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Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 12 November 2014

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ECONOMY, ENERGY AND TOURISM COMMITTEE
27th 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:

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 12 November 2014

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 27th meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses and the visitors in the public gallery. I remind everyone to turn off or at least turn to silent all mobile phones and other electronic devices so that they do not interfere with the sound equipment.

We have apologies from Joan McAlpine, who is running late but should be joining us shortly. I know that Mr Brodie needs to leave at about half past 11 or shortly before that to go to another committee.

Under agenda item 1, are members content that we take item 3 in private?

Members *indicated agreement.*

The Convener: Thank you.

Draft Budget Scrutiny 2015-16

10:01

The Convener: Agenda item 2 is continuation of our scrutiny of the draft budget for 2015-16. I welcome to give evidence John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth, who is joined this morning by John Mason, director of business, and Mary McAllan, director of energy and climate change at the Scottish Government.

Welcome to you all. Before we get into questions, I invite you to say something by way of an opening statement, Mr Swinney.

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney): Thank you, convener. I welcome the opportunity to discuss the 2015-16 draft budget with the committee this morning. Our approach is founded in "The Government Economic Strategy", with the objective of delivering opportunities for all of Scotland to flourish through increasing Scotland's economic growth performance.

The finance, employment and sustainable growth portfolio will continue to encourage entrepreneurship, innovation and internationalisation and to offer the most competitive business rates regime in the UK through the small business bonus scheme as part of the budget proposals.

Scotland's businesses are key to the long-term success of the Scottish economy. We will continue to support our enterprise agencies, which will provide targeted support to encourage growth and improvement.

The committee's scrutiny of the 2015-16 draft budget is focused in one respect on exports. The Scottish Government has set an ambitious goal of increasing exports by 50 per cent by 2017. In support of that target, the Scottish Government, through Scottish Enterprise and Scottish Development International, will launch two new international trade initiatives early in 2015. The first is the high-growth markets unit, which will aim to accelerate international sales in China, India and the middle east through enhanced support for companies with the potential and desire to sell into those harder-to-enter but high-opportunity markets.

Secondly, the Scot exporter initiative will focus on encouraging and helping non-exporters to start exporting and helping early stage and occasional exporters to grow their overseas sales. The initiative will be open to all companies and a range of products and services will be made available to help them prepare for and achieve export sales.

We also need to develop the skills base and increase the number of companies that are exporting. SDI is working effectively with companies to raise their ambition levels and achieve their full potential in relation to export activities. Since 2011, more than 6,400 Scottish companies have benefited from export events and services through initiatives such as smart exporter.

Another crucial area of focus is connectivity. Air connectivity is important for Scotland's global competitiveness in order to secure economic recovery and sustainable economic growth, and our economic strategy highlights the opportunities and the importance of international air connectivity to support that effort. The work will be taken forward in partnership between VisitScotland, Scottish Enterprise, Highlands and Islands Enterprise and Transport Scotland.

Alongside the work on exports, the committee has highlighted the low-carbon economy and energy and fuel poverty as areas of interest. The Government's comprehensive range of interventions in relation to the low-carbon economy includes investing £2.2 million over 2014-15 and 2015-16 in the offshore wind accelerator programme, providing support for local renewable energy projects and the development of wave and tidal array projects through the renewable energy investment fund, and putting in place a local energy innovation challenge fund worth up to £20 million to test communities' capacity to stabilise and reduce energy costs by reducing dependence on centralised generation and capacity.

We believe that a more comprehensive and fairer service for those who are vulnerable to fuel poverty can be provided with a properly planned and funded Government service that works with delivery partners. That is our approach through the home energy efficiency programmes for Scotland. Between 2009-10 and 2012-13, the Scottish Government invested £220 million in a range of fuel poverty and energy efficiency programmes.

That is a brief summary of some of the priorities in the Government's budget. I look forward to answering questions from the committee.

The Convener: Thank you for that introduction, cabinet secretary.

We have around 90 minutes for the session. I propose that we try to cover the three main topics—energy and fuel poverty, enterprise and exports, and tourism—in turn. We will try to group the discussion around those broad topics, if we can. I remind members to keep their questions as short and to the point as possible. Similarly, answers that are short and to the point would be helpful in getting through the subjects in the available time.

I will start with the energy and fuel poverty part of your brief, cabinet secretary. We took evidence on those issues from Energy Action Scotland and WWF Scotland two weeks ago. The Scottish Government has a statutory target to eradicate fuel poverty as far as reasonably practicable by November 2016. Is the Scottish Government still committed to that target?

John Swinney: Yes, we are.

The Convener: Have you made any assessment of the likely cost of meeting it?

John Swinney: That is difficult to estimate, because a variety of interventions will be involved, some of which will be supported by the Government's public expenditure programme and some of which will be supported by energy companies' commitment to and participation in the whole proposition. However, strong progress has been made, given the sustained investment that the Government has made and the sustained contribution that energy companies have made into the bargain.

The Convener: Okay. Thank you.

We put similar questions to Energy Action Scotland and WWF Scotland, and asked whether they believed that the budget allocation for the coming year would be sufficient, bearing in mind that it is the last full year before the date by which the target would need to be met. They were quite clear that they did not think that the sums that the Scottish Government had allocated would allow that target to be met. Why do you think they are wrong?

John Swinney: It depends on how we look at the whole issue. If my recollection is correct, Energy Action Scotland and WWF Scotland talked about a sum of money that was in the order of £200 million per annum. I saw the number earlier this morning, but it is escaping me just now. I think that it was in the order of £200 million.

The Convener: Yes. That is correct.

John Swinney: If we look at the variety of interventions that are taken forward by the Government and a reasonable expectation of what would also be contributed through some of the commitments that are required by the energy companies—it is essential that both elements are taken together—it is reasonable to conclude that the combination of the home energy efficiency programmes for Scotland investment, the warm homes fund and the green homes cashback scheme would deliver investment well in excess of £200 million. A reasonable estimate of that for 2013-14 would probably be around £260 million. The different sources of funds in the round probably contribute the type of sums of money that organisations such as Energy Action Scotland and

WWF Scotland suggest are in the order of what is required to deliver on that objective.

The Convener: When we asked Mr Kerr from Energy Action Scotland about that, he was clear that that would not be the case. His concern was that the Scottish Government is relying on money coming in from, for example, the energy company obligation scheme. He said that a lot of the ECO money was being spent on boiler replacement in houses that are connected to the gas grid and was not actually tackling fuel poverty in those areas in which it is most extreme. His concern was that to rely on that ECO money as part of the sums required meant that we would not be close to addressing the target.

