality of business advice that is available.

Chic Brodie: I want to move on to the regulatory underpinning of crowd funding. I know that P2P and equity-based models are fairly well regulated. What about the other platforms?

Tim Wright: From a regulatory point of view, the UK has had an extremely vibrant crowd funding sector, largely because it has not been specifically legislated for. The reward-based and donation-based platforms are not actively regulated and do not fall under any particular regulations. Peer-to-peer lending still does not fall under any specific regulations. That part of the industry has lobbied to come under Financial Conduct Authority regulations that are being put in place from next April. The FCA has published recommendations for specific regulation of the equity-based model. A consultation from the FCA is out at the moment.

There is a common misconception that equity-based crowd funding is not regulated. It is very heavily regulated, as all investment models are. What is distinctive about the approach in the UK is that we have a common law system that has allowed the platforms to find a way to satisfy the regulatory requirements to operate. In the case of BrewDog, where there is the DIY option, it has used FCA-authorised bodies to undertake the regulated parts of what it is doing. The two most well-known equity-based platforms in the UK are Seedrs and Crowdcube, both of which are formally FCA regulated. The regulatory framework is there.

The FCA proposal is a kind of retrospective approach, which is completely ridiculous and is likely to be seriously detrimental to the equity-based platforms and the growth of equity-based crowd funding in the UK. It is deeply ironic to me that other countries around the world are desperately trying to enable crowd funding by bringing in specific legislation to permit it. There has been legislation in Italy and there is an ongoing debate in the USA about how the Securities and Exchange Commission is going to finally permit the Jumpstart Our Business Startups Act.

Chic Brodie: I want to concentrate on Scotland. You heard my question about AIM listing and a more meaningful Scottish stock exchange. You have a platform coming down the pike called ShareIn. Is that effectively the same thing—a soon-to-be-launched Scottish-based equity platform? That to me is a pseudo AIM-listing vehicle.

Tim Wright: What is interesting about equity-based platforms at the moment is that all the assets that are generated are non-tradable, so they are illiquid—BrewDog is in that situation, too. There is no secondary market for them. We have had numerous discussions with bodies about the potential for introducing a secondary market for those equities. There will be a large opportunity for some body and some jurisdiction to set themselves up as the place where the secondary market operates. The advantage of having the secondary market is that it brings more liquidity and confidence and it allows people to realise and trade their assets. It underpins the peer-to-peer lending market, where there is almost always a secondary market. For example, if I were to go on to a platform such as Funding Circle and buy £100 worth of a loan going to a business and I then wanted to liquidate that, I could trade it on the secondary market on the platform. The two equity-based platforms that exist in Scotland—ShareIn and Squareknot—will be in exactly the same position as all the other equity-based platforms in the UK in that the assets that they generate are non-tradable.

Chic Brodie: That is at this stage.

Tim Wright: Yes. There are significant problems associated with it, because a variety of types of share are created, some of which are specifically non-transferable. However, there are ways round that. We have advocated the setting up of a European secondary market for all the European equity platforms to be able to trade their assets in.

Margaret McDougall: I want to continue with the issue of crowd funding. You mentioned how successful it has been but, although its use has increased greatly across the world, the uptake in Scotland has been lower. Why do you think that it is less popular in Scotland?

11:45

Tim Wright: The intention of the report that we produced earlier this year for Glasgow Chamber of Commerce was to look at the general levels of interest in and awareness of crowd funding in Scotland and its fit with the financial needs of business here. It became apparent early in the course of doing the research—which was quantitative and qualitative, in that we used survey-based material and undertook more than 50 interviews with a range of bodies that are involved directly or tangentially with crowd funding—that the level of uptake in Scotland was quite low. Although the research did not have the specific aim of explaining that, we at least asked for reasons why it might be the case.

A number of things were suggested to us. If you look at the report, you will see that they included the suggestions that there is a lack of Scottish platforms, a specific aversion to debt-based finance and less of a need for finance in Scotland. As far as we could tell, none of those held water—there was nothing distinctive about the situation in Scotland that supported those suggested reasons. Therefore, we could only come to the view that a general lack of awareness is driving the low uptake of crowd funding. We were able to point to examples of successful equity funds in other parts of the UK, such as Wales and other areas outside the M25, which is where we would expect the majority of the activity to be, but we were not able to identify similar examples in Scotland. It is something of a conundrum that is worthy of further research.

