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Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 8 October 2014

Session 4

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ECONOMY, ENERGY AND TOURISM COMMITTEE
23rd Meeting 2014, Session 4

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Joan McAlpine (South Scotland) (SNP)
Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyd (Scottish Trades Union Congress)
Garry Clark (Scottish Chambers of Commerce)
Fergus Ewing (Minister for Energy, Enterprise and Tourism)
Iain McTaggart (Scottish Council for Development and Industry)
Claire Orr (Accountant in Bankruptcy)
James Withers (Scotland Food and Drink)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

the James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 8 October 2014

[The Convener opened the meeting at 09:04]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 23rd meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members, the minister and his officials, and those who have joined us in the gallery, and I remind everyone to turn off mobile phones and other electronic devices, or at least to switch them to silent. We have received apologies from Margaret McDougall MSP.

Are members content to take agenda item 7 in private?

Members *indicated agreement.*

Small Business, Enterprise and Employment Bill

09:05

The Convener: Agenda item 2 is consideration of a legislative consent memorandum on the Small Business, Enterprise and Employment Bill. The LCM will be introduced by Fergus Ewing, the Minister for Energy, Enterprise and Tourism, who is joined by the following colleagues: David McPhee, who is head of the business and energy unit in the office of the chief economic adviser; Neil MacLeod, who is a principal legal officer in the solicitors constitutional and civil law division; Chris Boyland, who is the head of strategic reform at the Accountant in Bankruptcy; and Elaine Drennan, who is the head of employability, skills and lifelong learning analysis in educational analytical services. I welcome you all to the meeting.

Minister, would you like to make some introductory remarks?

The Minister for Energy, Enterprise and Tourism (Fergus Ewing): Yes, convener, and thank you very much. Good morning, everyone.

I am grateful for today’s opportunity to address the committee in respect of the motion that was lodged by the Cabinet Secretary for Finance, Employment and Sustainable Growth on 8 August. As you will know, the United Kingdom Government’s Small Business, Enterprise and Employment Bill was introduced in the House of Commons on 25 June and will shortly begin its Westminster committee stages. It aims to remove what are regarded as unnecessary impediments to business and includes a wide range of measures that are aimed at promoting economic growth.

The majority of the bill’s provisions are reserved to the UK Parliament, but what we are concerned with today are the provisions that fall within this Parliament’s devolved competence and which require a legislative consent motion to allow the UK Parliament to legislate on them. I will therefore concentrate on the areas that are contained within the motion and will be happy to address in writing any other queries outwith today’s proceedings, should the committee so require.

The LCM covers three areas: improving access to finance through the assignment—or, as we say in Scotland, the assignation—of receivables; the sharing of information in relation to education and training; and corporate insolvency. I will briefly outline each area.

First, the ban on assignment of receivables measure—as it is referred to in the UK bill; in Scots law, it is called the ban on assignation of receivables—is aimed at improving small businesses' access to finance by removing legal barriers that can prevent them from selling their invoices to third-party finance providers, and thereby seeks to improve liquidity and cashflow for small business and increasing prospects of sustainability and growth. Viable businesses need access to finance for investment and growth; indeed, the committee recognised as much in its report on access to finance and alternative financing models, which it published earlier this year. This change, which is aimed at delivering a positive impact by nullifying the impact of clauses in business contracts that prohibit a business from selling its invoices to a third-party finance provider, should directly benefit small businesses. As the provision affects contract law, which falls within the legislative competence of the Scottish Parliament, it will require the Scottish Parliament's consent.

The second measure that is outlined in the LCM relates to the extension of the sharing of information about individuals for the purposes of assessing the effectiveness of training and education. Under existing legislation, the Scottish ministers, the secretary of state and Her Majesty's Revenue and Customs are able to share information about benefits, tax and education for the purposes of assessing the effectiveness of the provision of training and further education for people aged over 18. However, information about higher education is specifically excluded, so the measure will enable the assessment functions to include people aged under 18 in order to capture all school leavers as well as those in higher education, and to allow us to identify wage and employment outcomes for those who have undertaken training, or further or higher education in Scotland. As the measure will affect the assessment of education and training services, it falls within the Scottish Parliament's devolved competence and therefore requires the Scottish Parliament's consent.

The third and final area of the LCM is corporate insolvency. The measure aims to reduce complexity and to improve the efficiency of insolvency processes, which will reduce the costs of administering insolvency proceedings and could lead to higher returns for creditors. The UK Government believes that the whole package, not just the insolvency measures that are outlined in the LCM, will benefit creditors by an estimated £30 million per annum. Although the actual benefits remain to be seen, the aim clearly chimes with the principle that was set out by this Government in our Bankruptcy and Debt Advice (Scotland) Act 2014 of securing the best return for creditors by ensuring that the rights and needs of people who are in debt are balanced with the rights and needs of creditors and businesses. On that basis, we think it sensible that the measures be extended to cover Scotland. As the measures relate to devolved areas of corporate insolvency such as receivership and the process of liquidation, they fall within the Scottish Parliament's legislative competence and therefore require legislative consent.

The committee should also note that a supplementary legislative consent motion on public sector exit payments might be brought before members at a later date. The bill includes a provision to ensure that exit payments are recovered when high earners return to the same part of the public sector within 12 months of their leaving. It was agreed that, due to the measure's complexity and its late addition to the bill, UK and Scottish Government officials would continue their discussions on the detail of the policy and the desirability of an LCM on the provision. If agreement is reached on the policy, we will lodge a supplementary LCM in due course.

The Scottish Government is already creating a supportive business environment and has progressed a range of successful initiatives to deliver better regulation for all. In recognising that Scotland's businesses are the primary drivers of sustainable economic growth, we welcome policies that complement our continuing programme to improve the performance of our businesses, and make Scotland a more open and competitive place for companies to do business.

I ask the committee to support the draft legislative consent motion.

The Convener: Thank you, minister. Do members have any questions for the minister?

Chic Brodie (South Scotland) (SNP): Good morning, minister. Can you clarify your comments about the selling on of debt? I presume that you are talking about invoice discounting, but can you explain the provisions that are set out in the bill?

Fergus Ewing: We understand that some contracts that are routinely imposed, perhaps by larger businesses on smaller businesses, contain provisions that prevent the smaller business from selling on to a third party any claim that they would, under the contract, have for money payable. We can share examples of such provisions if members are interested, but we think that such a ban on assignation—in other words, the selling on of the right to extract payment of a debt—is not in the interests of business and that there is no justification for it. It is simply a practice that some large businesses have got into because they can. As, I am sure, those of us with previous business experience will recall, big businesses tend to get their way. They impose standard pro forma conditions and if you do not like it, your choice is to lump it. I therefore think that it is quite a good measure. A more technical explanation might well be hidden in the notes that are in front of me, but I hope that that punter's version will suffice.

Chic Brodie: On recovery of public sector exit payments, I have to say that I do not know what covenants exist in the Scottish public sector under which such a measure could be implemented. Is this a new provision? I thought that under our management of the legislation there are already covenants explicitly stating that people cannot re-enter the same service that they had previously exited at roughly the same salary.

Fergus Ewing: I hesitate to generalise on such a wide area, but I can certainly come back to the committee on the matter. Because we are not at the stage of knowing whether an LCM is required, we—or, at any rate, I—have not yet looked into the perfectly legitimate question that Mr Brodie has raised about the current position. Given his perfectly reasonable question, I undertake to look into the matter and formally write to the committee on it, irrespective of whether there is an LCM.

Chic Brodie: Thank you.

The Convener: It all seems to be relatively uncontroversial; the bill will make a number of sensible reforms.

Is the committee minded to recommend that Parliament give its consent to the provisions of the Small Business, Enterprise and Employment Bill, as set out in the LCM?

Members *indicated agreement.*

The Convener: Are members also happy to delegate to the convener and clerk to the committee the production and publication of a short factual report detailing the committee's consideration?

Members *indicated agreement.*

The Convener: We will have a very short suspension while we change officials for agenda item 3.

09:15

Meeting suspended.

09:15

On resuming—

Subordinate Legislation

Common Financial Tool etc (Scotland) Regulations 2014 [Draft]

Bankruptcy (Money Advice and Deduction from Income etc) (Scotland) Regulations 2014 [Draft]

Debt Arrangement Scheme (Scotland) Amendment Regulations 2014 [Draft]

Bankruptcy and Debt Advice (Scotland) Act 2014 (Consequential Provisions) Order 2014 [Draft]

The Convener: We move to item 3. The minister has been joined by Claire Orr, who is the executive director of policy and compliance at the Accountant in Bankruptcy. Chris Boyland is still with us, and we are also joined by Graham Fisher from the Scottish Government legal directorate.

We have a raft of subordinate legislation to consider. As the minister will be aware, we have four instruments that are subject to affirmative procedure to consider, and later we will consider three instruments that are subject to negative procedure. I invite the minister to introduce and speak to the instruments.

Fergus Ewing: I will be brief, because the instruments are complex and the committee has a lot to consider. The instruments will bring to life provisions in the Bankruptcy and Debt Advice (Scotland) Act 2014. They form the next layer of our reforms—the most significant reforms to bankruptcy law for a generation—and the four affirmative instruments that the committee has been asked to consider will be invaluable in supporting measures including the single common financial tool and mandatory money advice for all debtors.

As announced during the bill's passage, the first instrument—the draft Common Financial Tool etc (Scotland) Regulations 2014—will adopt the common financial statement that has been published by the Money Advice Trust as the heart of the common tool method for setting a fair debtor's contribution in Scotland.

The next instrument—the draft Bankruptcy (Money Advice and Deduction from Income etc) (Scotland) Regulations 2014—fills in significant details about the role of money advisers and provides the forms for telling employers and others when deductions are made from income under the new provisions in the act.

The draft Debt Arrangement Scheme (Scotland) Amendment Regulations 2014 will do two things. First, they will make changes to the debt arrangement scheme to take account of the common financial tool, and secondly they will extend the scheme's advantages in making protected repayments to certain legal persons, including partnerships.

The draft Bankruptcy and Debt Advice (Scotland) Act 2014 (Consequential Provisions) Order 2014 will make technical amendments to other legislation as a consequence of the 2014 act, by replacing income payment orders with debtor contribution orders and making changes to the provisions on debtor's discharge.

I will make two general points. The first is about timings and consultation. I have heard some stakeholder views that we have not consulted properly and that we have rushed through the regulations. I am surprised by such comments, in particular those from the Institute of Chartered Accountants of Scotland. ICAS is the body that the AIB has consulted most. It is represented on the CFT working group, the business DAS working group and the notes for guidance working group. it has also seen every draft set of regulations that we have been able to share.

My second point is about the guidance. There are three layers to a regulatory regime—primary legislation, secondary legislation and guidance. Each is, perhaps, as important as the other. Work on drafting the necessary guidance is well under way, and I have heard some positive feedback on the collaborative way that that is progressing.

We will continue to work in partnership with stakeholders and to listen to their concerns as we develop our guidance and operational processes. For example, we have again heard representations from the Institute of Chartered Accountants of Scotland and R3 that it would be helpful to involve external people in the new review process. I say now that, if that will best serve the interests of openness and transparency, I am happy to agree to that and to create a role for independent experts in the final review process that will be rolled out in April.

I hope that that demonstrates that neither our minds nor our doors are closed to stakeholders' views. We will continue to engage and listen. I am happy to take questions and, given the complexity of some of the instruments, my officials also stand ready to answer the really hard questions.

The Convener: Before members ask about detailed issues, I will pick up on your general observation about consultation. The committee has had submissions from ICAS, R3, the Law Society of Scotland and StepChange Debt Charity Scotland. They all have a common theme, which is concern about the rapid process for producing the instruments and the lack of proper consultation on the detail.

All the submissions make similar points about the manner in which consultation was conducted. Stakeholder events were held, but it was felt that, even when stakeholder opinions had general support, those opinions were not reflected in the regulations as they are finally drafted. Detailed concerns about some of the measures remain. I heard what you said, but do you appreciate that stakeholders have quite a lot of concern about the manner in which the instruments have been produced?