John Swinney: Mr Kerr is an experienced commentator and adviser on those issues and it is important to listen and reflect on the points that he makes. We are confident that we have put in place a clear dialogue that is much better than has ever existed between the Scottish Government and relevant interested parties and the energy companies to make sure that we are operating in a seamless fashion and that we have a combined proposition that is aimed at tackling fuel poverty. That is why I vest my answers in that combination of different areas of expenditure that are emerging. We have made such efforts to ensure that our dialogue with the energy companies is such that we are encouraging them to spend and to support interventions that directly address the necessity to tackle fuel poverty. Obviously, we will be happy to reflect further on the advice that Mr Kerr has offered to see whether there is any way in which we can further strengthen the focus and effectiveness of that expenditure.

The Convener: Other members want to come in, but I have one more question. The fuel poverty target is a statutory target. What will happen if it is not met by November 2016?

John Swinney: I dare say that there will be significant parliamentary scrutiny if that happens.

The Convener: Legally, given that the target is a legal one, what will the consequence be?

John Swinney: The legal consequence is that the Government will have to explain itself to Parliament.

Margaret McDougall (West Scotland) (Lab): Energy Action Scotland's Norman Kerr stated that a full cost analysis is necessary to determine whether the current budget to eradicate fuel poverty is fit for purpose. Does the Scottish Government have any intention of carrying out such an analysis?

John Swinney: In the budget process, we have identified the resources that we consider are required to work in concert with the streams of

expenditure that are emerging from other sources and to work in a collaborative way to ensure that those moneys are used effectively. A lot of time could be spent in trying to put together the type of comprehensive assessment that Mr Kerr is talking about when we know from the available data about the significant challenge that we face in eradicating fuel poverty. The importance of ensuring that we have clear alignment between the different streams of expenditure is a vital priority in advancing the practical activity that is required to tackle the issue.

Margaret McDougall: So there is no intention of carrying out such an analysis.

John Swinney: We certainly have no plans to prepare that type of analysis. We are concentrating on delivering the practical steps and interventions to tackle fuel poverty where we are able to do so.

Margaret McDougall: Although a lot of work on fuel inefficiency and energy efficiency has been done in the social rented sector, the private rented sector is falling way behind. What will the Scottish Government do to improve efficiencies in the private sector? We seem to have flatlined; nothing else is being done and no improvements are being made. Should we have legislated for that in, for example, the recent housing legislation?

10:15

John Swinney: I do not accept the premise that we have flatlined, because very significant levels of investment are available to support householders in the private sector in tackling energy inefficiency and fuel poverty. Looking back over the years in which we have wrestled with these questions, I can tell the committee that the feedback that we have received from, for example, energy companies has been about the difficulty in engaging householders on some of these questions. A number of years ago, I accepted a suggestion from the Green Party about the importance of taking forward comprehensive area-based schemes to capture exactly the kinds of individuals and householders that Ms McDougall has referred to. Those schemes, which, unlike south of the border, we have maintained, are an important tool in undertaking such activity.

According to our information, more than 600,000 homes in Scotland have received energy efficiency measures since 2008, which suggests that a pretty comprehensive start has been made to assist individuals. Of course, those will be the individuals whom we are aware of, and that work is beyond what other individuals and householders will be taking forward under their own steam as part of their wider home improvements.

Margaret McDougall: There has been some improvement in the energy efficiency of the private sector as a whole, but there seems to be an issue with the private rented sector, in particular, with landlords perhaps not taking up the options that are out there.

John Swinney: I have not seen specific data on that point, but I will certainly explore it. If there is a particular weakness in the private rented sector with regard to taking steps to address the difficulties being experienced by individuals in fuel poverty, we can, once the point has been considered, refine the focus of our intervention.

Margaret McDougall: Thank you.

Another area in which we might not be performing as well as we should be is district heating. Companies are just not taking up that opportunity. I note that the target is for 40,000 homes to benefit from district heating by 2020; however, we are currently at 10,000, and WWF has said:

"it is important that that is complemented by real, substantive efforts on a regulatory framework that could both protect the consumer through the provision of district heating and incentivise and create a market".

What more can the Scottish Government do to increase the market? After all, we do not seem to be moving forward on this.

John Swinney: There are a couple of relevant elements in the budget. For a start, the low-carbon economy budget has increased by 17.3 per cent from £6.4 million to £7.5 million, and there are two particular initiatives that will assist in this activity. The first is the commitment of an additional £4 million for the district heating loan scheme, which will run from 2014 to 2016. Obviously we do not have budget information beyond 2016, but I want to recognise Ms McDougall's point about the importance of tackling this issue up to 2020 by pointing out the necessity to ensure a sustainable budget line to address the issue over those years.

Moreover, in the current financial year, we have enhanced with an additional £4 million our home renewables loan scheme, which is designed to support householders in taking up different opportunities to embark on the renewable heat incentive scheme. We are taking practical steps in a number of different areas to support district heating activity, and we will continue to sustain those initiatives in the years to come.

Margaret McDougall: Thank you.

Mike MacKenzie (Highlands and Islands) (SNP): Good morning, cabinet secretary. I am sure that you will be gratified to learn that Norman Kerr, when he gave evidence to the committee, was very complimentary about the Scottish Government's approach, drawing comparisons

with other nations of the United Kingdom and giving a strong indication that Scotland had a much better approach to fuel poverty. However, do you agree with his sentiment about the extent to which Scottish Government funding is designed to be complementary to UK initiatives and funding streams and his view that the uncertainty that seemed to prevail with the UK funding streams made it very difficult for the Scottish Government to design complementary schemes, particularly in rural areas? I think that one of the committee members said last week that off-gas-grid measures are particularly difficult to implement and present significant challenges and that, for instance, the UK ECO does not do well in rural areas where those off-gas-grid and hard-to-treat property issues prevail.

John Swinney: The point of principle that I would highlight is that people would be surprised if under the current constitutional arrangements the Scottish Government did not try to act in a complementary way to the UK Government's proposals. If we duplicated what it was doing, we would have to do a lot of explaining about why we were using scarce public resources in some other fashion that did not complement what the UK's approach had been designed to achieve.

One of the challenges is that this has been an area of—let me be charitable—evolution in the UK Government, and we have had to wait for the final design of the ECO scheme. As I said to the convener a moment ago, our ambitions for what we want to achieve require an element of effectiveness from not only our expenditure but the UK Government's expenditure and the power companies' investment into the bargain. All of that has to be joined up, and as I have made clear in my previous answers, we have put a lot of effort into ensuring that it is joined up and effective. Designing complementary initiatives that support each other and which assist us in meeting the wider policy objective of tackling fuel poverty is the hallmark of how the Scottish Government exercises its responsibility in this respect.