The fact that the committee is holding this session and that an organisation such as Glasgow Chamber of Commerce decided to undertake research means that there is a growing level of interest in the issue. That needs to be nurtured and encouraged. Given that Scotland has such a tremendous example in BrewDog, it seems peculiar that crowd funding is not more embedded in the way in which Scottish businesses look for finance.

Margaret McDougall: How much awareness of crowd funding do the likes of Scottish Enterprise and the business gateway have? Are they telling businesses about it?

Tim Wright: It is fair to say that we found that the general level of awareness and understanding of crowd funding across the institutions that we spoke to was relatively low. In almost all cases, their awareness of it had been driven by a bottom-up approach, whereby their clients and contacts had come to them and asked, “What is this thing called crowd funding? What do we need to do about it?” That drove those institutions to engage with it and to gain a greater understanding of it. However, it is fair to say that most of those institutions would benefit from getting a more sophisticated understanding of the opportunity that crowd funding presents.

Margaret McDougall: I have a question for Mr Simpson. You use other funding methods, obviously. Has the reaction of banks to your use of share funding been favourable? Do they feel that it is risky?

Neil Simpson: It has been extremely positive, because the benefits of share generation mean that our company balance sheet net worth has been strengthened considerably. When the banks lend, they look at a company’s equity-based balance relative to its debt funding, so they look at our crowd funding extremely positively rather than negatively.

Margaret McDougall: They do that now, but did they do so earlier, when you were starting out?

Neil Simpson: At the time, we were with a different bank. At that point, the model was not proven in any sector and the values that we were dealing with were far smaller, so it did not have the same connection. We have certainly not had any negative response from our banks to the use of crowd funding.

Margaret McDougall: Should banks be encouraging crowd funding, Mr Wright? Is that a message that you would convey to them?

Tim Wright: It is an interesting point. In doing the research in Scotland that I mentioned, we spoke to all the main banks to ask them about their attitude to and awareness of crowd funding.

As you might expect, we were told that they were all open for business and ready to lend and that they encouraged other entrants to the market and so on. However, they also made the point that they will turn down certain applicants and they are interested in crowd funding as a potential alternative.

With every bank, we ran a scenario in which it was taken at its word. In the scenario, the bank has turned down a small business for a loan and advised it to look at crowd funding. The business then looks into that and generates £100,000 in pre-sales for the product that it wants to take to market. At that point, the business comes back to the bank and says how terrific that is. We asked the banks whether that would change their view of the business. They said that it would absolutely change their view and that they would potentially reconsider whether to loan to it and how to respond. That is what one would expect, but it demonstrates the value of crowd validation of business models. It also demonstrates that, in many respects, the banks have de-skilled themselves and reduced their ability to judge risk. Therefore, organisations that can draw on the validation of their business idea through the crowd have quite a useful asset.

Margaret McDougall: BrewDog has used crowd funding to raise equity. What is the maximum limit for a business raising equity through crowd funding? You would not want to sell off the silver; rather, you want to keep hold of as many shares as you can. Where should crowd funding stop?

Neil Simpson: That is a good question. For BrewDog next week, who knows? That is a business-by-business decision that is dependent on where each is at any particular time and on how much they are prepared to give away. As I understand it—Tim Wright will correct me if I am wrong—the European legislation says that a business can raise only €5 million through crowd funding annually, so that puts the cap on what can be done through that platform.

Chic Brodie: You could buy a distillery with that amount.

Neil Simpson: You could buy half our brewery with it.

Tim Wright: There are plenty of examples of people who are going through first, second and third funding rounds through the equity-based models. For other types of crowd funding, such as the reward-based model—the model that provided the $23 million world record that I mentioned—the rounds continually reiterate. That really suits some businesses. For example, games and software developers can go through an iterative development path, each of which is funded by a separate crowd-funded round.

I will give an example of where crowd funding fits into the financial mix that slightly speaks to a point that was made by one of the gentlemen on the previous panel. When I spoke to LINC Scotland, its concern with crowd funding was that many of the equity-based platforms overvalue the offers that are made. However, the things that it is short of are exits. I therefore suggested that crowd funding could be used as an exit, which is surely a perfect fit for overvalued offers. As the size of crowd-funding deals increases, the way in which crowd funding fits into a finance model will change. We typically think of crowd funding being entrepreneurial and start up, but it does not necessarily have to be so—it can fit into different points.

The Convener: Before I bring in Dennis Robertson, I want to return to a question that Margaret McDougall asked about Scottish Enterprise and the business gateway. Mr Simpson, what support has your company had from Scottish Enterprise or the business gateway?