Fergus Ewing: I understand that stakeholders have concerns. We work extremely closely with them, as the committee will be aware from our extensive work together on such matters in the past three years. We are always keen to consult, share views and listen. However, we must make decisions and implement acts of Parliament. We pass the law, which is there for a purpose.

The common financial tool will end the disparity of having different measures for assessing the contributions that debtors should pay from their income. It is ludicrous that we in Scotland have different systems for calculating contributions from income, which leads inevitably to disparities and discrimination. The Parliament's policy is to get on with implementing a new system that is fairer to debtors. That was manifest in the discussions in Parliament.

I will take each point in turn, because I am not satisfied that the criticisms that we have heard have substance. I have gone to some lengths personally to study the precise criticisms from stakeholders, including StepChange, which does a terrific amount of good work to help tens of thousands of debtors and whose views plainly come from the coalface and deserve to be taken seriously.

The AIB consulted extensively on the development of the instruments. It convened the CFT working group, the business DAS working group and the notes for guidance working group. It is difficult to see how many more working groups could be established. We have had bespoke working groups for each significant area of work.

The AIB also consulted the Office of the Scottish Charity Regulator, the Scottish Civil Justice Council and the Scottish Court Service. It shared drafts of some regulations with members of the working groups and made significant changes as a result of that engagement. I have forgotten the precise details of the examples, but if members wish to know more, I am sure that we can demonstrate some of the changes—I referred to one in my opening comments.

The AIB held a series of stakeholder events—two were in Glasgow, one was in Edinburgh and one was in Inverness. It is important to note that attendees at the events were entirely free to ask whatever they wanted. The stakeholder events significantly influenced our drafting approach.

I am happy to do my best to answer any points of detail, but I think that the concerns that have been expressed by the stakeholders are, perhaps, due to the fact that, like us, they are concerned to ensure that we all do our best for people who are in debt, and that we balance their interests with the rights of creditors.

The Institute of Chartered Accountants of Scotland, R3, StepChange, Citizens Advice Scotland and others care a lot about what they do. We respect that. They have a vital role to play, and we work closely with them and treat their views with respect. However, at the end of the day, we are the Government and we must decide. We take the responsibility for that.

Dennis Robertson (Aberdeenshire West) (SNP): Good morning, minister. CAS has expressed concerns about the effect of regulation 4 of the draft Bankruptcy (Money Advice and Deduction from Income etc) (Scotland) Regulations 2014 on the accreditation of money advisers. There is a concern about whether advisers will be able to do what is asked of them by way of gathering information that is to be kept for two years, given the chaotic lifestyles of some of the people whom they are charged with advising. I understand that that requirement is mandatory. If that is the case, are we making things difficult for advisers? If they fail to meet the requirement, they could be suspended as money advisers. That would have a significant impact on the individuals concerned and perhaps also on organisations.

Fergus Ewing: There are two points. CAS is concerned that the regulations give the AIB powers to revoke or suspend a money adviser's approval, but the AIB would not revoke an adviser's approved status without notification, representation and the right to review that in court. You will recall that we discussed in considering the Bankruptcy and Debt Advice (Scotland) Bill the fact that there must be a right of appeal. There were concerns about processes, and I made the point that there is always a right of appeal or review. That needs to be taken into account when discussing the idea that there is an overprescriptive or draconian power.

On the detail of the evidence, we have been perfectly clear all along that the regulations would be developed on the basis that money advisers should already comply with the existing requirements under the type II Scottish national standards for information and advice providers and in particular the requirement for advisers to collect

"information from client, social security/tax credit sources which enables an accurate, multiple benefit/tax credit check to be done manually or on computer and details kept on file."

Given that, there should be no difficulties, as the evidence-gathering requirements are unlikely to change significantly from current practice.

Regulations 3(3) and 3(4) of the Common Financial Tool etc (Scotland) Regulations 2014 provide for discretion in the consideration of income and expenditure. Regulation 3(11) specifies that those using the common financial tool must have regard to guidance issued by the AIB on matters relating to

"the treatment of types of income and expenditure ... how income and expenditure are to be verified by the money adviser and the trustee; and ... the conduct of money advisers in carrying out their functions".

Discretion is built in and the powers of suspension are subject to a right of review. The powers would of course never be exercised lightly. Such matters are extremely serious. Some of these matters are extremely technical, for which I apologise, but they have been considered in detail and dealt with in what I think is a satisfactory and fair fashion.

Dennis Robertson: I take it that you are satisfied with the procedure that is in place in relation to gathering particular information. There are many routes for collecting the information. However, people's chaotic lifestyles could create a problem with gathering that information. If the requirement is mandatory, that could put the money adviser in a difficult position. Are you satisfied that there is enough flexibility to enable someone to say that everything that could be done to get the information has been done, so they are satisfied?

09:30

Fergus Ewing: Yes—I am so satisfied. Flexibility is built in and the issues are not new. Mr Robertson is correct to argue that it can be extremely difficult to obtain evidence of income and expenditure from those who might have chaotic lifestyles, for example. Those are practical difficulties. Money advisers who are involved in doing the work are well acquainted with the difficulties. That has always been a practical matter to deal with and people will continue to deal with it with the required flexibility.

Chic Brodie: I will follow that up. A question was raised about the implications of compulsory money advice for the free money advice sector and it was agreed that the Government would conduct research into that. What has been the outcome of that research?

Given the flexibility that is needed and the complications of collating information, how do you intend to control—that word is in inverted commas—the free money advice sector? What research has been done and what has been the outcome?

Fergus Ewing: Will you clarify what research you mean?

Chic Brodie: I am talking about the impact of compulsory money advice on the free money advice sector.

Fergus Ewing: I am advised that the Accountant in Bankruptcy, on behalf of the Scottish Government and in conjunction with members of the money advice sector, will develop a research framework that will allow the Scottish Government to monitor the new legislation's impact. Once the findings of that research have been reviewed, the Scottish Government will consider whether any changes to the legislation or associated guidance are necessary.

Chic Brodie: You are saying that the research will be conducted. I can only assume that it has not been started and that, when the guidelines are issued in December, we might be missing that important factor.

Fergus Ewing: Maybe I am misunderstanding the member's question. Because we are six months from the implementation of the new provisions, by definition, there can be no analysis of how they are performing. We are working extremely hard to prepare the way for the regulations that are before the committee and for the proposed guidance, which will be shared with stakeholders as soon as possible—some of it will be shared later this month. However, the new provisions are not yet in place, so no assessment or research can be carried out on how they are operating. We will look at that carefully after the provisions have come into force and the system has come into effect.

I have every confidence that the Accountant in Bankruptcy will perform its functions in respect of the implementation of the BADAS bill, as it is known on the street, just as effectively and competently as it performs all its other functions. We in Scotland are extremely fortunate to have in the Accountant in Bankruptcy a highly motivated and effective group of public servants who do a terrific job in handling difficult and sensitive matters.

Richard Baker (North East Scotland) (Lab): I acknowledge the broad support for the general direction of policy. You mentioned the ICAS submission. ICAS says that it has taken part in the working groups, whose establishment I welcome, but that the comments that have been made at the consultation events and through the working groups have not been acknowledged or properly addressed by the Scottish Government's regulations. ICAS feels that the regulations will make the debt arrangement scheme a less attractive debt management solution, which seems to be counter to where we should be going with the generally agreed policy. ICAS recommends that the committee should consider recommending rejection of all the regulations.

I have also looked at the StepChange submission, which you mentioned. StepChange asks for

"a more realistic timetable for implementation"

as well as

"(a) proper consultation with the sector on the detailed guidance, and not just within the Working Group, and (b) amended regulations to be drafted."

Would you consider that?

Fergus Ewing: We think that it is important that the committee recommends approval of the regulations today, which is why I am here. If we do not agree to that today, we will not be able to get on with providing the benefits of the changes that we need to make.

On your general point about ICAS and, I think, other stakeholders, it is simply not the case that the AIB has ignored the working groups' views. The AIB made a number of substantive changes to draft regulations on the basis of the working groups' feedback. It listened and it responded. I have a list of eight specific examples, which I could share with the committee, but we should perhaps not take up time now with ultra-technical matters. The eight changes were adopted in response to criticisms that stakeholders put to the AIB, so the general charge is not valid.

The AIB has worked extremely hard to provide as much time as possible for training on and familiarisation with the changes before they are brought into effect. The regulations were laid in August so that the sector would have early sight of them. Regulations are not always consulted on in this way, and I hope that the early laying of the regulations will be taken as a sign of the good faith of everyone involved. The AIB has allowed more than seven months between the laying of the regulations and their coming into force.

In comparison, the DAS regulations in 2011 came into effect only four months after they were laid. The sector has almost twice as long to familiarise itself with the changes that we are considering today, many of which are technical and clerical and are to do with forms and so on, which are completed electronically in any event. Seven months seems to be a reasonable time to prepare, so I feel that perhaps the critics do protest too much.

Richard Baker: ICAS's point is that, if the regulations go through unaltered, debt arrangement might become a less attractive option, which cannot be what the Scottish Government wants. What detriment would there be in taking on board the practical suggestions that ICAS said would make a difference to the scheme and in laying amended regulations? Do you not agree that any changes should be made?

Fergus Ewing: I have just consulted the officials. I will bring in Claire Orr, because I do not think that you have specified why ICAS thinks that DAS will not work effectively.

Richard Baker: That is in the ICAS submission. ICAS sets out a number of concerns—

Fergus Ewing: You have not set out the basis of ICAS's argument—

Richard Baker: ICAS has.

Fergus Ewing: Perhaps Claire Orr will do so and explain why we do not accept the argument, to help us to get to the nub of the matter.

Claire Orr (Accountant in Bankruptcy): One of the issues is the five-year limit on the repayment of the debt, which we deem to be appropriate. We should bear it in mind that this is not an insolvency solution and that there is a requirement to reach agreement with creditors about what is reasonable, so we think that it is fair to set a limit on the time that is available for repayment. That is probably the main issue.

Another issue concerns all debts having to go into the debt payment programme. We are changing the approach for all debt arrangement schemes to ensure by including all debts that there is no unfair preference of any creditor; our caveat is that a debt is included only when it is constituted as being due.

Our approach provides sufficient flexibility. If there was an arrangement with suppliers, for example, to continue to supply stock, that would continue to be possible, because the debt would not have been called up as being due to be paid, so that arrangement could be excluded. By making such changes, we have addressed the main points that ICAS suggests make the scheme an unattractive option.

As a solution, the current debt arrangement scheme had a slow start. In the first couple of years of its operation, the numbers were not significant. If we look now at the growth of that solution, we see that there are more than 4,500 applications a year. It is growing year on year, which is what we might expect to happen with the new solution as well.

Richard Baker: There is clearly disagreement between ICAS and ministers over the impact of the regulations. In its submission—which you must have received, minister—ICAS describes concerns about what it calls the

"Inappropriate regulation of money advisers",

which relates to Mr Robertson's earlier points. I welcome the fact that you will consult stakeholders after the regulations are passed—or otherwise. If the motions are agreed to today, do you have any intention of amending the regulations further in the light of that consultation?

Fergus Ewing: We will keep matters closely under review. However, we believe that we have listened carefully to the points that stakeholders have made. I have a lot of detail about points made by ICAS and the responses thereto. We think that the regulations as proposed will do the job.

I remind Mr Baker that DAS, to which he has referred, is one of the most effective tools that there has been in debt management. The process of encouraging the payment of debt by ordinary individuals has been a great success story in Scotland. Our friends south of the border, peering over Hadrian's wall, have looked with some envy at how well it has done. It was Mr Baker's party, when it was in administration, that introduced DAS. We have developed and worked on it to improve it. About a decade of performance has seen it work extremely well.

There is no reason to suspect that the success of DAS will be impeded in any way by the regulations—quite the opposite. The common financial tool will introduce fairness and consistency, which have been lacking in the current system, with a plethora of options.