Mike MacKenzie: Norman Kerr raised some eyebrows among committee members when he expressed disappointment that a fair number of local authorities—he was not keen to single them out by name—had spent none of the first year's allocation of the home energy efficiency programmes Scotland funding and, in fact, were struggling to implement schemes and spend the money. Although the Scottish Government had made that money available, action had not been taken on the ground and the money had not been spent, perhaps because councils were not ready to implement schemes. However, Mr Kerr complimented the Scottish Government on showing some flexibility in allowing them to carry over that funding. Do you agree with his analysis,

and could any more be done to help or encourage councils to get that money out there to tackle fuel poverty?

John Swinney: Local authorities advise me that they have spent their full budget allocation for 2013-14. That is my expectation. On 4 June, £60 million of area-based expenditure was allocated to all 32 local authorities. That includes significant investment for the more remote parts of Scotland, with which Mr MacKenzie will be familiar.

I cannot see why there would be any justification for local authorities being unable to spend the resources that have been allocated to them; it is clearly in the interests of their householders and constituents that they do so. I am assured by the information that I have been given that local authorities have spent their full allocation for 2013-14, but we will maintain our dialogue with local government to ensure that that continues during this financial year.

Margaret McDougall: Some of the evidence that we received on HEEPS indicated that not all local authority areas have energy efficiency officers, and it seems that those that have energy efficiency officers perform better.

John Swinney: The key question is how information is disseminated and what activity is undertaken to ensure that energy efficiency measures are implemented.

In my constituency, an energy-saving social enterprise supported by some climate challenge fund money from the Government has been created in Coupar Angus. It is a local initiative, is embedded in the community and provides advice in a highly accessible fashion. If I may say so, it is more accessible than normal Perth and Kinross Council services because it is right in the heart of the town.

We should not make a judgment that the only way that we can deliver that type of activity is if a local authority employee leads the process. It is part of the Government's public service reform agenda to motivate the participation of a wide range of different providers, including third sector organisations, which—as Ms McDougall will know from her experience—are fabulously well connected with local communities. I caution against believing that we have to have a designated local authority officer. Effective delivery and encouragement mechanisms certainly have to be in place but, if the activity happens to be delivered by a third sector organisation, we should be content with that as long as it is effective.

Margaret McDougall: The issue with local organisations is that they perhaps do not cover the whole local authority area.

John Swinney: They might well not cover the entire local authority area, but the existence of one energy efficiency officer for a local authority does not provide satisfactory assurance that all that can be done to promote and encourage energy efficiency and give individuals practical advice is being done.

The key question that must be answered is whether it is practical and possible for members of the public to access the advice. I put off getting cavity wall insulation in my house because I thought that it was too hard to do. Then, one day, I went along to an energy efficiency fair and met a local charity. With one phone call, the assessment was done on my house and then the work was done. It was a great deal easier than I thought it was going to be; I even overcame my own obstructive laziness on the matter.

The question is whether the information is available and provided in a fashion that is accessible to people. If it is, it is more likely that people will make a commitment to undertake such steps.

Alison Johnstone (Lothian) (Green): On Friday morning, I was in Aviemore at Energy Action Scotland's annual conference and took part in a debate. The hall was full of experts from throughout the country who were supportive of WWF's call that retrofitting energy efficiency measures should become a national infrastructure priority. They pointed out that the industry could provide 3,500 jobs in the short term and, perhaps, 9,000 jobs by 2027 if we were serious about modern apprenticeships and becoming really expert at treating our hard-to-treat houses. Does the Scottish Government support that call?

10:30

John Swinney: I support it. During our discussions on the issues over the years, I have been the first to concede that retrofitting the hard-to-treat properties is a far greater challenge than applying state-of-the-art energy efficiency measures to new-build properties. It is a completely different proposition. Therefore, I am sympathetic to the point.

The way in which Alison Johnstone expressed her point is interesting because she demonstrated that there is an economic benefit to be had and a skills and development opportunity for young people through the modern apprenticeship scheme. That demonstrates how the matter relates to other areas of the Government's activity and how other areas of public expenditure—for example, on modern apprenticeships—can be used to support a wider programme of housing improvement that will provide energy efficiency

benefits and economic benefits in the short term into the bargain.

Alison Johnstone: That is heartening. A representative from Western Isles Council was at the conference and he pointed out that the level of fuel poverty among households in the Western Isles can be as much as 71 per cent. There are specific challenges in particular areas, and the council called for more attention to be given to those areas as a matter of urgency.

John Swinney: The most acute example of some aspects of fuel poverty is likely to be in the Western Isles and—as the convener said when putting to me one of Mr Kerr's points—we need to be mindful of the degree to which the wider steps that we take to tackle fuel poverty reach the ever-hard-to-treat areas, if I can use that terminology, in as effective a way as possible. Mr MacKenzie also made the point about houses that are off the gas grid, which is a particularly acute challenge in many areas of rural Scotland and a particular priority.

Alison Johnstone: The report that we received last night says that the draft budget funding for the warm homes fund for 2015-16 is yet to be confirmed. When will we have more information?

John Swinney: I expect that to be done fairly shortly. I cannot give the committee a precise date but, when we take those decisions, we will be mindful of the need to complement wider programmes that are part of the fuel poverty measures. The decisions will be made and communicated in adequate time to ensure that the money can be spent wisely in 2015-16.

Alison Johnstone: We received the information about the funding for climate change mitigation measures at 4.30 pm yesterday. Will it be at all possible to have that information earlier in future years? I realise that officers are waiting on other information in order to pull it together.

John Swinney: We will certainly endeavour to do that. I was not aware that there was a problem with timing. I am trying to think when I cleared the information to come to the committee. It might have been only on Monday, but I would have to check that.

We have got the level 4 information to committees much earlier than has habitually been the case. Our commitment to the Finance Committee is to present the budget largely in the format of the blue book. I appreciate that other committees want to consider the information in a slightly different way, which means that we then have to recalibrate and recalculate it alongside the level 4 information. I will endeavour to ensure that the climate change mitigation information is provided timeously to the committee.

Alison Johnstone: The fossil fuel levy budget line has been significantly reduced and reprofiled, but do you have any information about the plans for that budget? Can we expect to see an increase in later years? Specifically, where has the £20 million of previously committed funding been reallocated to?

John Swinney: That goes to the wider management of budget issues. I go through a process with all portfolios, including my own, of exploring whether previous plans are appropriate and capable of being delivered. We set out 12 months ago the draft plans for 2015-16 and during the budget process I have tested whether those plans are still capable of being delivered and are the most appropriate use of the resources, or whether there are other areas of activity that might have a greater call on the resources.

On the renewable energy investment fund, my assessment of the pipeline of likely projects was such that I was not confident that the £20 million would be required. Basically, we have wrestled with the fact that a lot of market uncertainty about renewable energy developments has been created by the electricity market reform process that the United Kingdom Government has taken forward. That has undoubtedly slowed up emerging developments that I would have expected to come forward. Based on information about the available pipeline my judgment was that we would probably be unable to spend the £20 million, so it has been reallocated to other priorities in the budget.