Neil Simpson: Scottish Enterprise was supportive of BrewDog in the years prior to the crowd funding. We get excellent support for our exports on an annual basis—a considerable amount of our business is exports—and with regard to our employees and the increase in our staff numbers. We have excellent support through the more traditional Scottish Enterprise funding avenues.

I echo Tim Wright’s comments in this regard. When we took our third round of crowd funding to Scottish Enterprise, it gave us some support with the costs of bringing the offering to market. Scottish Enterprise has been there, although it was more a case of us going to it than of it coming to us.

The Convener: Has Scottish Enterprise now caught up with what is happening?

Neil Simpson: There is an awareness there. However, not just in that avenue but in a lot of avenues, businesses often have to go and ask the question to get support, as opposed to that support being made directly or openly available to them. From a business perspective, it is a matter of awareness.

The Convener: Have you had any engagement with the business gateway?

Neil Simpson: No. It has all been through Scottish Enterprise.

The Convener: Are you an account-managed company?

Neil Simpson: We are.

Dennis Robertson: My questions are mainly for Mr Simpson. I echo what others have said: you have an extremely successful business. I would not like to say whether it is the product or the marketing that is the reason for your success.

For future finance, do you see yourselves using much more conventional routes, and probably the bank when it comes to lending? You have partly answered the question already, but do you see yourselves making use of more conventional borrowing to expand, rather than being reliant on crowd funding?

Neil Simpson: That will depend on where the growth happens to be. As I said, bearing in mind our credibility in the market as we grow and as we deliver the fundraising that we said we would, we would use conventional funding. Even now, however, that is limited in its uses in the business, and there are caps at certain levels. The next BrewDog adventure might be slightly more risky using a conventional funding route, in which case we would have to keep the alternative market as a possible source.

Dennis Robertson: We heard earlier from the representatives of the banks that their doors are open for business.

Neil Simpson: Yes. We are getting excellent support from the bank as regards the cost of the finance that it provides to us, but the limits that are placed on that mean that we would have to fund a certain percentage of any capital project ourselves. If we do not have that funding readily available, we have to consider the alternatives for raising those funds.

Dennis Robertson: Am I right in thinking that you brought crowd funding to Scottish Enterprise, rather than Scottish Enterprise bringing it to you as an option?

Neil Simpson: That is correct.

Dennis Robertson: Do you not think, in some respects, that it should have been the other way round?

Neil Simpson: Yes, indeed. Given the difficulties that businesses have with raising finance, the support that we can get from public bodies will make things far easier. The awareness factor has meant that, as a few members have said, crowd funding has not been taken up so much in Scotland.

Dennis Robertson: You see crowd funding as an opportunity for entrepreneurs at the start-up stage to get themselves established. It looks as if, rather than the banks deciding just to take a risk, they are more interested once a business is established and has a proven track record.

Neil Simpson: Yes. Your previous panel of witnesses may have said what their lending criteria are, but my experience so far is that, if a business has a good bit of bricks and mortar, that is a nice decision to make. If, however, a business venture is launching a new product or launching itself into a new market, there is no evidence with which it can prove its success in that. Therefore, even if it has a good track record, that is not such an easy situation in which to raise bank funding.

Dennis Robertson: Thank you—you have probably clarified some of the questions that were not explored or were not clearly defined in the earlier evidence session.

Chic Brodie: I do not wish to put you on the spot, Mr Simpson, but I am about to. Does your answer to that previous question mean that the people from the banks and the credit companies who are giving advice do not really understand business at all?

Neil Simpson: My bank has been excellent, and it understands our business really well. We have an excellent relationship.

Chic Brodie: That is probably down to you improving it.

Neil Simpson: The banks have to get to know the business concerned. Any service, whether it is a public body, a firm of accountants or lawyers or a bank, needs to understand a business in order to give the right advice.

The Convener: I thank both our witnesses for coming along. It has been an interesting evidence session, which has given the committee an insight into crowd funding that it would not otherwise have had. I am grateful to you for giving up your time to come along.

12:00

Meeting suspended.

12:02

On resuming—

Subordinate Legislation

Electricity Generating Stations (Applications for Variation of Consent) (Scotland) Regulations 2013 (SSI 2013/304)

The Convener: Item 4 is consideration of a negative instrument. The regulations have been to the Delegated Powers and Law Reform Committee, which made no points on them. Do members wish to raise any issues?

Patrick Harvie: The general intention of allowing applications for variation of a consent makes complete sense. I suspect that there will be pretty unanimous agreement on that. However, some of the issues that have been raised about the detail give me cause for concern—particularly the fact that, as far as I am aware, we are being asked to approve the instrument before we have seen the guidance that the Scottish Government intends to produce. It would be far better if we could at least see whether and to what extent draft guidance addresses the concerns that have been raised, particularly about the scope of what would be considered a variation as opposed to a new application for consent.