I take Mr Baker's point seriously. We will continue to listen carefully to ICAS, which will continue to serve on the various working groups to which I have referred. As the convener will know from insolvency work in the past, the guidance deals with nitty-gritty, practical points and always has done. In introducing and adjusting the guidance, we will listen extremely carefully to the opinions of ICAS and R3 on behalf of insolvency practitioners in Scotland—and rightly so.

Mike MacKenzie (Highlands and Islands) (SNP): Good morning, minister. One thing that impressed the committee during its scrutiny of the Bankruptcy and Debt Advice (Scotland) Bill was the flexibility that is built into the common financial tool to take account of different circumstances. However, there is some merit in the concern expressed by StepChange and Citizens Advice Scotland about whether the tool has sufficient flexibility to allow them to continue to encourage their clients to build up small amounts of savings in order to provide resilience and enable clients to weather the financial storms that they might face, while maintaining payments and so on. Can you reassure us that the tool is sufficiently flexible to ensure good practice and allow StepChange and CAS to encourage their clients to save a small amount?

09:45

Fergus Ewing: Yes—I can. Not for the first time, Mr MacKenzie gets to the heart of matters. Discretion and flexibility are built in. I looked carefully at the StepChange criticisms. I obtained a detailed response from officials and I obtained supplementary responses to a set of questions specifically to identify precisely where the flexibility and latitude are built in.

For the record, in relation to details of the evidence required, regulations 3(3) and 3(4) of the common financial tool regulations provide specifically for discretion to be exercised in the consideration of income and expenditure. Regulation 3(11) specifies that those who use the CFT

"must have regard to guidance issued by the Accountant in Bankruptcy".

On the prescriptiveness of triggers, which StepChange and ICAS raised in relation to the effect of regulation 3(2), the response is that regulation 3(3) provides for expenditure that exceeds the trigger figures

"if satisfied that the expenditure is reasonable."

Those are a few examples of specific provision that the regulations make for latitude, flexibility and reasonableness. It is correct that they do so, because it is impossible to have regulations that are entirely prescriptive and which allow no flexibility, given how many different situations occur in real life.

I am pleased that Mr MacKenzie has raised this important issue, and I am satisfied that sufficient discretion, latitude and flexibility are built into the regulations to allow money advisers to do their job properly and fairly. It is not us, the money advisers or ICAS that we are concerned about; our concern is that the people involved get treated fairly. The common financial tool's aim is to ensure that people are required not to pay more than is fair or reasonable but to pay a sufficient sum towards their debts, according to their means.

I thank Mr MacKenzie for asking his question. I believe that the regulations provide the necessary flexibility.

Alison Johnstone (Lothian) (Green): Regulation 8 of the money advice and deduction from income regulations applies to deductions from debtors' earnings. Is it the case that the regulations allow for deductions from earnings after two payments have been missed without the debtor having to be informed in writing? In its submission, Citizens Advice Scotland mentions the example of an unexpected family death, which could involve funeral costs. In such circumstances, for a debtor to end up facing earnings deductions without his or her knowledge does not seem characteristic of a system that we want to be seen as a financial health service.

Fergus Ewing: Could you repeat that last bit, please?

Alison Johnstone: If someone's earnings are reduced through an unexpected deduction, of which they have not been informed in writing, that could put them in a very serious position. That seems to be at odds with the drive to create a financial health service.

Fergus Ewing: I think that we debated what a reasonable system would be during the passage of the primary legislation, and I thought that the solution that we came up with was reasonable. As far as the specific provision to which you refer is concerned, I will ask Claire Orr to address the points that have been made.

Claire Orr: We will be very happy to build into the guidance reinforcement of the safeguards that are in the legislation, which provide for such deductions to be made only after two payments have been missed.

We looked at what is happening with protected trust deeds, in relation to which the ability to deduct directly from earnings already exists. The practice is that that is happening at the outset with the debtor's consent, which suggests that debtors find it helpful for that arrangement to be put in place, because it means that they no longer have to worry about making on-going arrangements for payment. However, we understand the point that CAS makes, and we will be very happy to ensure that the guidance includes appropriate procedures for such situations.

Alison Johnstone: Thank you.

Fergus Ewing: We will write to the committee on that, convener. It is a very fair point, and I am concerned to ensure that we get things absolutely correct. We will do and, to ensure that that is the case, we will write to the committee after we have made progress on the guidance.

Dennis Robertson: I understand from what you have said this morning, minister, that you will take on board some of the remaining concerns about the guidance, as will be reflected through a continuing relationship with the various working groups, and that that will eventually be reflected in the guidance once you have done that. Matters such as the flexibility of the financial tool, to which Mr MacKenzie referred, will be implicit in the guidance, will they?

Fergus Ewing: Yes, I can give you that assurance. The general response is that a draft of the guidance document relating to the common financial tool will be shared with stakeholders this month.

I was looking for the precise document setting out StepChange's concerns, which I think alluded to the organisation getting sight of the document in December, but I queried that, because I thought that a little more notice would be required. I was advised that a draft of the guidance document will be shared with the common financial tool working group, of which StepChange is a member, this month. That will allow time for discussion.

Given my interest in ensuring that we get the guidance correct, I will personally take a close interest in the matter. If members so wish, I am happy to undertake to report back on the issues that members have raised in the course of today's proceedings, which we take very seriously.

There will be a lot of time for joint working in relation to the common financial tool, because it is absolutely essential that the guidance is correct.

Dennis Robertson: Thank you.

Chic Brodie: First, I apologise for my coughing interludes.

This is perhaps a question not for you, minister, but for one of your officials. We were advised in our briefing—in fact, this relates to an earlier conversation about the proposed legislation—that the electronic application would reduce the administrative burden, because the user would visit only pages that were appropriate to the individual customer, based on whatever information was provided.

The implication of our briefing is that there have not been sufficient time and resources for training before implementation. Is that the case? If so, how do we intend to cover the whole need for training as a catch-up?

Fergus Ewing: The AIB has worked pretty hard to provide as much time as possible for training and familiarisation. I have alluded to the fact that the regulations were laid in August in order to allow the sector early sight of them. I have also alluded to the fact that it will be seven months before they come into force.

The AIB is developing a training programme, which will include awareness sessions, to be delivered at various locations throughout Scotland. The AIB will upload training videos and instructions on its website, and it is building a web-based training system, which will allow users to log on from their offices or homes to try it out.

The AIB will be training business champions from among its own staff, who will be able to visit individual offices to conduct training sessions if required. Therefore, the AIB is fairly well advanced in that regard.

The concern that you express is a perfectly legitimate one, but I am satisfied that the AIB, in accordance with its customary practice, is focusing clearly and well on the necessity of providing the tools that are required for practitioners to continue to do their job professionally.

Chic Brodie: Thank you.

The Convener: We had a report from the Delegated Powers and Law Reform Committee in relation to two of the negative instruments before us today—the Bankruptcy (Scotland) Regulations 2014 (SSI 2014/225) and the Bankruptcy Fees (Scotland) Regulations 2014 (SSI 2014/227). It drew to our attention a number of drafting errors in both those instruments and failures to follow normal drafting practice. Minister, do you intend to resolve those errors by bringing forward amended instruments in due course?

Fergus Ewing: I am happy to do as the Delegated Powers and Law Reform Committee asked on Tuesday and to make the further amendments to the regulations that the committee asked for last week. I stress that that committee did not consider the points to be defective drafting, but it noted that the changes would provide better clarity and consistency. No adverse consequences would have arisen from any of those points, but the necessary amendments to deal with them will be brought forward.

The Convener: If there are no other points, we can move on to item 4—the formal debate on the affirmative instruments before us. I invite the minister to move the motions on the four instruments formally.

Motions moved,

S4M-11068—That the Economy, Energy and Tourism Committee recommends that the Bankruptcy and Debt Advice (Scotland) Act 2014 (Consequential Provisions) Order 2014 [draft] be approved.

S4M-11069—That the Economy, Energy and Tourism Committee recommends that the Bankruptcy (Money Advice and Deduction from Income etc) (Scotland) Regulations 2014 [draft] be approved.

S4M-11070—That the Economy, Energy and Tourism Committee recommends that the Common Financial Tool etc (Scotland) Regulations 2014 [draft] be approved.

S4M-11071—That the Economy, Energy and Tourism Committee recommends that the Debt Arrangement

Scheme (Scotland) Amendment Regulations 2014 [draft] be approved.—[*Fergus Ewing*.]

The Convener: Do any members wish to speak on the motions?

Mike MacKenzie: On reading the written submissions from the various interested parties, I was struck by the fact that a number of them did not deal with the instruments that are before us today but revisited a number of issues that were dealt with in our scrutiny of the bill. Although it was good to be reminded of some of that scrutiny, a lot of what the submissions were concerned about is outwith the scope of what we are talking about today.

It is worth the committee reminding ourselves that our feelings about the BADAS bill were benign: we felt that it was a good bill and was well disposed to debtors and to creditors. The AIB has also shown itself to be well disposed to debtors and to creditors. I place on record my thanks to the AIB, because in dealing with some constituents' problems I have found the AIB to be refreshingly helpful and predisposed to helping debtors in difficult situations and exploring innovative ways of doing that. I am assured that the AIB is well disposed, which is not something that we get a proper sense of in some of the written submissions that we have received.

I am particularly struck by the fact that the written submission from ICAS seems to reflect a situation in which people are looking into the shadows and seeing bogeymen and monsters that may not be there. When I read the instruments, I do not see any shadows. I might see one or two grey areas, but those grey areas will be resolved when the guidance is available. I am delighted that the minister has told us this morning that the guidance will be available shortly, and I hope that that will put to rest some of the fears that we have heard from some respondents.

I am pleased by the minister's reassurances this morning. There is an urgency about the matter. We need to get on and implement the regulations sooner rather than later, not least because the UK Government seems to have moved slowly on related matters—in dealing with payday loans, for example. Although the UK Government is finally moving in the right direction, it has taken longer than any of us would have hoped to do that, so there is all the more reason for the Scottish Government to get on and implement the regulations as soon as possible. I urge all members to vote in favour of the motions. Let us ease the burden on debtors and provide a better service for creditors.

Richard Baker: I again acknowledge the broad support for the overall policy direction on the important issue of helping people with serious financial issues.

The minister was right to praise the debt arrangement scheme. That is why it is important that we take seriously the views of ICAS, which, after all, has great expertise in the area and a long history of working with the Scottish Government on it. ICAS says that it fears that the proposals may make the debt arrangement scheme less attractive.

10:00

Mike MacKenzie: Does Richard Baker welcome, as I do, the proposed extension of the debt arrangement scheme to include small businesses and sole traders? Does he think that that is a step in the right direction?

Richard Baker: The point is that ICAS has highlighted in its submission a number of concerns about the regulations, so the committee should take them seriously. A number of the issues that ICAS has raised have also been raised by Citizens Advice Scotland and StepChange Debt Charity. They must be listened to.

I welcome the fact that the minister said that he will engage in further consultation in the event that the regulations are approved. I know that he will do that, and I hope that it is done seriously and that people are not only consulted but listened to and that the concerns that have been expressed are seriously addressed.

However, my fundamental point—this is where I depart from Mr MacKenzie—is that I fail to see what would have been lost by withdrawing the regulations and going into further consultation and dialogue to address the concerns materially so that we do not have concerns raised in submissions to the committee at this point in the process. That would be a better way for the Scottish Government to proceed.

Dennis Robertson: I am reassured by the minister's statement on guidance and his assurance that we will continue to listen to and take on board submissions from all parties. I believe that that has been done throughout the process. Certainly, when the committee took evidence, we looked at the issues thoroughly. Therefore, I am content that the issues that Mr Baker raises can be dealt with through the guidance process. I am content with the reassurance that we have from the minister.

The Convener: For my part, I have some sympathy with Mr Baker's points. The submissions contain strong expressions of concern about the lack of consultation in the preparation of the instruments and the way in which they have been brought forward. The minister should reflect on that.

Fergus Ewing: I am grateful for members' contributions to the debate. Working together with the committee to scrutinise the legislation is an essential part of bringing it forward and the best way to do it.