The fossil fuel levy generated £103 million for the Scottish budget, and we have an obligation to spend that sum on projects that qualify under the renewable energy investment fund. We will do that, but over a longer timeframe than was originally envisaged. I give a commitment to the committee today that I will meet the obligation that I accepted to spend fossil fuel levy resources of £103 million on relevant commitments in that environment, but they will be spent over a longer timeframe.

Alison Johnstone: Thank you.

The Convener: A couple of members have follow-up questions.

Richard Baker (North East Scotland) (Lab): The written submission from the Existing Homes Alliance Scotland referred to vagueness in the draft budget as to how additional funds will be levered in. Given the funding of £79 million from the Scottish Government, how far we are from reaching the 2016 target and the current plans in the budget, we have not got a cat in hell's chance of making that target, have we? Why is there not a more significant response on that from the Government?

The Convener: You used slightly unparliamentary language there, Mr Baker.

Richard Baker: Oh. I apologise. I withdraw whatever word you mean, whether “cat” or “hell”.

The Convener: I think that we get the gist.

John Swinney: It was maybe a bit fruity for a Wednesday morning, even from Mr Baker. Let us just take apart the fruity sentences. Mr Baker suggested that there was not sufficient definition of what we expected to be levered in. I have already told the committee that we assessed that, in 2013-14, about £170 million was deployed to energy efficiency in Scotland by energy companies under the energy company obligation. With the commitments that the Scottish Government has made, that makes a total investment of more than £260 million.

I know that Mr Baker is very carefree with public and wider expenditure, but £260 million is one heck of an amount of public expenditure and private investment in fuel poverty measures. Given that the Existing Homes Alliance Scotland called for the fuel poverty measure to be increased from £79 million to £125 million and, as I have said, £260 million was spent in 2013-14, I think that I can say that the Government is living up to what is required on that issue.

Richard Baker: It was the Existing Homes Alliance that talked about vagueness in relation to funding and levering in money. However, I think that I have made my point, convener—however fruitily.

The Convener: Thank you. Less fruit, please.

Mike MacKenzie: Cabinet secretary, your comments about energy market reform and uncertainty leading to a slowdown—we hope that it is just a slowdown—in renewable energy projects and investment seem analogous to the points that I was trying to make.

The UK Government has sent unfortunate market signals that give rise to uncertainty, such as changes to the solar PV proposals, drastic reductions to feed-in tariffs over a short time and the prevarication and inordinate length of time that it took to bring forward the domestic renewable heat incentive. Given that Scottish Government funding is designed to be complementary and that there is a crossover between renewable energy and fuel poverty—for example, some community projects use profits from renewable energy to mitigate fuel poverty in their area—such uncertainty must create difficulties in designing Scottish Government funding streams that work well.

John Swinney: The point about renewable energy projects is a valid comparison. Any dispassionate observer—this morning, I am trying

to be as dispassionate as I can be—would say that a hiatus in investment has been created by the discussion around electricity market reform. It has taken longer than was envisaged and it has involved a great deal of uncertainty for the marketplace. I have had conversations with inward investors, for example, who in 2012 were very close to making decisions about possible investments in renewable energy in Scotland, but whose interest, 12 months later, was much less significant and timely, because they felt that there was less clarity about electricity market reform than there had been the year before.

There is clearly a challenge. We want to make sure that our money is used in a complementary fashion. Members will be sufficiently familiar with the approach to public expenditure management that I have taken to know that I am not interested in duplicating expenditure; I am interested in making sure that expenditure is used wisely and with focus, to deliver better outcomes for people. If we are not sure what else is coming into the mix from the UK Government, it is often difficult for us to plan effectively. That informed my decision on the REIF expenditure for 2015-16. In the current context, my judgment is that £35 million would not be required, so we can use those resources in other areas of the budget.

Mike MacKenzie: We have heard about fuel poverty in the Western Isles, but from recent reports we know that there are high levels of fuel poverty in Shetland and Orkney and across other parts of the Highlands and Islands. Do you share my concern that the extra 2p per unit in electricity bills for consumers across the Highlands and Islands would exacerbate an already difficult situation?

John Swinney: Energy costs are a significant issue for all households, but they are an acute issue for people in the Highlands and Islands, and an ever-more acute problem for those who are living in fuel poverty. I understand and sympathise with the concern that Mr MacKenzie has raised.

The Convener: I think that we have had a good kick of the ball in relation to fuel poverty and energy, so let us move on to enterprise and exports.

Dennis Robertson (Aberdeenshire West) (SNP): Scotland has enjoyed a healthy period of investment—in fact, there is record investment in Scotland at the moment. The cabinet secretary said in his opening remarks that he has set targets for exports and the internationalisation programme. That presents opportunities and challenges. What are the challenges in reaching the export market targets?

10:45

John Swinney: A number of challenges exist. One is about ensuring that we motivate, support and enlist a sufficiently broad range of companies in Scotland to participate in meeting the export challenge. A second is about access to markets. In some cases, they will be hard to reach and companies will require a great deal of support to enter them. Obviously, we have a range of resources at our disposal in international markets to assist with that process. Thirdly, the wider economic conditions could obviously be a factor in meeting the export challenge. We have to consider the weakness of the eurozone, which represents a significant export market for Scottish companies.

I could mention a range of other factors, but those are some of the key issues that we have to address. We have to ensure that the support that we put in place is tailored and focused in a fashion that supports companies in achieving those objectives.

Dennis Robertson: When the committee was in Perth recently, we heard positive points about account-managed firms that are being assisted by Scottish Enterprise, and there was a lot of good news about SDI. However, there was concern about companies that fall outwith the account-management criteria, particularly small and medium-sized enterprises. In your opening remarks, you said that you are going to encourage a lot of small and medium-sized companies that have not been exporting but which have the potential to do so. What assistance can we give them to enter that market?

John Swinney: I have a couple of relevant points on that. The first is on account management. I have made this point to the committee before, but I never tire of making it. The account-management structure is not available only to big companies; it is available to companies of all sizes. I have visited two-person companies that are account managed by Scottish Enterprise or HIE—and they should be account managed, because they meet the crucial criterion of being high-growth companies with potential. I constantly test and challenge Scottish Enterprise to ensure that its account-management decisions are focused on the companies in our economy that have growth potential, and not just on the big companies in Scotland. I cannot say that that is absolutely always delivered. It is a source of constant challenge that I take forward with Scottish Enterprise.