If we could at least see the draft guidance, we would know whether those concerns have been addressed properly and understood by ministers. I would prefer us to express the view that we should see the guidance, at least in draft form, before the committee or the Parliament agrees to the regulations.

The Convener: We have to consider the regulations by 2 December, so there is a small amount of time in hand if we want to follow something up. I am interested to hear whether other members share Patrick Harvie's concern.

Mike MacKenzie: I agree with the sentiment, but I am not sure that the concerns are so significant as to warrant any great delay. The more urgent concern is that we know from the Office of Gas and Electricity Markets that UK generating capacity is down to a reserve of about 2 per cent, which is close to the point at which the lights go out.

The Scottish Government has already given the assurance that this is not about substantive redrafts of applications and so on but about relatively minor, non-material things, with the safeguard that local planning authorities will still have an input into the process and so on. I hear the in-principle objection, but I am not convinced that it is tangible enough to suggest that we should send the regulations back to the Government to think again or await the full development of the guidance. We have heard only from RSPB Scotland, so we can safely assume that concern about the issue is not huge and widespread.

Hanzala Malik: It is not unreasonable to consider the draft guidance, particularly since we have the time to do so. I do not really see what the issue is. I am quite happy for the instrument to come back to us after we have considered the draft guidance.

The Convener: I should clarify that there is no draft guidance to look at before we approve or otherwise deal with the instrument. The options open to us today are to say that we have no concerns or—if it is of interest to members—to write to ask the Scottish Government for more information on the draft guidance and to bring the instrument back on next week's agenda. That is a decision that we will have to make. However, no draft guidance is available.

Margaret McDougall: The briefing paper says that some stakeholders in the consultation "sought clarification". Do we know what points they looked for clarification on?

Stephen Imrie (Clerk): I am not aware of the detail of the points that stakeholders raised with the Scottish Government. If the committee is minded to ask, I will try to find out.

Hanzala Malik: I am comfortable with that.

Chic Brodie: I agree with Mike MacKenzie. I do not see the purpose of bringing the instrument back next week. I will not rehearse all the arguments, but I do not know what value that would add or whether we would arrive at a totally different situation.

Dennis Robertson: I am not sure why we would want to bring the instrument back, because I am not sure that the information that we would get would give us more clarity than we have. However, in the future, it would be worth asking the Government to provide as much information as possible on any statutory instruments. If there is no guidance, there is no guidance, but if there is a lack of information on certain instruments, it is probably incumbent on the Government to produce information before we make a decision. In this case, however, I am not sure that there is any point in delaying the instrument.

Hanzala Malik: This is an important issue and we have the time to consider it and get more clarity. Delaying consideration would give us an opportunity. There might not be any change at the end—that would be fine, too—but we should avail ourselves of the opportunity. It would be the height of irresponsibility not to do so.

The Convener: There is a spread of opinions. We are not under time pressure to agree to the instrument. If members have concerns about it, it makes sense to ask questions and bring it back next week.

Mike MacKenzie: On that basis, I ask the members who have concerns to express them more specifically. I invite Hanzala Malik to say what his specific concerns are about what might happen in the real world if we pass the instrument now. What are your real concerns? If we ask specific questions of the Government, we are more likely to get useful answers.

The Convener: To be fair, Mr MacKenzie, a number of representations have been made and we do not have details of them before us. It might help the committee to clarify the issues that have been raised, which we can put in a letter to the relevant minister that asks for a detailed response.

Patrick Harvie: All members should have received RSPB Scotland's briefing, which sets out in detail its concerns on issues such as the definition of variation, what would require an application for variation and what would need to be dealt with as a completely new application for consent, as well as issues with the role of public inquiries and local planning authorities. There are differences between what is being done here and what is being done south of the border with ministers' responsibility to take into account the views of those whom they have already consulted.

It is perfectly reasonable to ask the Government to respond to those concerns. It would be helpful if it published draft guidance but, even if it cannot, I find it hard to believe that the lights will go out if we leave the issue for a week or two in order to seek the Government's response.

The Convener: We have only a week—we have to report next week. There are differing views on the matter. I propose that we write to ask the Government for a response for next week and that we consider the instrument at next week's meeting. Is that agreed? Can members live with that?

Members *indicated agreement.*

12:11

Meeting continued in private until 12:25.

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