I reiterate that we will continue to consult all the stakeholders in an extremely detailed fashion. We place on record the fact that we respect and value the work that they all do. We have changed the regulations in a number of ways—I will write to the committee to demonstrate that we have done so on a number of technical matters. We have consulted the stakeholders on the draft regulations and through three working groups. We will produce the guidance in draft, after which the stakeholders will have seven months to consider it. To me, that is the way that we should proceed, and it seems a reasonable performance in relation to fairly technical matters.

I turn to the wider issues that members have raised. I am very grateful for Mr MacKenzie's remarks, and I am sure that Rosemary Winter-Scott will be pleased to hear them. I will make sure that she and her staff, who do an excellent job, are made aware of Mr MacKenzie's recognition of the work that they do.

I hope that the wider sector will also acknowledge the good work that the AIB does. It is time to move forward and recognise that, as Mr MacKenzie rightly says, those public servants are doing a difficult job in highly sensitive cases in an effective way. They are also effective in relation to the financial operation of the AIB, which is an example of sound and effective public administration.

The objections have been overegged slightly by ICAS, and to some extent we are revisiting arguments that were fully debated and discussed during the passage of the legislation. I do not think that that is why we are here today; I do not think that it serves any purpose. Be that as it may, we will continue to listen carefully to what ICAS says and to respond as appropriate.

Over the referendum period, I had the opportunity to have fairly detailed meetings with citizens advice bureaux, and I am hugely impressed with their work to help the people who have the least in society. The problems in relation to benefits are appalling, and the delays in administering benefits, particularly applications for benefits related to disability—delays that are not a result of any failure on the part of public officials in Scotland—are utterly scandalous and causative of very real hardship.

Therefore, these matters are not just words on a page or technical matters; they are extremely important matters for people who face enormous financial hardship, the like of which none of us in this room, I suspect, are familiar with. I am seriously concerned about the administration of benefits payments in Scotland—seriously concerned. It is frankly shambolic and the UK Government must take steps to deal with the situation. I make that point because it is directly related to the issue of debt, and it should be mentioned.

In relation to the purpose of the regulations and the 2014 act, I point out that we want to have a financial health service in Scotland. That is why we are getting on with this work. We want a financial health service so that young people in Scotland can increasingly be more effectively educated about how to manage their money. Then they will not fall prey to the sharks involved in some of the excessive interest that is charged on money-lending activities and payday loans, which for far too long were left almost entirely unregulated.

That is despite the fact that the very first members' business debate that I responded to in this job in 2011 was on payday loans, when Margaret Burgess brought her enormous experience to bear on the topic. It took three years for the obvious steps to be taken, a delay which has seriously exacerbated the problems that money advisers and citizens advice bureaux face. They deal at the sharp end with hugely difficult cases. Many human tragedies underlie all the statistics, so I am very pleased that we are doing something good today. I hope that members will support the regulations.

The Convener: Thank you, minister.

The question is, that motion S4M-11068, in the name of Fergus Ewing, be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Biagi, Marco (Edinburgh Central) (SNP)
Brodie, Chic (South Scotland) (SNP)
Johnstone, Alison (Lothian) (Green)
MacKenzie, Mike (Highlands and Islands) (SNP)
McAlpine, Joan (South Scotland) (SNP)
Robertson, Dennis (Aberdeenshire West) (SNP)

Abstentions

Baker, Richard (North East Scotland) Lab
Fraser, Murdo (Mid Scotland and Fife) (Con)

The Convener: The result of the division is: For 6, Against 0, Abstentions 2.

Motion agreed to,

That the Economy, Energy and Tourism Committee recommends that the Bankruptcy and Debt Advice

(Scotland) Act 2014 (Consequential Provisions) Order 2014 [draft] be approved.

The Convener: The second question is, that motion S4M-11069, in the name of Fergus Ewing, be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Biagi, Marco (Edinburgh Central) (SNP)
Brodie, Chic (South Scotland) (SNP)
Johnstone, Alison (Lothian) (Green)
MacKenzie, Mike (Highlands and Islands) (SNP)
McAlpine, Joan (South Scotland) (SNP)
Robertson, Dennis (Aberdeenshire West) (SNP)

Abstentions

Baker, Richard (North East Scotland) Lab
Fraser, Murdo (Mid Scotland and Fife) (Con)

The Convener: The result of the division is: For 6, Against 0, Abstentions 2.

Motion agreed to,

That the Economy, Energy and Tourism Committee recommends that the Bankruptcy (Money Advice and Deduction from Income etc) (Scotland) Regulations 2014 [draft] be approved.

The Convener: The third question is, that motion S4M-11070, in the name of Fergus Ewing, be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Biagi, Marco (Edinburgh Central) (SNP)
Brodie, Chic (South Scotland) (SNP)
Johnstone, Alison (Lothian) (Green)
MacKenzie, Mike (Highlands and Islands) (SNP)
McAlpine, Joan (South Scotland) (SNP)
Robertson, Dennis (Aberdeenshire West) (SNP)

Abstentions

Baker, Richard (North East Scotland) Lab
Fraser, Murdo (Mid Scotland and Fife) (Con)

The Convener: The result of the division is: For 6, Against 0, Abstentions 2.

Motion agreed to,

That the Economy, Energy and Tourism Committee recommends that the Common Financial Tool etc (Scotland) Regulations 2014 [draft] be approved.

The Convener: The fourth question is, that motion S4M-11071, in the name of Fergus Ewing, be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Biagi, Marco (Edinburgh Central) (SNP)
Brodie, Chic (South Scotland) (SNP)
Johnstone, Alison (Lothian) (Green)
MacKenzie, Mike (Highlands and Islands) (SNP)
McAlpine, Joan (South Scotland) (SNP)
Robertson, Dennis (Aberdeenshire West) (SNP)

Abstentions

Baker, Richard (North East Scotland) Lab
Fraser, Murdo (Mid Scotland and Fife) (Con)

The Convener: The result of the division is: For 6, Against 0, Abstentions 2.

Motion agreed to,

That the Economy, Energy and Tourism Committee recommends that the Debt Arrangement Scheme (Scotland) Amendment Regulations 2014 [draft] be approved.

The Convener: Is the committee content that the convener and clerk will produce a short factual report of the committee's decisions and arrange to have it published?

Members *indicated agreement.*

Bankruptcy (Scotland) Regulations 2014 (SSI 2014/225)

Bankruptcy (Applications and Decisions) (Scotland) Regulations 2014 (SSI 2014/226)

Bankruptcy Fees (Scotland) Regulations 2014 (SSI 2014/227)

The Convener: We move to item 5, which is consideration of three negative instruments.

The minister previously indicated that action will be taken on the drafting issues that were identified by the Delegated Powers and Law Reform Committee in relation to two of the instruments. As members do not have any substantive issues that they want to raise other than that, are members content simply to note the instruments?

Members *indicated agreement.*

The Convener: That concludes item 5. I thank the minister and his officials for their attendance. I suspend the meeting.

10:10

Meeting suspended.

10:18

On resuming—

Draft Budget Scrutiny 2015-16

The Convener: Our next item is our first evidence-taking session in our draft budget scrutiny for 2015-16. This morning, we are joined by Iain McTaggart, general manager and company secretary at the Scottish Council for Development and Industry; James Withers, chief executive of Scotland Food and Drink; Stephen Boyd, assistant secretary of the Scottish Trades Union Congress; and Garry Clark, head of policy and public affairs at the Scottish Chambers of Commerce.

We are in a slightly unusual position in relation to our scrutiny of the draft budget, as it has not yet been published. However, we expect it to be published tomorrow and, because of the way in which the timetables for parliamentary business have worked out, we are starting our scrutiny a little bit early.

I am grateful to our witnesses for coming along this morning. I think that we will allow up to about 90 minutes for this session. I remind everyone to keep questions and answers as short and to the point as possible. That will allow us to get through the topics in the time available.

Because we have quite a large panel this morning, it would be helpful if members could direct their questions to one witness initially. If another witness wants to comment in relation to that question, they should catch my eye and I will bring them in, as time allows.

I will start by putting a question to all our witnesses—first, I will direct it to Iain McTaggart and then I will work my way along. From your perspective, and in view of the sectoral interests that you represent, what are the key features that you would like to see in Mr Swinney's budget tomorrow?

Iain McTaggart (Scottish Council for Development and Industry): SCDI would be most interested in any measures that support sustainable economic growth, which fall into three broad areas: measures that support greater innovation and research and development exploitation in the economy, including the commercialisation of the excellent research that we have in our university base in Scotland; measures on productivity and skills; and measures to support infrastructure and connectivity. On the latter area, we feel that more could be done to support greater connectedness in the economy and with the markets that we are trying to serve. We would welcome measures to support that in relation to aviation services; road and rail links that, for example, better connect Aberdeen to the rest of Scotland; and our links with the key London airports and international hubs in Europe.

James Withers (Scotland Food and Drink): I agree with what Iain McTaggart said, so I will not add anything in terms of cross-sectoral issues. From a food and drink perspective, the model of operation that we have in Scotland is quite neat, and it is starting to be replicated by other countries. We have some good industry leadership, with public sector alignment behind that. All the sectors of the industry—from whisky, red meat, salmon and seafood to bakery and dairy—have agreed on a single growth plan. We have a £16.5 billion target set for 2017 and are clear on what the capability-building areas are in which we need to invest. Those issues are similar to the ones that Iain McTaggart outlined—innovation, collaboration and the skills agenda.

From our perspective, market development is absolutely critical. We think that there is at least £1 billion of growth in food and drink for Scottish companies in the United Kingdom market and about £1.4 billion in international markets. The export agenda, in particular, is a transformational opportunity for food and drink. A new export plan is in place and we have a partnership in which money that is put on the table by industry will be matched by Scottish Development International. We are looking for ministerial support for the delivery of that, which we have in principle.

There is quite a clear framework for where we think that we need to invest money. A huge amount of investment has gone into food and drink capability-building measures in the past few years and it is paying off in the growth that we are seeing. More of the same would be our message.

Stephen Boyd (Scottish Trades Union Congress): Obviously, the STUC is a slightly different organisation from those whose representatives have just spoken. Our interests cover the full gamut of what will be published in the budget tomorrow, but I will try to confine myself to subjects that this committee will be interested in and which I might know something about. In doing so, I am happy to endorse the comments that Iain McTaggart and James Withers made. Clearly, the funding of economic development in Scotland is as much of a priority for the STUC as it is for those other organisations.

We might have a particular perspective on what is happening in the labour market at the moment. Employment is higher than we might have anticipated, given what we have been through in the past few years. However, there has been a historically unprecedented collapse in real wages, so whatever the Scottish Government might be able to do through the budget to support wages in Scotland would be helpful.

Two matters are of interest. First, the white paper contained some very interesting proposals about the management of the labour market. It will be interesting to find out which ones the Scottish Government might want to pursue under the current devolution arrangements. Secondly, in August, the STUC and the Scottish Government jointly published the "Working Together Review: Progressive Workplace Policies in Scotland". That important development requires funding through the budget to make the proposals work. In the grand scheme of things, we are probably talking about very small sums in terms of the Scottish budget, but if unions, employers and Government are to work more closely together to support innovation and higher productivity, some budgets might be appropriate to implement that. That would be our priority.

Garry Clark (Scottish Chambers of Commerce): The Scottish Government's central purpose is to support sustainable economic growth, and we would expect measures that are aimed towards that. At an important time in the economic recovery phase, we are looking at measures that will support business investment and growth in particular. The Government could tackle that in a number of ways, particularly by supporting business-to-business connections. Key areas in that regard are internationalisation, business support and tackling costs.

The business rate is one of the main taxes, although this time around there will be other taxes in the budget. The Government also needs to continue to support the investment that has taken place in our infrastructure, particularly transport infrastructure, over the past few years. The Government has a lot of the big ticket items under its belt; it is time for it to tackle some of the smaller areas that have important impacts on particular local areas across Scotland.