Secondly, I am not yet in a position to make any definitive commitments about this, but I am actively considering how we meet the challenge that Mr Robertson highlighted of reaching a wider cross-section of companies that are interested in

exporting and international business activity. I am pleased to hear the feedback about account management, and that is the feedback that I get around the country. Generally, companies that are account managed feel well served and well supported. However, a question that flows from that is whether all the right companies are getting account-management support and assistance. I am considering that actively because, if we want to meet our export challenge—it is not just an export challenge; it is also an innovation challenge—we need to ensure that we properly enlist the companies that are prepared to make a commitment to the endeavour. The Government and our agencies should be prepared to support such companies in that process.

I am considering how we can do that most effectively, and I am discussing the issue with the enterprise agencies. If a company in Scotland is prepared to work with us in meeting the innovation and internationalisation challenges that we face as a country, I am keen to ensure that it gets support. Obviously, I will share further information with the committee in due course as I come to conclusions on how we meet that particular challenge. Having followed the evidence that the committee took in Perth, I can see exactly where those comments came from, and I have been considering the point for some time.

Dennis Robertson: We have seen a positive example of co-operation and collaboration on Arran that involves a lot of small and medium-sized companies in the food and drink sector coming together to fill containers that then go to five-star hotels in Dubai, for instance. Can that example of co-operation and collaboration be used as a template to encourage other small and medium-sized firms to fill freight containers to go to market? One of the problems for smaller firms is that they do not have sufficient capacity to fill freight containers.

John Swinney: That is a fabulous practical example. The geography of Arran lends itself to that approach. There are a range of innovative companies in various other geographical areas—I am struck by what I see in the Orkney Islands on these issues. Geography binds people together effectively, and they can find a solution that is based on their geography. That is a marvellous practical example, and I will certainly evangelise about it in my wider communication around the country.

I have another observation about exporting by smaller companies. One point that strikes me about the new-start business community in Scotland today is that most companies start off from day 1 thinking that their market is global. Why do they feel that? It is because connectivity is so readily accessible to them through all the

applications and software that we have available to us. About 25 years ago I worked in business development in Glasgow, and when I worked with new-start businesses, the first thing that they did was produce a brochure. Once they had conquered the Glasgow market, they might conquer the Renfrew market or something like that. Many companies now start off thinking, "We're based in Edinburgh or Glasgow, but we're connected to the world through broadband, so the world is our oyster."

The thought process of start-up companies is increasingly about global reach in their activities. That is a welcome process, but we have to get more companies involved in the process and actively engaged in what can be done in that respect.

Dennis Robertson: On global reach, connectivity is incredibly important. I am sure that we all know the Scottish Government's position on air passenger duty, which is perhaps another barrier in the market.

One criticism that we hear of SDI is that we have generalists in many of the offices that have been opened in areas such as China and other parts of the Asian market. Are we ensuring that we have the appropriately skilled people in the markets that we hope to conquer?

John Swinney: The key lesson that I would draw from my observation of SDI operations in a number of jurisdictions around the world is that the fundamental requirement of SDI personnel is the ability to confidently and effectively support companies in gaining access to the market. I would not say that it is a greater priority for them to be industry experts.

For example, on one of my trips to Japan, I was accompanied by people from SDI and Scottish Enterprise who were experts in life sciences and renewable energy. We were shepherded around various businesses in Japan by our local people on the ground, who struck me as being fabulously well connected and aware of and sensitive to the market. They gave me extremely accurate and useful briefings about how I should approach the issue of access to the market and, if we got into a conversation about some sophisticated level of life science or renewable activity, I had at my side industry experts from Scotland who were able to assist me in communicating that message. Crucially, the bit that our team on the ground could deliver was quality and informed access to the market. That is the most important requirement for those individuals.

Dennis Robertson: On the infrastructure and connectivity aspect, is there enough spend on getting goods to market? For instance, there is a lot of criticism about the fact that we do not have

the right sort of connections to shipping, for instance, or to some of our airports, in terms of getting freight out. Is enough capital spend going in to ensure that we join up those areas?

John Swinney: Members can make a judgment about the Government's capital spend programmes but, if I look at the infrastructure of Scotland, I can see that significant improvements are being made. The other week, I visited the Clyde Gateway in the east end of Glasgow and listened to the implications for that part of Glasgow of the Government's decision, in partnership with local government, to fund the M74 completion project in the area. The project has led to tremendous economic opportunities opening up for the east end. Clearly, infrastructure spend can have that economic impact, and it is designed to support a wider range of propositions around the country.

I accept that there are limitations in what we have on offer in relation to service connectivity. Members will be aware that, in the past couple of weeks, we have gone through the signing of a memorandum of understanding between the Government, Forth Ports and DFDS Seaways, which is the freight ferry operator in Rosyth. That has been necessary to support the continuation of an important freight connection between Scotland and continental Europe—it is our only scheduled freight connection, although other vessels make the journey on a chartered basis. I concede that that is a limitation for us.

Obviously, the fact that we have had that discussion with DFDS and Forth Ports is an indication of the importance that we attach to such connections. Would we like to have more? Most definitely. That is perhaps an area that we need to explore. If getting goods to market is complicated and difficult, that will be another issue that companies will have to wrestle with.

Chic Brodie (South Scotland) (SNP): I promised that I would not mention spaceports today, and I will not—

Dennis Robertson: You just have.

Chic Brodie: Of course I have.

Although it is about something that is a future development, one of the things that concerns me about that issue is that we do not have the same sort of team as Newquay in Cornwall does. I ask the cabinet secretary to encourage VisitScotland, Scottish Enterprise and other agencies to get together on that.

On air connectivity, can you share anything with us about what you think might happen in terms of air passenger duty, which has major impacts not only on tourism but on business tourism? I have just experienced that in relation to some people

from China coming to Scotland. Associated with that is the argument that Dennis Robertson just touched on about internal consolidation.

You mentioned carbon emissions. Currently, Scottish exports are consolidating in the sense that they are being taken by road for export in the bellies of jumbo jets from Heathrow. What discussions have you had about the issue, and how has that impacted on your budget thinking?

11:00

John Swinney: On APD, members will be aware that I am a member of the Smith commission, and I have signed a Trappist vow of silence on issues that are being discussed by the commission. If the committee will forgive me, I will not inadvertently incur the wrath of Lord Smith of Kelvin by discussing what has been discussed around that table. I am sure that we will have plenty of opportunities to discuss the issues in the period to come.

We are operating a very collaborative approach in relation to securing improved air connectivity and routes, which we have had to do because we accepted that the combined Scottish collaborative proposition was not as focused as it should be. The collaboration involves Scottish Enterprise, Highlands and Islands Enterprise, Transport Scotland and VisitScotland.

The fruits of that collaboration demonstrate that it has been successful: six new routes have opened up in 2014. They are Edinburgh to Chicago, Edinburgh to Philadelphia, Edinburgh to Doha, Glasgow to the Isle of Man—which I concede is not that far away, but it is still a market—Edinburgh to Abu Dhabi and Glasgow to Halifax. Interestingly, the middle east carriers are reporting an increase in the volume of high-yield Scottish food and drink that is being taken to the area in the bellies of aircraft on those routes. Obviously, the middle east hubs are crucial with regard to reaching Asian and Australasian markets. The setting up of those six extra routes, five of which are long-haul routes, is pretty good going for 2014, and opens up new opportunities for Scotland. It is important that we connect that with the export of goods from Scotland: the frequency of the flights is crucial in securing exports of food and drink products to those markets.

This is cross-Government effort. Richard Lochhead, the Cabinet Secretary for Rural Affairs and the Environment, is actively involved in activity on exporting food and drink around the world, and on promotion of the products. I do my part in that regard, too, and the First Minister has had extensive involvement in the area in recent years. Many of us are involved in seizing the

opportunities to promote Scottish products to a wide range of markets.

Chic Brodie: There is no doubt that Scotland has had some success in that regard.

I was in London a few weeks ago, talking to people from the transport industry. Despite the protestations of the chief executive of Heathrow this morning on “Good Morning, Scotland”, the cost of building another runway at Heathrow will impact on Scotland’s tourism and export capabilities, either through extra costs or through a lack of appropriate infrastructure—never mind carbon emissions. That is something that has to be factored into our discussion.

We talked about SDI earlier. It and the enterprise agencies have been doing a good job. The SDI budget represents about 10 per cent of the Scottish Enterprise budget—I will in a minute ask Mr Mason a question about Scottish Enterprise finances. Should we be ensuring that Scottish Enterprise focuses not on spending its budget to create specialists but on increasing the locations and that sum of 10 per cent of its budget?

John Swinney: I am happy to answer questions on the Scottish Enterprise budget—although Mr Mason might have to help me out, of course.

Obviously, the Government must make a judgment about the balance of its public expenditure across the whole gamut of expenditure and the wider finances. Ultimately, that will determine how much money is available globally for the Scottish Enterprise and Highlands and Islands Enterprise budgets. I take those decisions across the Government and apply them in my own portfolio. Within that, a reasonable balance must be struck between what we spend on external promotion and market activity through SDI, and what is deployed supporting the company base in Scotland.

I caution against viewing the SDI budget as the sum total of what we actually spend on trying to establish our export presence. What account managers are doing with individual companies will be invaluable in persuading those companies to take steps to get involved in international activity and then to access the international network that we provide through SDI. There are judgments to be made about the right quantum of resources to make available, but that is how I consider we should use the resources effectively in order to encourage Scottish companies to get involved in international markets.

Chic Brodie: Yesterday, I convened the cross-party group on social enterprise. One question that was raised was on the internationalisation of social enterprises. I was surprised by the desire on the part of social enterprises—they now tend to see

themselves as being different from third sector organisations, which is an important matter, as has been highlighted in relation to the budget—when it comes to supporting welfare reform and activities. How do you perceive the role of social enterprises in the overall enterprise area? Should we consider having a different budget for social enterprises, because of their enterprise activities—and, hopefully, their international activities?

John Swinney: Mr Brodie puts a great deal of focus on social enterprise, so he has had to endure many of my speeches on that subject. When I was at the social enterprise awards in Parliament just the other week—I am not sure whether Mr Brodie was there—I welcomed the fact that Scottish Enterprise was a sponsor of those awards and was involved in judging the social enterprises. I want social enterprises to have access to as much business development advice as the wider company base has. Social enterprises are businesses; they are businesses of a different character, but they are entitled to business development advice.

I would be reluctant to create a separate budget line for social enterprise business support, because I generally take the view that business development should be the forte of Scottish Enterprise and HIE, and that that should not be fragmented. I have made it clear in the past that I was against a business development role being given to Creative Scotland, for example. I am perfectly happy for artistic organisations and artistic companies to have account management and business development support from Scottish Enterprise, but I want that to come from a strong business development base. For that reason, I am not keen to have a separate budget line for social enterprise.

I would, however, be keen to ensure that Scottish Enterprise is giving business development advice and support to social enterprises. That is fulfilled by Scottish Enterprise—it is an area on which I have challenged the organisation. I view social enterprises as being fundamental to broadening the economic and industrial base of Scotland.

Chic Brodie: I appreciate the cabinet secretary's great support for social enterprises. There is no question but that the Government's economic strategy is well thought out and well founded and has been well addressed. Associated with that is the financial stewardship that has existed over the past few years.

It would be unusual, however, for me not to bring in one element of carping. Scottish Enterprise has a net worth of £514 million, according to its accounts. Are you happy that Scottish Enterprise follows the Government's economic strategy? It has just written off

£1.3 million to a social network site based on sport, and it has just offered £2.7 million in regional selective assistance to a London-centric one-stop shop for accountancy and insurance. Is there proper engagement on following the Government's strategy? Should Scottish Enterprise be following that strategy?

John Swinney: Yes, is the short answer to that question. There is absolutely no doubt in my mind about that. If the chairman of Scottish Enterprise were here, I think that he would say to you very clearly that he understands his mandate. With regard to my letter of direction that I send annually to Scottish Enterprise and Highlands and Islands Enterprise, one could not read that letter and think anything other than that the organisations are being directed to follow the Government's economic strategy. Obviously, that is just a given for me. Individual investment decisions are clearly taken not by the Government, but by Scottish Enterprise, but I expect them to be taken within the context of the Government's economic strategy. I do not seek to interfere in Scottish Enterprise's individual operational decisions. However, the organisation must have a compelling basis for justifying any investment. I know that the committee has raised and tested such issues with Scottish Enterprise.

The Convener: I am conscious of the time, but three more members want to come in.

Richard Baker: I will try to be succinct. The cabinet secretary is obviously aware of the importance of the oil and gas sector, not only in terms of its contribution to our economy but in terms of exports. I have a couple of questions based on Oil & Gas UK's submission on the draft budget. It said that its members' view is that the landscape for support for exports is cluttered and that it can be unclear which department or agency to go to. Is that a fair comment and do you recognise that situation? What do you think needs to be done to ensure that businesses that we hope will grow their export activities know exactly where to go to get the help that they need?

John Swinney: I think that it is pretty clear that any company that wishes support can engage with Scottish Enterprise, which is connected very directly to Scottish Development International, which acts on behalf of all of Scotland. The necessary support and opportunities can be made available to companies to enable that to happen. So, within a Scottish context, I do not think that there is any lack of clarity at all.