The Convener: James Withers and Garry Clark mentioned internationalisation. The committee is very interested in that issue—in fact, we have signalled that we will be starting an inquiry later in the year into the internationalisation of Scottish business, how we grow the export market and how the Scottish Government and its agencies might assist with that. Are there any specific budget measures that you want to see that would assist with the internationalisation of Scottish business?

Garry Clark: As I said in my introductory comments, I want a focus on the key business-to-business connections, whether that is mutual support for businesses in Scotland or connecting Scotland directly with businesses overseas and making better use of outward and inward trade missions.

When we look at the figures, we find that not enough businesses are exporting. A primary reason that businesses give for that is that they do not believe that their goods, products or services are suitable for the export market. We certainly want to see more business connections in Scotland to help businesses to understand the full potential of what they have to offer and to help them to make the first steps into exporting. There is significant untapped potential in the business community in that regard, particularly in small and medium-sized enterprises.

The Convener: You are talking about allocating more money towards business support and advice.

Garry Clark: That area needs to be a higher priority than it is at the moment. Our members tell us that business-to-business support is often the best kind of support to provide, because they learn by example.

James Withers: The key currency for the food and drink sector when it comes to exporting is confidence, so the issue is how to build that confidence. We have looked at other countries that have traditionally been better than Scotland at exporting food and drink products, such as Ireland, New Zealand and Denmark. A key thing that they do is put what they call feet on the street on the ground in key local markets.

We have an SDI network across 25 to 27 countries around the world. A challenge for SDI is that an individual who is based in a Tokyo office might do food and drink on a Monday, life sciences on a Tuesday, advanced engineering on a Wednesday and so on. We have a lot of generalists out there who do a great job, but we need specialists. The plan that we have developed and put in place will put dedicated food and drink specialists on the ground in those key markets. Our competitor countries have done that for a long time. That approach is critical; it is then a case of supporting companies back home. Inward trade missions are extremely important; in some ways, they are just as valuable as the outward trade missions. However, the issue is what the industry needs to do for itself, which is to do with the collaboration agenda and getting companies to work together.

I cannot speak for other sectors, but a real transformation is starting in our sector. The increased thinking about internationalisation very much changes companies' attitudes towards collaboration, with the result that they cease to see the company round the corner as their competition and, instead, consider their competition to be the company on the other side of the world.

It will be critical for companies to work together and share expertise and knowledge, and any structure that can help to facilitate that will be important. For us, it is a matter of building real, specialised market knowledge on the ground in key markets and then bringing that market knowledge back here.

10:30

Iain McTaggart: I did not mention internationalisation in my opening remarks, because we are here to discuss the budget. I emphasise that internationalisation is one of our key priorities. As regards budget measures, anything in the business support and business growth trajectory that helps to introduce companies to internationalisation principles at an early stage would be welcome.

There is a lot of great work going on to create enhanced collaboration between Government and the private sector through pooling our resources, knowledge and expertise, but that is not being communicated as effectively as it might be. If there is even more intense collaboration between Government and the industry, as has happened in the food and drink sector, there could be some real, tangible benefits to the economy.

The Convener: I remind members that we are here to do budget scrutiny, so we should try to tie our questions as best we can to budgetary and financial issues.

Dennis Robertson: Perhaps Mr Withers can respond to this point first. You quoted some very impressive figures on the potential for sustainable economic growth, with a focus on the export market. Recently, however, there has been a slight decline in whisky sales. There are obviously global pressures to take into account, but how can we utilise Scottish Enterprise or other such resources to deal with some of the factors that might impinge on the success of brand Scotland's export market? After all, that is primarily what we are trying to move towards.

James Withers: There are probably two elements to that, the first of which is about spreading our risk. Although the export figures for food and drink are fantastic—they are up by about 50 per cent since 2007—they mask some real challenges. For a start, the numbers are dominated by whisky. If we consider the markets for food exports, we will see that 80 per cent of our business is in Europe, where countries, notably France and Spain, have been having a tough time over the past few years. We get hit disproportionately by that. We want to move to the whisky model; a third of the industry's business is in Europe, a quarter is in Asia, a fifth is in North America and the rest is spread beautifully across the rest of the world.

Given that one sector—the seafood sector—accounts for half of our food exports, we need to sell a broader range of products in a broader range of markets. How do we do that? We can do it partly through joint industry and Government investment in the key emerging markets and partly through the platform that has been created by the various industries, including whisky. They have good footholds and their selling point is a quality premium product with very simple ingredients, heritage and innovation. Those attributes work very well in other food and drink sectors as well as in tourism and textiles, and developing that brand Scotland approach in a number of different markets will be key.

We will always take short-term hits. For example, the Chinese will decide to ban products on a whim, and the key thing is not to do what we have historically done and put too many eggs in too few baskets. The key concern is to spread the risk by learning from the models used by the whisky industry, which has achieved that aim very well.

Dennis Robertson: I am impressed with your analogy of eggs and baskets for the food and drink sector.

Chic Brodie: He must mean Scotch eggs.

Dennis Robertson: Mr McTaggart, how could we use our resources to tackle some of our connectivity problems? You have mentioned Aberdeen. It is a growth area; for instance, the airport is expanding and you might also be aware of the growth in the harbour area, which will be extremely important for the export market. However, the rail infrastructure around Aberdeen, which could enable other opportunities, is quite awful. Do you envisage the budget providing resources for work in those areas in order to deal with those challenges and create more opportunities?

Iain McTaggart: It is a challenge when there are so many calls on the budget. We need to find consensus on the key priorities for Scotland's economy and to accelerate some of the projects that we have all accepted are important for developing the economy. It would be good if the budget could accelerate the provision and delivery of outcomes such as higher-speed links and better rolling stock, the need for which any commuter who goes up to Aberdeen will be aware of. I accept that that will not be easy, given the competing demands, for example, for better links to the Highlands, the south-west and the Borders, but we must accept that connectivity is a major issue for business in many parts of Scotland.

Dennis Robertson: You mentioned rolling stock, but is the problem not the infrastructure itself?

Iain McTaggart: It is. Focusing initially on that will help to deliver access, and the other factors will follow from that.

Dennis Robertson: Turning again to the challenges facing the food and drink sector, Mr Withers, I know that we have the team Scotland brand and that we are focusing on exports but, as far as the domestic market is concerned, how do we bring people into the sector when there are other opportunities? In the north-east, for example, there are far greater opportunities for work in the energy sector than there are in the food and drink sector, what with the wage structure and so on, and I am sure that Mr Boyd will wish to respond with regard to the opportunities for people in the hospitality sector, where the wages are low. How do we address that issue?

James Withers: It is absolutely a challenge. A teacher of mine once said, “Work hard, or else you’ll end up in that food factory round the corner.”

Dennis Robertson: Unless you own it.

James Withers: Indeed. That tends to help.

There is something of a perception that food and drink is not a destination of first choice, and we need to examine why that is the case. Like many other industries, the food industry needs world-class logistics experts, sustainability experts, Mandarin translators and high-level information technology folk as well as important production-line jobs.

Part of the challenge lies in an issue that the industry itself needs to address of how it gets across to people the perception of food and drink as being one of Scotland’s best-performing sectors that always does very well in difficult times, never mind in a growing economy. Part of it is also about training. To be honest, I do not think that in the food and drink industry there has been a good enough culture of investing in training and skills. That is starting to change with the establishment of the new national Scotland Food & Drink skills academy, which has been set up to encourage companies to think hard about training and skills. The first things that companies cut in a tough year should not be their training or marketing budgets; they are the very things that they need to invest in, and the skills academy has been set up to help companies access the right training and to get training providers to tweak or change their offer to ensure that it is fit for food and drink.

There is increased interest in the food and drink industry, but is the industry where we want it to be? No—but the culture is starting to change. It helps if the industry is successful, which it is at the moment.

Dennis Robertson: Do we necessarily need to put in money, though, in order to raise awareness and enhance opportunities? Surely to ensure that people move into food and drink we should take a step further back and provide opportunities and raise awareness in schools.

James Withers: I completely agree. A lot of work is going on. For example, the new curriculum is embedding food much more in day-to-day learning than has ever been the case, and I should mention a number of other projects such as seafood in schools, the chefs in schools programme and the Scottish Food and Drink Federation’s tasty careers programme. A lot of that work is happening in schools.

You are right to say that that does not necessarily require a slug of public sector funding. What it takes is the various industry and public sector bodies in the area to work together cohesively, and I think that we have started to create that situation.

Dennis Robertson: Mr Boyd might wish to comment on how we engage younger people in certain less attractive sectors, which I guess are also the least well paid.

Stephen Boyd: You mentioned the hospitality and food and drink sectors. To be honest, I think that it is just very difficult to do what you have suggested in hospitality, which for decades now has been operating with the sort of low-skill, low-wage, low-productivity and low-progression equilibrium that it is difficult to break out of. In the first instance, the answer is about where the regulatory floor is set on wages. It is incumbent on me as a trade unionist to say that if, in the longer term, we can extend collective bargaining in the sector, that will improve not just wages but the quality of work and opportunities for progression and training.

The food and drink sector is altogether different and interesting. We have to recognise that employment in some elements is first class. The whisky industry, for example, has a really interesting history of industrial relations. Fifteen or so years ago, there was a real move towards partnership approaches in the sector, and not just in relation to distilling; some of the most interesting developments happened in the lower-pay and lower-skill parts of the sector. It looked at one time as though Diageo’s bottling work was heading to other parts of the Diageo supply chain abroad, but the unions and management, working closely together, completely overhauled the way in which the plants were managed and the way that people worked. In the process, they derived massive productivity benefits and retained in Scotland jobs that, 20 years ago, people thought would no longer be here.

A major challenge for us all is how we extend that practice to other parts of the food and drink sector. We have to recognise the pressures on the supply chain, particularly in large parts of the food production and food processing industry. The supermarkets' purchasing power and their ability to drive a model that is based on point value drive out of the supply chain much of the capacity to invest in skills and to reproduce the skills that the sector needs. Frankly, a different approach to economic development in those sectors is required, but it would probably take a whole committee meeting to discuss that in detail.

Dennis Robertson: I am sure that it would.

The Convener: Mike MacKenzie has a supplementary.

Mike MacKenzie: Yes—it is for Mr Withers, and it is specifically on food and drink. He mentioned the difficulties resulting from the economic difficulties in the European Union. The seafood sector appears to be doing fairly well, but if we took out the farmed salmon statistics, we would find that the rest of the sector is perhaps not doing as well as we imagine. I am particularly concerned about the shellfish sector, a lot of which stems from pretty small businesses. We know that most of our exporting is done by a few big businesses. The shellfish sector is characterised by smaller businesses that primarily export to France and Spain. Is there anything that we can do to help overcome that problem?

James Withers: Yes—that is where the collaborative approach comes in. The SME structure in the food and drink sector is similar to that in most Scottish sectors. About 80 per cent of food and drink businesses in Scotland employ fewer than 10 people. We are a nation of very small businesses.

You are right to say that farmed salmon production is worth about £300 million in exports, and only eight or so companies are involved in that, whereas with inshore fisheries such as shellfish the picture is much more fragmented. We need collaborative approaches, with clusters of companies working together to get into export markets. That works well in other sectors. There is a craft brewers group and a craft distillers group, and our rapeseed oil producers, supported by the public sector, have come together as a group to work collectively and invest in export sales people. That collaborative approach will be critical. There are real opportunities. At the Tokyo seafood show just a few weeks ago, representatives of the shellfish industry were there, looking to get into that market.

The one advantage that smaller companies have in export markets is that, for many international buyers, small is beautiful. There is a great provenance story and those buyers are interested in the family connections. The product is not mass market or mass brand. Although the routes to market for smaller companies are challenging and will need to be overcome with smart collaboration, their opportunity to derive a premium in the marketplace is actually greater than that of some of the bigger brands.

Mike MacKenzie: I absolutely agree that collaboration is the way forward. One difficulty on the ground is that small businesses compete with each other quite aggressively. How do you promote the collaboration that is necessary to get out to the foreign markets among businesses that are so inherently competitive?