Richard Baker: I take your view on that on board. You mentioned the support that industries need not only to sustain their activities in the North Sea but to increase exports. Another problem that Oil & Gas UK highlighted is the scarcity of skilled labour. In terms of addressing the skills gap, the

further education sector clearly has a key role to play. For example, there is Aberdeen College's schemes to train workers for the oil and gas industry. Given the importance of providing skilled workers for the industry in order to maintain its activity in the North Sea and to increase exports, is a real-terms cut in the further education budget not risking undermining the work that we hope those businesses will carry out?

John Swinney: No. I have to wrestle with the real-terms cut in the Government's budget, so regrettably there will be real-terms reductions in budgets within the Government. The further education budget is going from £522 million to £526 million, so it is going up in cash terms. I accept that there is erosion in real terms, but the Government's budget is being eroded in real terms.

If, for example, in a budget that is reducing in real terms we give a commitment to a real-terms increase for the health service, there will be implications across the board. We have in recent years had extensive discussions about funding of further education. I support entirely the steps that the Cabinet Secretary for Education and Lifelong Learning has taken to reform the college sector. I think that anybody observing the college sector—I certainly hear lots of commentary about this now—believes that the reform programme has been necessary and successful, and that it has improved and strengthened the college sector.

I will make two final observations. First, I believe that it is absolutely essential that the college sector is focused on supporting individuals in the world of work; connections with industry are critical for ensuring that the college sector is properly attuned to the requirements of the labour market. Secondly, the investment that we have made in the energy skills academy in the north-east of Scotland, which is an initiative that came out of the four further education institutions there, has been particularly helpful in that respect. It has also been a trailblazer for the regional college model that is now the norm across Scotland.

11:15

Dennis Robertson: Has the industry itself a role to play in filling the skills gap? I believe that Sir Ian Wood made that point in his report.

John Swinney: Yes—the industry has a role to play. It and the Government, working together, will have a strong combined beneficial effect in addressing the issues.

I reinforce to the committee the central point that there must be sufficient industry engagement in designing the skills development that we require to undertake. That was one of the main points in Sir Ian Wood's report to the Scottish Government on

skills and developing the young workforce, and he also made the point in his report to the United Kingdom Government on oil and gas. It leads to a good deal of frustration on my part that the industry is not always close enough to influencing decisions about what our education institutions are concentrating on. In this area of policy, it is crucial to get the right focus to support individuals in the world of work.

Joan McAlpine (South Scotland) (SNP): I apologise for missing your opening comments, cabinet secretary. I was pleased to hear you talk about closing the gap between large enterprises and small and medium-sized enterprises in the support that they get from Scottish Enterprise in the account managed network. I want to talk about the regional disparities in that support.

When Scottish Enterprise was in front of the committee in Perth, I highlighted to it that Dumfries and Galloway in my region has 1.8 per cent of the account managed exporters, compared with Edinburgh and the Lothians, which have 20 per cent. Now, we would not expect Dumfries and Galloway to be on a par with Edinburgh and the Lothians, but its percentage is the lowest and it is substantially behind other rural areas. Do you share my concern that there are too many regional disparities in the levels of support that areas get?

John Swinney: The statistics that Joan McAlpine raises are accurate. What I have in front of me is that the number of growth exporters in Dumfries and Galloway is 18. That is 1.8 per cent of the total number of SE growth exporters, but it is 51 per cent of the total number of growth companies in the area. I quite understand that the 1.8 per cent figure causes a degree of concern, but I think that it is slightly more comprehensible if it is looked at in the context of the total growth companies in the area.

Having said that, I return to the point that I made earlier about the importance of ensuring that we are talking to the right growth companies. One of the issues that I repeatedly raise with Scottish Enterprise is the need to ensure that we are canvassing the company base of Scotland effectively to see where the growth potential will exist. There may be relatively small enterprises in Dumfries and Galloway that have fabulous growth potential and would benefit from growth support from Scottish Enterprise. In my opinion, and according to the Government's strategy, if they have those characteristics, they are as entitled to receive that support as any company in any other part of the country. Ensuring that that focus is properly taken forward by Scottish Enterprise is an important part of the work that is done.

The other thing that I will say follows Joan McAlpine's questioning of Scottish Enterprise. A couple of times a year, I meet the south of

Scotland alliance, which is a combination of Scottish Borders Council, Dumfries and Galloway Council, Scottish Enterprise and some other public bodies. In the course of the past few years, I have picked up a sense that the south of Scotland would like more attention from Scottish Enterprise. There is a sense that there is not a dedicated economic development agency there, as there is in the Highlands and Islands—that is a product of history.

Out of that came my invitation to the south of Scotland alliance to formulate a proposition for better and more effective engagement with Scottish Enterprise on a shared agenda to improve economic performance in the south of Scotland. That has now emerged. I have received the proposition and it will be the source of on-going discussion with the south of Scotland alliance, to ensure that we deliver properly and fully the range of economic development assistance that is required in the south of Scotland.

Joan McAlpine: I welcome that; it is very encouraging. There is a sense that, although the reorganisation of Scottish Enterprise a number of years ago worked in other places, it has not worked in the south of Scotland. It is certainly seen as not working in the south-west.

The development plan also mentions your on-going commitment to national planning framework 3. I had a number of conversations with the planning minister on NPF3. The development plan is based on city regions. The south-west is the only part of Scotland that does not fall into a city region, so it is outwith that policy framework. One could say that the Borders, which is part of the south of Scotland, is part of Edinburgh city region, but the south-west of Scotland is not. Do you see that as a problem?

John Swinney: There are a couple of significant points here. The first is that the very helpful conversations that I have had with the south of Scotland alliance have got us to a position where some of the inherent concerns that Joan McAlpine raised can be addressed by the joint proposition that has emerged. I give the assurance that the proposition will attract my attention, to ensure that those issues are properly addressed.

The second point is that we have commitments to regional equity in the Government's economic strategy and in our national performance framework. The meaning of regional equity is that no part of Scotland should be left out of the process of economic development and renewal. I have to ensure that that is felt as strongly in the south of Scotland—particularly in Dumfries and Galloway on the issues Joan McAlpine raised—as it is in central Edinburgh. Ensuring that we have

appropriate interventions in place around the country is essential to realising that.

I do not have NPF3 in front of me, but my recollection is that there will be a number of strategic developments in the south-west. I would be very surprised if Cairnryan and the Crichton campus, for example, were not involved in that.

Joan McAlpine: You are talking about NPF3's 14 national developments across Scotland.

John Swinney: Yes.

Joan McAlpine: Well, there are not any in the south of Scotland.

John Swinney: I would be surprised if Cairnryan did not receive a certain amount of significance in NPF3.

Joan McAlpine: Cairnryan did, but it has been taken out. I asked for the Crichton campus to be included, but it did not meet the criteria, apparently.

I welcome what you say and the personal interest that you are taking, but is there not an inevitable contradiction if your support is based on the critical mass of growth? If you have a growth strategy and you go for critical mass, you back growth companies, which are in growth areas, so those areas attract more finance, whereas an area that is suffering and does not have that growth or connectivity will not attract as much of the support.

John Swinney: The support is not based on the critical mass of growth. It is based on where in the company base we believe that there is growth potential. I reassure the committee that that judgment is not made just about companies in city regions; it is made about companies the length and breadth of Scotland. That has to include the south of Scotland as much as any other part of Scotland for the simple reason that that is crucial if we are to fulfil the commitments that we have given and the task that we have set ourselves on the question of regional equity, because it is not acceptable for us to have growth in Scotland that excludes significant parts of our country. That is at odds with the Government's economic strategy and it is at odds with the national performance framework.

We have an obligation to look at those issues and to put in place the necessary mechanisms to address them. That work is under way through the work of the strategic forum that I chair. The forum brings together enterprise agencies and the Scottish Further and Higher Education Funding Council, which will be heavily involved in the campus issues, to ensure that the issues are properly reflected in the economic priorities that we take forward.

Joan McAlpine: Thank you very much.

The Convener: I am conscious that we are running a little bit short of time. Two members want to come in on tourism, which is an area that we have not touched on at all yet.

Marco Biagi (Edinburgh Central) (SNP): Something that came up in evidence from VisitScotland was the importance of investment in business tourism and bringing conferences to Scotland. There is also a very strong thread of events-related work. You referred earlier to the impact that creating the new air routes has on food exports and so on. To what extent is there now evidence that the business-related strand of VisitScotland's work—the export promotion—is generating new business for Scotland through events and conferences?

John Swinney: This is an area of great interest and it has delivered significant returns. We have had in place the conference bid fund, which was a fairly modest investment of £3 million. It has been instrumental in bringing £107 million-worth of activity into the country. To put in £3 million and get £107 million back out is a pretty good rate of return. I could do with a few more rates of return like that.

We recognise that area as being a very significant factor in what we take forward. Again, this has been responded to by the private sector. To single out one venue, the SSE Hydro in Glasgow now has the capacity to put on all sorts of performances—not least from the Deputy First Minister in a couple of weeks, as well as from other international stars into the bargain. Coming to see performances gives people a reason to travel substantial distances and the spillover effect into accommodation and spending power is very significant. Of course the Government has been involved and Scottish Enterprise has been heavily involved in supporting the development of that venture, but it has also required private sector capital and leadership and it is a great asset for us to have in Scotland.

The conference market has very significant potential and we want to sustain our presence in that area. It is a very competitive market but we have a very competitive proposition. Obviously, the more these events happen, the more frequently footfall comes into Scotland because of them, and the more justification there is for direct air connections and other beneficial transport connections. I see that as a crucial tool in expanding our tourism presence.

11:30

Marco Biagi: It is one thing to spend £3 million on conferences and get back £107 million, which is a great return, but it would be an even better return if that led to people from around the world

coming here, making business links and starting to trade with Scotland. That knock-on effect is a major feature of the work around the Ryder cup. In your work abroad on trade missions or with Scottish Enterprise, are we starting to see those effects coming through?

John Swinney: Yes. This has been a bumper year for people having a reason to come to Scotland, which has given us a platform for business development conversations. The Commonwealth games and the Ryder cup were two huge events on which Scottish Enterprise deployed significant resources. Lots of staff were working all the hours that God sent, including weekends, to make sure that those conversations happened. I took part in a number of events with Scottish Enterprise that were aimed at business development purposes. From that work will come a range of leads that will be followed up.

I would not want members in any way to think that our approach to the pipeline of business development connections is anything other than a sustained contact network that is pursued to secure those business benefits for Scotland. If someone comes here because of the Edinburgh book festival, the Commonwealth games, the Ryder cup or whatever the reason happens to be, they will be followed up in order to secure business connections.

Marco Biagi: VisitScotland said that it was “pleased” with its draft budget. Given that people are usually not forward when talking about such matters, I think that that is stakeholderspeak for “ecstatic”. It was mentioned that VisitScotland has £5 million more to spend on marketing than it had expected. Do you recognise that sum? What is the thinking behind maintaining its funding at that level?

John Swinney: At the end of the junior Ryder cup's opening ceremony at Blairgowrie golf club, I observed to the VisitScotland chairman that the weather forecast was fabulous for the Ryder cup and that Scotland would look wonderful to the international television audience. I added that, given how wonderful Scotland had looked during the Commonwealth games and the many live broadcasts I saw on the referendum campaign, there would be no need for him to have any extra money for his marketing campaign. Given his protestations—they lasted for some time—he did not seem to take that terribly well. However, I must say that the VisitScotland board's case for additional marketing support was well marshalled.

I will tell the chairman that Mr Biagi's interpretation is that he should be ecstatic about his extra £5 million. I am not sure that—

Marco Biagi: My interpretation is that he was ecstatic.

John Swinney: In that case, I will assume that he is ecstatic the next time he knocks on my door to ask for more money.

The evidence is that the VisitScotland marketing activity delivered a significant economic return, so it was money well spent. The surprise yourself campaign was a beautiful presentation of Scotland.

I took a decision in a tight spending round to allocate more resources than I had planned to allocate to VisitScotland to give the organisation the opportunity to build on what has been a fabulous year of promotion. We did not pay an awful lot of that through the VisitScotland marketing budget; indeed, we had to pay for it from various other budgets. Nonetheless, Scotland in 2014 looked great to a world audience and we need to sustain that. That is the purpose of that funding. I have great confidence in the ability of VisitScotland's marketing activities to use the money wisely and effectively.

Dennis Robertson: How important is the promotion of brand Scotland in opening up the export market globally?

John Swinney: For a variety of reasons—the Commonwealth games, the Ryder cup and the referendum—Scotland has been in the news around the world like never before. A television audience of 500 million homes for the Ryder cup is extraordinary. Frankly, the country could not have looked more magnificent than it did then and during the referendum and the Commonwealth games.

The wider world's impression of Scotland during 2014 will have been a good, strong and profound one. We cannot just say that that is the job done and that we do not need to reinforce that impression. The tourism market is intensely competitive, so we need to fuel that.

The presence of SDI in the business market is very strong in promoting why Scotland should be a destination for investment. That is not just about the topography, the geography and the scenery but about the inherent economic strength, the skills base, the educational capability and the inventiveness of the Scottish population. Those are values on which we trade strongly.

The Convener: Thank you. That concludes our session. We are just slightly over time.

On the committee's behalf, I thank the cabinet secretary and his colleagues for coming. Their evidence has been very helpful. We will now need to consider our budget report.

11:36

Meeting continued in private until 11:54.

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