10:45

James Withers: My quick answer is that we use examples of where it has worked well. If I take salmon as an example, ignoring the scale of the companies, the eight or nine big salmon farming companies in Scotland are fiercely competitive with each other, but they will collectively invest in getting into the market and raising awareness of Scottish salmon in the Chinese market, which creates interest from buyers. After that, they will compete fiercely for the contracts, but they will work collectively in developing a brand around Scottish salmon.

The whisky industry has been smart in doing that as well. It has the Scotch Whisky Association, which helps it to get into individual markets and protects the regulations. Thereafter, the individual companies and businesses will compete, but there is an area where they can work collectively.

In reality, the competition for a shellfish producer in Scotland is not the guy down the road but the guy on the other side of the world. Our experience is that, the more companies get into international markets and start thinking internationally, the more they re-evaluate who the competition is.

The Convener: Stephen Boyd wants to comment.

Stephen Boyd: It is important to stress that, all round the world, companies that are in fierce competition with each other manage to collaborate on the kind of issues that James Withers has just described. The classic examples are the Italian textiles and ceramics sectors, where there is fierce competition but also close collaboration where there are mutual interests.

Too often, across the UK, we have pursued a competitive model that tends to look with scorn on collaboration. We have to broaden our horizons and recognise that it is the way forward.

Mike MacKenzie: I would be interested to hear feedback on this, but the examples of good collaboration that you used were the whisky industry and salmon farming, which involve big companies. The particular problem seems to be among smaller companies, such as those in the shellfish sector. Maybe it is a feature of small businesses that, within their structures, the guy who is competing aggressively is also the guy who is expected to collaborate. Perhaps there is a separation of the roles in bigger businesses—I do not know.

I believe that there is low-hanging fruit for us to pick here if we can solve those problems.

The Convener: This is an interesting discussion, but we are here to scrutinise the budget and I am slightly nervous that we are wandering a little bit off that topic. However, I will let Mr Withers respond.

Mike MacKenzie: Convener, if you had just allowed me more time, I was going to wind this back into specific budget lines. [*Laughter*.]

James Withers: I will revise the point that I was going to make and try to make it sound as though it is connected to a budget discussion.

There is investment going in. The £1.6 million market-driven supply chains project, funded by Scottish Enterprise and the Scottish Government, is about creating those new collaborative networks, and there are good examples in which small companies are working together.

Often, to get over the competitive tension, we do not do the collaboration within a sector such as the shellfish sector. I will give an example. There is a brand called Taste of Arran, which has brought together 12 producers on the island who produce beer, whisky, jams, chutneys, oatcakes and cheeses. They are now filling a container together, whereas they could not do that individually, or it would be very expensive, and those products are being served in the five-star hotels in Dubai.

Some of the collaboration is about such cross-sectoral stuff, because it will take a while to get over the fact that two shellfish guys will think that they are competing with each other. Instead, let us take shellfish with craft beer and artisan cheeses and do the collective stuff.

That is where the public sector can help, because the catalyst for collaboration often needs to be an honest broker—someone who does not have a vested interest in one of the companies. That is where funding for things such as the market-driven supply chains project is helpful. It brings someone in to be the catalyst to bring companies together. By the time they walk, the companies have recognised the value of the collaboration. That can be a really useful channel of investment.

Mike MacKenzie: That is a great insight. I am grateful to you.

Richard Baker: Like Dennis Robertson, I warmly welcome Mr McTaggart's comments about the importance of connectivity to Aberdeen in relation to the coming budget. They reflect the importance of the oil and gas sector, which is still performing strongly.

That industry has identified skills gaps and it believes that there is potential for more people to find work if they are given the right skills. There was some debate earlier about whether additional public sector funding is needed for that, and there has been keen debate in general about skills investment. For example, there has been debate about further education budgets during previous budget processes. Do you believe that there is a strong case for investment in skills and training to be a priority in the coming budget?

Iain McTaggart: Going back to the issue of collaboration, a measure of investment in raising the visibility of the good practice that already exists, and in the collaborative measures that are under way to address skills problems in particular industries, would be worth while.

A lot of investment is already in place, and a lot of good practice is going on. However, not enough people know about it, so effort should be directed towards raising the awareness and visibility of that good work through communication so that other industries can consider how they might apply similar measures.

Richard Baker: I highlighted the success of the oil and gas industry, which is—like the food and drink industry, as Mr Withers mentioned—very strong in exports. However, our success in exporting seems to be focused in those two areas, and exports are not as strong across the economy as a whole.

My next question is for Mr Boyd. The level of manufacturing exports has declined in recent years. Could the Scottish Government, through its policy or in its coming budget decisions, do more to promote the manufacturing sector? Does it aspire to reverse the decline in exports from our manufacturing sector?

Stephen Boyd: In assessing Scotland's success in manufactured exports, the Scottish budget and where it is spent is not one of the primary factors—we have to be clear about that. There is a huge element of past dependence and decisions that go back decades. We are not now making the stuff that the rest of the world—particularly the emerging markets—wants to buy.

We could argue all day about why that is the case and who is to blame for it, but that is where we are. There have been particular problems in the past few years, as James Withers mentioned. The eurozone, which is a hugely important export market, has been very weak, and that has damaged the export potential of Scotland's businesses.

I make it clear that even if we did more of what we are already doing—a lot of successful activity is supporting Scotland's manufactured exports—and if the Scottish Government did everything that I would want it to do, a successful outcome might well be, as we note in our submission, that we maintain manufactured exports at current levels.

Looking at what is happening round the world, it is clear that there is great uncertainty in key markets, including some of the big emerging markets. We can compare what we are currently making with what the most successful exporting countries are making. Germany, for example, has been very clever. For reasons that go back decades, it is now making the machine tools that China is using to build its economy, which is why it has been so successful in that market. Germany is also benefiting from what is, in effect, a de facto massively undervalued currency. The sterling exchange rate regime will have a far greater bearing on Scottish manufactured exports than Scottish Government policy will.

I will end on a positive note. In the past few months, I have heard time and again in various industry leadership groups and at conferences about the excellent examples of Scottish businesses that have received first-class support from Scottish Enterprise and Scottish Development International to grow their manufactured exports exponentially.

The temptation is always to look for new and different things that we can do. Perhaps we just need to embed all the good stuff that we are already doing and ensure that it is properly and consistently funded as we move forward.

Marco Biagi (Edinburgh Central) (SNP): I wanted to follow up on a topic that Mr McTaggart raised earlier: the nature of research and development, and how we can expand it to meet the needs of the Scottish economy. You picked R and D as one of the three important areas. Can you outline the policy instruments that you would like to see in the budget to bring about the objective of expanding commercial research and development in Scotland?

Iain McTaggart: A number of universities in Scotland are doing excellent work through innovation hubs and clusters of innovation, so budget resources could supplement what is going on in the sector. Again, that would mean coalescing support around things that are already happening, but it would be a catalyst for supporting the longer-term aspirations of some of the on-going work.

Marco Biagi: I might be moving into the territory of bigger questions, but why do you think that Scotland has underperformed in that area? Is it reasonable to expect Scottish budgets to be able to address that in the near future?

Iain McTaggart: I do not know that it is reasonable to expect that. There is a cultural dimension: our views on innovation have perhaps come quite late in the day in the context of international competitiveness, but nevertheless we know that we have the knowledge and expertise to deliver leading-edge technology and manufactured products to the world if we can get it right. Budget principles would not be able to resolve all the expectations in that regard, but they could be useful in providing support and a catalyst for further work in the R and D realm.

Marco Biagi: Do the other witnesses have a view on the provision of research and development support in the budget? If there are no other comments, I will ask one further question on research and development in relation to exports.

It is all very well to talk about supporting universities to spin off commercially; a lot of universities are doing that, and a lot of work has been done in that area in the past decade or so. Scotland's companies have a lot of expertise in key areas such as oil and gas, yet our figures for commercial research and development are not very high—they are among the lowest in the Organisation for Economic Co-operation and Development figures. Is there a problem in that we are not exporting our expertise by winning research contracts abroad? Is that issue separate from what is happening in universities? Could we help through budget measures?

Iain McTaggart: I do not know what evidence there is to support the claim of fragmentation and the idea that all our research expertise is being exported abroad—

Marco Biagi: What I mean is, why are our companies that have expertise not winning research contracts from abroad? We know from the business enterprise research and development expenditure statistics that Scotland is not winning commercial research contracts. I assume that there is only so much that can be done in Scotland, based on our own market. Why is there no export of our expertise through winning contracts abroad? Can we do anything about that? Do you accept that interpretation?

Iain McTaggart: There may be an element of that in the export figures for services from Scotland. The issue is being looked at in more detail year by year. The higher education sector is one of the leading export sectors in services, so we have to look at where R and D sits in relation to the delineation of export figures. I am sure that it would be worth while to pursue that.

Stephen Boyd: In trying to answer that question, I might return to the previous one. Again, that brings us back to the fundamental issue of industrial structure. We are not strong in R and D in various sectors, and that simple truth is not acknowledged often enough.

Our definition of innovation is much too narrow. I think that that is changing, thankfully, but some of the things that we were discussing earlier, such as innovative working practices, which have produced huge dividends in terms of productivity, have generally been viewed as very different from core R and D. However, that innovation is very important and will help companies to become more competitive.

We must recognise that the financial structure across the UK is not kind to innovative companies. We know through research that innovation is penalised—for example, when banks are lending to firms that they understandably see as being riskier, those firms pay a significant penalty.

When we are faced with that picture, it raises the question of where the Scottish budget is best spent. Is it best spent in trying to increase commercial R and D, or should the focus be on sustaining or increasing public R and D while working hard to ensure that it can be spun out as successfully as possible?

We should look at the innovation systems in the most innovative economies. We tend to regard the United States as a model of venture capitalism’s success, but all the enabling technologies for the Apple iPhone were originally publicly funded, as was the Google algorithm. We must recognise and not be bashful about the crucial importance of publicly supported R and D.

11:00

Marco Biagi: If we continue to fund public R and D, do you think that commercial funding will follow?

Stephen Boyd: That is the aspiration. We should not be complacent and assume that it will follow. We have to work hard to ensure that the system as a whole—public and private—works in tandem so that ultimately there is commercial success.

James Withers: Marco Biagi asked about how we consider our R and D knowledge and capability as an export opportunity, which takes us back to Dennis Robertson’s question about brand Scotland. Individual sectors are working hard to get a coherent view of the export opportunity. Food and drink has tried to do that, and tourism is doing it. The next step is to do that in a cross-sectoral way. Export strategies for life sciences, textiles, tourism, and food and drink are very similar, so when we go on a trade mission it should be not a food and drink trade mission but a Scottish trade mission, which includes companies that have an opportunity in the market.

On the question to Iain McTaggart about the future of R and D from an industry perspective, I will make one comment about the principle and two comments that relate to the budget. We need to keep working on getting universities to redefine the word “success”. In a simplistic sense, to an industry body such as Scotland Food and Drink success means not a university getting an article published in an obscure management journal somewhere but translation of knowledge into business impact. Much more weight needs to be given to business impact in the context of funding for universities and other academic institutions. The situation is improving, but there is more to be done.

On the budget, first, we need investment in bridging the gap between business and universities. This is simplistic again, but we should acknowledge that academics and businesses often talk in different languages. That is not always the case, but it is an issue. We need investment in interface, so that there is in effect a translation service between universities that have solutions and businesses that have never thought of asking academia for a solution. Such a service would be able to explain how a solution might be applicable to business.

Secondly, we need to think more carefully about investment in universities and the decision-making process in that regard. The Scottish Further and Higher Education Funding Council recently put £10 million on the table for the creation of innovation centres. I think that three fantastic proposals are going forward. Part of the challenge was that the money could be routed only through universities. The funding council wanted the approach to be industry led, but the reality was that a lot of universities got together to decide what they wanted to do and then phoned industry a week before the deadline to get industry to sign up to their proposals.

How would we change that? Industry and bodies such as those that are represented here could be given more say on the decisions about where money goes and could take a view on whether investment would be relevant from an industry perspective. We would not want the approach to be totally industry led, given that often the industry does not know what it does not know, so we would need the research expertise, but guidance on where university funding goes and what we spend our money on might make things a bit better.

Chic Brodie: Mr Withers mentioned the teaching of Mandarin. Watch this space.

The Convener: That was very intriguing.

Chic Brodie: The intrigue will be resolved shortly.

Two years ago, Scotland had a trade surplus of £2.9 billion. We should not beat ourselves up and say that everything is terrible. I will not comment on the deficit in the rest of the UK, because we are past all that.

I have questions for Iain McTaggart and James Withers about connectivity and the need to export fast, and how that impacts on company costs and cash flow. I had to deal with a situation recently that was caused by the mackerel crisis in Russia, when we had the opportunity to export mackerel to China, flying them out of Prestwick. The view of people who know about exports in that industry suggested that that was not the way to do it, but that the mackerel should instead be put it in containers and taken down to wherever for shipping, which would have taken days or weeks—much longer than if we had flown them out refrigerated to China, where there is a market for the product.

Are we doing enough, or can we do anything within the scope of the budget, to generate a greater incentive for companies and organisations to be a bit more flexible in addressing rapid movement between geographic markets of specific products?

James Withers: I suppose that the quick answer is yes. Connectivity remains hugely important, so a direct freight link between Scotland and Asia would be a big step forward. A number of operators are looking at that, but the economics are challenging. One of the best things that has happened in terms of the export of products to Asia and the middle east is the Emirates Airline connections from Glasgow airport. If any of you have been on the flight from Glasgow to Dubai, you were almost certainly sitting on top of an awful lot of seafood in the hull, which is going out at least two or three times a week. However, going through Dubai adds hours, so a direct connection to Hong Kong would be useful.

One of the challenges with products is whether the temperature should be ambient, refrigerated or chilled. Another challenge is weight. If you are trying to get beer out to Asia, it is difficult to do that on a flight because of the weight, so it is better to ship it. There is also a question about shelf life.

There are challenges with connectivity, but we also need to be fleet of foot and to take up opportunities, so the answer to Mr Brodie's question is yes. The mackerel situation was difficult for everyone to get their heads around quickly, because the market was suddenly closed and we were looking for new outlets for £25 million worth of product very quickly, but we do not have in Scotland the suite of options that we could do with in the future.

Iain McTaggart: As James Withers says, it is a question of economics. There have been attempts in the past, particularly in the food and drink sector, in which there are opportunities for increasing volumes, to bring economies of scale back into the picture, to get clusters of companies who are approaching the same markets to collaborate and to ship higher volumes at more cost-effective prices, thus saving money for the companies involved. It is a challenge, though, because there are—

Chic Brodie: I am sorry to interrupt, but I want to ask about that. Do you believe that the Government economic agencies are doing enough to support that consolidation and are attacking the various marketplaces to which we could ship directly out of Scotland?

Iain McTaggart: To be honest, I am not aware of a great amount of such activity being led by Government agencies. I do not know whether that is seen as a priority, or whether the Government thinks that industry should do it for itself.

Garry Clark: I am not aware of any specific issues with Government support in that regard, but I think that Chic Brodie is right to highlight the challenges that exist in trying to get goods to market, and the more general importance of connectivity. If we are to get more Scottish businesses exporting, there are a number of approaches that can be taken. The personal approach involves businesses dealing with businesses, either collaboratively within Scotland or internationally, and ensuring that they have the right links in place to allow them to get goods to market. There are issues over air freight transport, relocation of containers, and so on, which all present challenges.

On whether the Government can do something about that in the budget, it could probably be afforded higher priority, but I do not know what specific measures would need to be put in place in this year's budget to allow that to happen.

Chic Brodie: It is instructive that we have got 52 minutes into the session before currency is mentioned. Currency obviously, has an effect.

Stephen Boyd mentioned Germany. Its export success is not just down to currency. It has the Mittelstand model, under which its Government encourages companies to focus on one product and to spread that product across as many markets as they can. Is there anything the Scottish Government could do in the budget to encourage such activity? For example, here small exporters have a very geographically-based focus as opposed to their looking at the product and product diversity.

Stephen Boyd: We have been discussing the Mittelstand with the First Minister and Mr Swinney for a number of years. We have looked at a range of issues on which German companies do better than their Scottish counterparts. Under that system, firms give priority to working with the range of their stakeholders and the relationship between the firm and their funders is so different from what you have over here. The priority that is placed on vocational skills training is absolutely fundamental to the productivity and success of German firms.

The exchange rate is very important. The euro has been massive for Germany. You also must cross off a number of issues that are fundamentally attributable to German culture that we will never replicate. Frankly, we have been trying to do that for an awful long time, particularly in relation to vocational skills training. The early Tony Blair Government tried to replicate the German vocational skills system; those attempts were all disastrous because German employers feel an obligation to train young people in a way that Scottish employers do not. Although it is extremely important that we look at Germany and other nations to see what we can learn from them, I am sceptical about the prospects for developing a Scottish Mittelstand in the near future.

On the Scottish budget, I find it difficult to put my finger on specific funding mechanisms that would help to quicken the journey towards the Mittelstand model. We are doing most of what we should be doing and we are doing it reasonably well. A lot of the work that is taking place under the industry leadership groups—James Withers mentioned the food and drink sector, but it also applies to other sectors—is helping to establish collaboration and to improve relationships between stakeholders, but long-term work is needed and it is important that we stick to that. Where Government funding is needed, those areas must be funded. However, we must be realistic about moving towards the German model anytime soon.

Chic Brodie: We had a round-table meeting recently at which we talked about social enterprises. Although they are crucial as far as the economy is concerned, there are disparate means of funding them. Given the rapid growth of social enterprises—that is not true only in the internal market; some are exporting knowledge, for example—how might the budget address that growth and the sector's potential?

Stephen Boyd: I find it difficult to answer that general question. We have a huge variety of social enterprises out there. They should be pretty much supported in the same way as private firms. Ultimately, if there is to be a payback to Scottish society or the economy, they should be funded to do what they are trying to do because they are not going to be able to fund themselves. However, trying to identify general mechanisms for all social enterprises is tremendously difficult.

Chic Brodie: Thank you.

The Convener: I want to follow up the previous question. When we take evidence from the enterprise agencies we hear a lot about their support for account-managed companies. Is enough being done to support other non-account-managed enterprises? We will start with Garry Clark.

Garry Clark: More could be done to focus on such businesses. Chambers of commerce across Scotland are directly supporting businesses in a number of ways, partly with Government support. For example, business mentoring Scotland has engaged more than 8,000 businesses across Scotland to assist them in moving forward and growing.

Last year, we achieved a gross value added increase of about £30 million for just under 1,000 businesses. That successful model is assisting a wide range of businesses; it reaches social enterprises, which Chic Brodie mentioned, and it is not restricted to one type of business.

11:15

Recently, I spoke to a chap from Dumfries—a farmer who invented an attachment to hold a can of paint at the top of a ladder. He thought that it was great and showed it to a few friends. When he came to business mentoring Scotland, he got a mentor who put him in touch that day with someone who has experience in internationalising a product. He is now exporting to Australia.

The system works and reaches a huge number of businesses. We have engaged with 8,000 businesses through that one mentoring arm. There is room for that in the marketplace and room for it to extend, because the demand for it is clear. That is about businesses helping other businesses.

The Convener: The chambers of commerce are running that service, but is there a gap that the budget could fill?

Garry Clark: The business mentoring project is supported by the budget through Scottish Enterprise. If we had more resources to provide free mentoring across the country, we could engage more businesses.

Stephen Boyd: We must kill the notion that the enterprise networks engage only with account-managed companies and nobody else. Too many people believe that that is the case.

Last week, I was at the Highland economic forum, where Highlands and Islands Enterprise gave a presentation on the fantastic work that it has done to engage small businesses in social media. I understand that the initiative started in Cairngorms national park and has spread to all parts of the Highlands and Islands. Given the locations of companies in that area, being able to use social media well is tremendously important. That important work involved about 100 seminars last year with a huge variety of very small businesses.

It is important to stress that Scotland has a long tail of very small companies that lack the capacity and the ambition to grow. It would be inappropriate for the networks to spend time with those companies in the way that they do with account-managed firms. If we all accepted such simple truths, the debate about what the networks do and how they might improve—of course they can improve what they do—would be much more mature and effective.

James Withers: One issue is how we define who and what should be account managed. It makes sense to have a framework that involves growth aspirations and turnover, but some of the growth potential comes from the long tail that Stephen Boyd talked about and through collaboration—I am sorry to mention that again and sound like a stuck record. A group of companies could collectively have a shared ambition with shared potential growth. We should think about how we can account manage such groups, as well as individual companies.

The responsibility sits not just with the enterprise agencies but with all supporting organisations—including the four that are represented today—and academic institutes, in order to ensure that account-managed companies have a good broad view of the available support. We can deliver great support through Scottish Enterprise, but there is a world of support that it does not deliver. Account managers are often the front face of the public sector to companies that have growth aspirations. It is important that they have a view of the wider spectrum of support beyond what the enterprise companies deliver.

Chic Brodie: What is your view of the account managers—the "consultants"—who advise companies? In general, the people who manage major accounts are not mentors but consultants and advisers. Are they qualified? I refer not to individual qualifications but to the sufficiency of the qualification process. We have talked about exports, on which there is quite a bit of expenditure, which comes back to the budget. Are account managers geared up for that? That is a general question; if you cannot answer it, do not do so. Are the people who are leading the charge sufficiently aware of export markets?

James Withers: The short answer is yes. There is sometimes an issue around use of consultants. There might be a framework of consultants that could be drawn down by an enterprise agency to plug into a business and sometimes the decision on which consultant to use can still be driven by price rather than quality. It is not a fundamental flaw in the system, but there have been cases in which that has happened.

There are roughly 200 account-managed companies in the food and drink sector; about 20 of those have dedicated food and drink account managers, which helps the account manager to understand that sector. That is a really good framework.

Stephen Boyd mentioned "the long tail" of small companies. As he said, some of the lack of growth is about lack of ambition; we will leave them be. However, industry bodies have to step up to the mark to help to support some of the companies in that long tail which, ultimately, is the pipeline for future account-managed companies. The structure is pretty good but there can be an issue around consultants.

Dennis Robertson: Mr Clark and Mr McTaggart have used the word "challenge" a few times. Are the challenges opportunities to consider how we approach those challenges—for instance in relation to connectivity? If we try to repair some of the aspects within the connectivity challenge, we are creating jobs. Do you see us using the budget framework to try to address some of the challenges that you have mentioned, and using that as an opportunity to drive forward the economy?

Garry Clark: Yes; for every challenge, there is an opportunity.

Dennis Robertson: You did not say so, however. That is my point. We just heard about the challenges.

Garry Clark: On connectivity, one issue that has been raised with us by the network has been very pertinent over recent weeks—the A9 north of Inverness, in particular Berriedale Braes, which the Scottish Government has a plan to address over a number of years. However, it is one of the key connections to a very important part of our country and our economy. There is an opportunity, in addressing that challenge, to make the most of what Caithness has to offer, because all the necessary bits are in place. That part of the world has some very good businesses—large and small—operating internationally. It is part of the trunk-road network, it has an airport, it has ports and it has rail connection. However, each of those is extremely fragile—especially the road network. If we are to support the growth that is happening in that area and which has the potential to go further, then yes—there is an opportunity there. If we were to address that one small piece of road, which would probably cost less than £10 million, we could open up economic opportunity in that whole corner of Scotland.

Iain McTaggart: I endorse what Garry Clark has said: the opportunities are there. There are conflicting pressures on budgets, but the operating environment that any business finds itself in can enhance or detract from its opportunities as a business. Such infrastructure issues will to some extent dictate how competitive the companies can be in the geography in which they find themselves.

Joan McAlpine (South Scotland) (SNP): To continue on that theme, the focus on growth to generate more growth can also be applied geographically in the way that money is spent via the budget. I am a South Scotland MSP and I am based in the south-west, which is not a high-growth area compared with some of the other areas that we have discussed, such as the north-east.

If your strategy is based on investing in growth, what happens to the parts of the country—such as the part that I am based in—that are not high-growth areas at the moment? For example, you could improve the infrastructure links to the south-west in the hope that it would generate new growth in the future. Is there a difficulty in doing that, given how things are structured at the moment?

Garry Clark: Any budget—particularly any transport budget—that looks at connectivity across the country will clearly be geared towards delivering the biggest bang for the buck. That said, in recent years, there has been a strong focus on filling in the gaps in the central Scotland networks, with the electrification of the rail system, the completion of the M8, M80 and M74 and so on. Those networks are essential to making Scotland tick. However, the focus has to move on to the more regional aspects.

Aberdeen, which has been mentioned, is an economic hub, yet in terms of the rail network, it has only single-track rail lines connecting it to Edinburgh and Glasgow, and there is a single-track stretch of line on the route from Aberdeen to Inverness. Similarly, there are stretches of single-track line between Inverness and the central belt. There are also well-known infrastructure issues around the A9. Issues on the part leading from the central belt to Inverness are being addressed over a long period of time, but relatively small pieces of work to the north of Inverness would open up the economy of those areas.

The south-west has clear strengths in its tourism sector in particular, but better connectivity would certainly open up the area's potential as a tourist destination. It is already strong, but it could be a lot stronger if it was easier for people to access. There is the spine of the M74 going down, but when people come off that and go towards Dumfries and Galloway, it is difficult to access those areas. Improvements could be made in that regard to develop the local economy.

Hitherto, as I said, there has been a necessary focus on the central belt, but there is an opportunity to spread that out.

Stephen Boyd: I think that this is more an issue of Scottish Government strategy than one of how the networks go about their business. At the moment, we have a key sector-led strategy that is pretty much blind to the spatial growth issues that you described in your question. Ultimately, it will need to be supplemented by an approach that considers the goods and services that are produced and consumed by everybody on a daily basis, how they are produced and disseminated and how, through various ways of social franchising, the production of those goods and services might work better for local communities. If you want to hear more about that, come to our conference next Wednesday, when there will be a major presentation on it.

Around this time last year, I was at a meeting in Cumnock that followed the collapse of the Scottish surface mining sector. There was a presentation on a new development strategy for East Ayrshire that was predicated on how East Ayrshire might connect to Scotland's key sectors and how it might build more indigenous small businesses. To me, that is doomed to failure because at some point we will have to acknowledge that, actually, it does not have the assets to connect to Scotland's key sectors and we will be creating more small businesses to fail in what is a weak local market.

We have to look at things such as utilities, supermarkets, retail banking, the public sector and so on—goods and services that will always continue to be produced in that geographical area—and consider ways in which, through the various social franchises on which they rely, the quality of employment might be improved in those areas.

Joan McAlpine: On a related matter, it is now a number of years since economic development funding was devolved to local authorities. That happened when the local enterprise companies were done away with and the money was given to the councils. However, there is a perception, certainly in my part of the world, that economic development was stopped rather than responsibility for its management being given to the council. Is that system working well or could improvements be made?

Garry Clark: That perception exists in many places across the country. Stephen Boyd said something similar to this earlier, but we have examples among our membership of companies that would say that they have good support from Scottish Enterprise in their part of the world. However, other companies would say that they do not feel touched at all by any investment that is being made at a national level, in terms of business growth.

The issue is a mixture of how we engage with those businesses. We have to consider the existing networks, whether they are local authority networks, chamber of commerce networks or networks involving any other business organisation that has a footprint in the area, and think about them as ways in which we can engage with businesses and ensure that they do not feel disenfranchised by what is, in essence, a change in accounting.

Support is still available for those businesses. I mentioned the business mentoring Scotland programme, which is operated by the Scottish Chambers of Commerce but funded by Scottish Enterprise. That programme works closely with Dumfries and Galloway. The example that I gave earlier of the attachment for carrying cans of paint involved a local business in the area that is now operating globally. Support mechanisms are available. The issue is about engaging the business community and finding the best route towards those businesses.

11:30

Joan McAlpine: On the more general point, is the transfer of economic development funds to local authorities working well?

Garry Clark: Our members in some areas of the country have expressed satisfaction with that, but members in other areas have expressed dissatisfaction. It is a mixed picture, in our experience.

James Withers: My view, too, is that the picture is mixed. The nature of dealing with 30-odd local authorities is that there are good examples and not-so-good examples in individual sectors.

In our sector, a business-led approach tends to work. Local businesses need to think about their response to a national growth strategy, and it is then about industry leading and the public sector aligning. When that does not happen, a catalyst is needed to make it work. Often, the right individual in a local authority is the catalyst and they really drive that. There are brilliant examples of that in a number of local authorities. Where that does not happen, it is more difficult, and a business-led approach is needed that involves forming local networks in particular sectors, and potentially across sectors, that then drive the development of activity at the local level.

The other witnesses will have a greater sense of the position in other sectors. I do not see a big central belt issue with food and drink, partly because a lot of the production and manufacturing base is in some of the most peripheral and remote parts of Scotland, but I recognise that we are maybe just more diverse than other sectors.

Garry Clark: In parts of the country where it has been expressed that the local authority is not working, almost exactly the opposite of what James Withers just described is happening. Instead of an industry or business-led approach, we find greater gravitation of not just economic development services but every other service towards the local authority, which hoovers up contracts for delivering services to businesses. Business is not happy with that in some parts of the country.

The issue is not so much the initial distribution; it is that some local authorities are becoming too much of a controlling influence on a wide range of aspects locally.

Stephen Boyd: The only honest answer is that I do not really know. I second—or third—the view that the experience has probably been mixed. I have heard good examples around the country of where the funds have been used in conjunction with employability funds to improve access to work or active employment market programmes. I have also heard of problems with long-standing local economic development programmes that seem to fall between two stools on funding. However, it is important to remember that, although the sums that were devolved to local authorities might seem substantial in nominal terms, they were never going to be transformational in terms of local economic development.

Alison Johnstone: In relation to Dumfries and Galloway, the witnesses might be interested to know that, at last year’s business in the Parliament conference, I promised to go on the Laggan zip wire, and that will be happening next week.

Chic Brodie: Good luck.

Alison Johnstone: You have not tried it, have you?

Chic Brodie: Not yet.

Alison Johnstone: In that example, a farmer has diversified and now has Laggan Outdoor Ltd. I will report back—I hope.

I want to go back to the discussion on apprenticeships. We constantly refer to Germany’s success, but there seems to be almost an acceptance that we cannot replicate it. I know that we cannot just pick and choose the bits of other economies that we would like and stick them on to ours. However, the Wood commission has reported and there has been a lot of talk about parity of esteem between academic and vocational routes.

I think that Stephen Boyd suggested that, in Scottish businesses, there is almost a cultural resistance or maybe a lack of commitment to taking on young people. Could we use the budget to incentivise that more? What are the barriers? There would obviously be huge benefits to that, because we have far too many young people in low-skilled, low-paid work that is simply going nowhere, and that has all sorts of repercussions. What might we do with the budget to boost apprenticeships, make them really meaningful and ensure that they lead on to something more meaningful?

Stephen Boyd: May I clarify what I said earlier and what I am trying to get at? The American higher education system is the best funded in the world because alumni feel an obligation to continue contributing to their university, but that obligation is difficult to replicate in other jurisdictions. Similarly, in Germany, employers feel a strong cultural obligation to train young people even if it might not be in the employer's immediate economic interests. We can replicate the institutional frameworks and so on, but I would argue that, over a sustained period, it has proved impossible to replicate that cultural obligation in other jurisdictions, including Scotland.

I am not arguing that we cannot learn from others. We should never stop trying to learn from what happens elsewhere, but we should not think that we can simply copy Germany's institutional frameworks and funding mechanisms and expect that we will see similar outcomes, because that is not going to happen.

In that context, I absolutely agree that we should be looking at what we can do. Something that is underdiscussed at present, as the labour market recovers, is quite how stubbornly resistant to active labour market policy youth unemployment has been. That is intimately related to the rapidly rising and again underdiscussed employment rate of the over-65s, which I would argue is probably the most remarkable feature of the labour market in the past year. That is the only age category whose employment rate has increased on its pre-recession high, and that is having an immediate knock-on impact on entry-level jobs for young people.

The Wood commission did a very good bit of work. If the Scottish Government can find additional funds through the budget to support employer incentives—which, as always, have to be linked to job quality and sustainability—that is all to the good. The matter remains as pressing a concern as it was two or three years ago.

Alison Johnstone: Thank you. Would anyone else like to comment on that issue?

Garry Clark: I agree with Stephen Boyd that Wood has to be central to the Scottish Government's approach to skills. Wood has set out a challenge for businesses to get involved in schools at an early stage and at a consistent level across the country, and we would certainly encourage our members to take advantage of that. We have schemes operating in various parts of Scotland—Renfrewshire, Ayrshire and Glasgow spring to mind—and there are great examples of businesses engaging very early in the school curriculum.

Ideally, there will be engagement at the primary school level. I do not think that we have yet gone that far in our examples, but in Renfrewshire every single secondary school is a member of the local chamber, which not only gets businesses into schools and young people out of schools into work placements, but gets teachers into work placements for them to find out a bit more about industry.

There are some great examples and we encourage businesses to step up to the plate. We want Wood to be central to what the Scottish Government is going to do on skills both this year and into the future, and it is important for business to take its full share of responsibility in that regard.

Alison Johnstone: My next question is for James Withers. Young people seem to be the majority of staff in certain fast food restaurants in this city and elsewhere. Are there opportunities for really good quality apprenticeships in the food and drink industry?

James Withers: Yes. I can get the committee the latest figures for the take-up of apprenticeships in food and drink, but they have certainly gone through the roof compared with where they were. There is now a skills investment plan around food and drink and there is recognition that apprenticeships are part of the jigsaw of future skills. Other parts are education and the interaction with schools that Garry Clark talked about.

The apprenticeship scene in food and drink is good. It is still not where we want it to be and we need to be more ambitious, but it has started to transform over the past few years. For us, it has been about the part that apprenticeships play in a wider skills agenda.

Alison Johnstone: Is there any particular area that young people are attracted to within your industry?

James Withers: The internationalisation side is definitely of real interest. One of the challenges is that, if someone is interested in getting into the salmon farming industry or aquaculture, they will likely need to be in the middle of nowhere—that is how the average apprentice will see it. It is all linked to services, costs and connectivity, and some of the work is quite seasonal. However, the changing trends around sustainability, innovation, logistics and internationalisation are starting to generate greater interest in food and drink than there was a few years ago.

Alison Johnstone: Thank you. Do you want to comment, Mr McTaggart?

Iain McTaggart: I think that we are all signed up to the Wood commission as the core way of moving forward. If the Government can support that, it will be welcome.

There are lots of issues around giving visibility and prominence to good practice. Probably, we are all doing a lot with employers on young person employment issues and apprenticeships. We are very engaged with Skills Development Scotland on its modern apprenticeship weeks and the various initiatives that come from them, and we are signing up to the skills investment plans for key sectors.

However, I agree with my colleagues about the importance of interventions with young people at the earliest possible stage. An example is SCDI's network of young engineers and science clubs, which now involves 12,000 young boys and girls in schools throughout Scotland. There is huge industry support for that work, which is industry led, in recognition of the skills gaps and the issues that may arise for industries in the future. It is about trying to give young people vision and excitement about the potential of engineering, technology and science disciplines, which apply to all kinds of industries, including food and drink.

Our science on the menu programme, which looks at the science of food, is really exciting young people. The question is how we connect that up to industry opportunities, but we hope that all the activity will result in practical opportunities for apprenticeships.

Alison Johnstone: Thank you.

The Convener: As Alison Johnstone mentioned the business in the Parliament conference, I remind members to sign up for this year's conference, which will take place at the beginning of November, if they have not already done so.

We have reached the end of our questions. On behalf of the committee, I thank you all, gentlemen, for coming along this morning and for your input, which will help to inform our budget scrutiny report.

11:42

Meeting continued in private until 11:49.

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